

SK TELECOM CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

(Unaudited)

September 30, 2019 and 2018

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of SK Telecom Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of September 30, 2019, the condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2019 and 2018, the condensed consolidated statements of changes in equity and cash flows for the nine-month periods ended September 30, 2019 and 2018, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

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

Auditors' review responsibility

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

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

Conclusion

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

Emphasis of matter

As a matter that does not have an impact on our review conclusion, we draw attention to the matter described in note 3 to the condensed consolidated interim financial statements. The Group has initially adopted K-IFRS No. 1116 for the year beginning on January 1, 2019, and the Group has taken an exemption not to restate the condensed consolidated financial statements as of December 31, 2018 or for the three-month and nine-month periods ended September 30, 2018 presented for comparative purposes, in accordance with transition requirements of the standards. The financial impacts of applying K-IFRS No. 1116 are discussed in note 3.

Other matters

The consolidated statement of financial position of the Group as of December 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 28, 2019, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2018, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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

KPMG Samjong Accounting Corp.
Seoul, Korea
November 13, 2019

<p>This report is effective as of November 13, 2019, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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SK TELECOM CO., LTD. and Subsidiaries
Condensed Consolidated Statements of Financial Position

As of September 30, 2019 and December 31, 2018

(In millions of won)

	<u>Note</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Assets			
Current Assets:			
Cash and cash equivalents	26,27 ₩	1,289,713	1,506,699
Short-term financial instruments	26,27	829,018	1,045,676
Short-term investment securities	9,26,27	144,513	195,080
Accounts receivable – trade, net	5,26,27,28	2,218,259	2,008,640
Short-term loans, net	5,26,27,28	75,102	59,094
Accounts receivable – other, net	3,5,26,27,28,29	1,018,318	937,837
Prepaid expenses	3,6	1,945,131	1,769,559
Contract assets	7	123,870	90,072
Inventories, net	8	200,539	288,053
Prepaid income taxes	24	65,820	-
Derivative financial assets	26,27	36,897	13
Advanced payments and others	5,26,27,28	138,950	58,116
		<u>8,086,130</u>	<u>7,958,839</u>
Non-Current Assets:			
Long-term financial instruments	26,27	1,219	1,221
Long-term investment securities	9,26,27	538,412	664,726
Investments in associates and joint ventures	10	13,404,235	12,811,771
Property and equipment, net	3,11,28,29	11,585,057	10,718,354
Goodwill		2,971,656	2,938,563
Intangible assets, net	3,12	4,906,522	5,513,510
Long-term contract assets	7	60,577	43,821
Long-term loans, net	5,26,27,28	34,422	29,034
Long-term accounts receivable – other	3,5,26,27,29	544,893	274,053
Long-term prepaid expenses	3,6	1,225,417	895,272
Guarantee deposits	5,26,27,28	317,609	313,140
Long-term derivative financial assets	26,27	171,857	55,444
Deferred tax assets	24	105,901	92,465
Defined benefit assets	16	-	31,926
Other non-current assets	5,26,27	29,873	26,972
		<u>35,897,650</u>	<u>34,410,272</u>
Total Assets	₩	<u>43,983,780</u>	<u>42,369,111</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

As of September 30, 2019 and December 31, 2018

(In millions of won)

	<u>Note</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Short-term borrowings	13,26,27 ₩	50,000	80,000
Current installments of long-term debt, net	13,26,27	1,020,205	984,272
Current installments of long-term payables – other	14,26,27	422,117	424,243
Lease liabilities	3,26,27,28	304,807	-
Accounts payable – trade	26,27,28	455,288	381,302
Accounts payable – other	26,27,28	2,108,604	1,913,813
Withholdings	26,27,28	1,332,502	1,353,663
Accrued expenses	26,27	1,403,376	1,299,217
Income tax payable	24	17,764	182,343
Provisions	15,29	86,488	87,993
Contract liabilities	7	165,742	140,711
Other current liabilities		278	-
		<u>7,367,171</u>	<u>6,847,557</u>
Non-Current Liabilities:			
Debentures, excluding current installments, net	13,26,27	7,159,488	6,572,211
Long-term borrowings, excluding current installments, net	13,26,27,29	1,987,519	2,015,365
Long-term payables – other	14,26,27	1,545,301	1,968,784
Long-term contract liabilities	7	35,000	43,102
Defined benefit liabilities	16	207,341	141,529
Long-term derivative financial liabilities	26,27	1,383	4,184
Long-term lease liabilities	3,26,27,28	428,959	-
Long-term provisions	15,29	62,528	99,215
Deferred tax liabilities	3,24	2,451,436	2,269,792
Other non-current liabilities	26,27	81,009	58,122
		<u>13,959,964</u>	<u>13,172,304</u>
Total Liabilities		<u>21,327,135</u>	<u>20,019,861</u>
Shareholders' Equity:			
Share capital	1,17	44,639	44,639
Capital surplus and others	17,18	651,201	655,084
Retained earnings	3,19	22,327,723	22,144,541
Reserves	20	(274,939)	(373,442)
Equity attributable to owners of the Parent Company		<u>22,748,624</u>	<u>22,470,822</u>
Non-controlling interests	3	(91,979)	(121,572)
Total Shareholders' Equity		<u>22,656,645</u>	<u>22,349,250</u>
Total Liabilities and Shareholders' Equity	₩	<u>43,983,780</u>	<u>42,369,111</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three and nine-month periods ended September 30, 2019 and 2018

(In millions of won)

	Note	2019		2018	
		Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Operating revenue:	4,28				
Revenue	₩	4,561,213	13,333,148	4,186,392	12,522,253
Operating expenses:	28				
Labor		699,387	2,089,667	538,528	1,624,055
Commissions		1,302,716	3,832,785	1,266,093	3,745,048
Depreciation and amortization	3,4	961,910	2,783,411	767,529	2,321,230
Network interconnection		183,897	561,008	212,229	646,018
Leased line		67,084	204,105	79,594	236,739
Advertising		111,166	301,682	119,923	330,515
Rent	3	59,661	177,077	134,139	396,896
Cost of goods sold	8	499,415	1,316,779	418,288	1,228,108
Others	21	373,887	1,119,142	345,961	1,017,166
		<u>4,259,123</u>	<u>12,385,656</u>	<u>3,882,284</u>	<u>11,545,775</u>
Operating profit	4	302,090	947,492	304,108	976,478
Finance income	4,23	29,749	94,221	106,285	188,877
Finance costs	3,4,23	(106,927)	(319,769)	(95,954)	(272,237)
Other non-operating income	4,22	20,328	36,816	36,223	58,568
Other non-operating expenses	4,22	(16,306)	(68,220)	(41,178)	(114,410)
Gain on investments in subsidiaries, associates and joint ventures, net	4,10	120,455	479,876	992,448	2,534,688
Profit before income tax	4	349,389	1,170,416	1,301,932	3,371,964
Income tax expense	24	74,964	263,304	252,109	714,468
Profit for the period	₩	274,425	907,112	1,049,823	2,657,496
Attributable to:					
Owners of the Parent Company	₩	274,380	916,966	1,031,375	2,642,986
Non-controlling interests		45	(9,854)	18,448	14,510
Earnings per share:	25				
Basic and diluted earnings per share (in won)	₩	<u>3,766</u>	<u>12,605</u>	<u>14,555</u>	<u>37,260</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 nine-month periods ended September 30, 2019 and 2018

(In millions of won)

	Note	2019		2018	
		Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Profit for the period	₩	274,425	907,112	1,049,823	2,657,496
Other comprehensive income (loss):					
Items that will never be reclassified to profit or loss, net of taxes:					
Remeasurement of defined benefit liabilities	16	2,368	(8,381)	751	(9,987)
Net change in other comprehensive income of investments in associates	10,20	(1,096)	(3,512)	(1,477)	(4,394)
Valuation loss on financial assets at fair value through other comprehensive income	20	(5,448)	(11,654)	(831)	(42,723)
Items that are or may be reclassified subsequently to profit or loss, net of taxes:					
Net change in other comprehensive income of investments in associates and joint ventures	10,20	27,763	101,373	(71,042)	(20,040)
Net change in unrealized fair value of derivatives	20	6,744	35,887	(5,328)	(14,289)
Foreign currency translation differences for foreign operations	20	(4,830)	6,358	(9,057)	15,349
Other comprehensive income (loss) for the period, net of taxes		25,501	120,071	(86,984)	(76,084)
Total comprehensive income	₩	299,926	1,027,183	962,839	2,581,412
Total comprehensive income (loss) attributable to:					
Owners of the Parent Company	₩	299,082	1,035,644	944,293	2,566,537
Non-controlling interests		844	(8,461)	18,546	14,875

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 nine-month periods September 30, 2019 and 2018

(In millions of won)

	Note	Controlling Interest				Sub-total	Non-controlling interests	Total equity
		Share capital	Capital surplus and others	Retained earnings	Reserves			
Balance, December 31, 2017		₩ 44,639	196,281	17,835,946	(234,727)	17,842,139	187,056	18,029,195
Impact of adopting K-IFRS No. 1115		-	-	1,900,049	-	1,900,049	-	1,900,049
Impact of adopting K-IFRS No. 1109		-	-	60,026	(68,804)	(8,778)	-	(8,778)
Restated balance, January 1, 2018		44,639	196,281	19,796,021	(303,531)	19,733,410	187,056	19,920,466
Total comprehensive income:								
Profit for the period		-	-	2,642,986	-	2,642,986	14,510	2,657,496
Other comprehensive income (loss)	10.16.20	-	-	(23,899)	(52,550)	(76,449)	365	(76,084)
		-	-	2,619,087	(52,550)	2,566,537	14,875	2,581,412
Transactions with owners:								
Annual dividends		-	-	(635,482)	-	(635,482)	-	(635,482)
Interim dividends		-	-	(70,609)	-	(70,609)	-	(70,609)
Interest on hybrid bonds		-	-	(12,111)	-	(12,111)	-	(12,111)
Repayments of hybrid bonds		-	(400,000)	-	-	(400,000)	-	(400,000)
Proceeds from issuance of hybrid bonds		-	398,759	-	-	398,759	-	398,759
Share option	18	-	441	-	-	441	126	567
Changes in ownership in subsidiaries		-	311,541	-	-	311,541	76,287	387,828
		-	310,741	(718,202)	-	(407,461)	76,413	(331,048)
Balance, September 30, 2018		₩ 44,639	507,022	21,696,906	(356,081)	21,892,486	278,344	22,170,830
Balance, December 31, 2018		₩ 44,639	655,084	22,144,541	(373,442)	22,470,822	(121,572)	22,349,250
Impact of adopting K-IFRS No. 1116	3	-	-	(24,186)	-	(24,186)	(503)	(24,689)
Restated balance, January 1, 2019		₩ 44,639	655,084	22,120,355	(373,442)	22,446,636	(122,075)	22,324,561
Total comprehensive income:								
Profit (loss) for the period		-	-	916,966	-	916,966	(9,854)	907,112
Other comprehensive income	10,16,20	-	-	20,175	98,503	118,678	1,393	120,071
		-	-	937,141	98,503	1,035,644	(8,461)	1,027,183
Transactions with owners:								
Annual dividends		-	-	(646,828)	-	(646,828)	-	(646,828)
Interim dividends		-	-	(71,870)	-	(71,870)	-	(71,870)
Interest on hybrid bonds		-	-	(11,075)	-	(11,075)	-	(11,075)
Share option	18	-	228	-	-	228	504	732
Changes in ownership in subsidiaries		-	(4,111)	-	-	(4,111)	38,053	33,942
		-	(3,883)	(729,773)	-	(733,656)	38,557	(695,099)
Balance, September 30, 2019		₩ 44,639	651,201	22,327,723	(274,939)	22,748,624	(91,979)	22,656,645

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

For the nine-month periods September 30, 2019 and 2018

See accompanying notes to the condensed consolidated interim financial statements.

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

For the nine-month periods ended September 30, 2019 and 2018

(In millions of won)

	<i>Note</i>	September 30, 2019	September 30, 2018
Cash flows from operating activities:			
Cash generated from operating activities:			
Profit for the period	₩	907,112	2,657,496
Adjustments for income and expenses	30	3,102,395	837,318
Changes in assets and liabilities related to operating activities	30	(866,168)	(483,832)
		<u>3,143,339</u>	<u>3,010,982</u>
Interest received		39,487	41,990
Dividends received		237,424	193,962
Interest paid		(259,800)	(179,262)
Income tax paid		(322,232)	(388,747)
Net cash provided by operating activities		<u>2,838,218</u>	<u>2,678,925</u>
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net		255,569	373,505
Decrease in short-term investment securities, net		51,637	-
Collection of short-term loans		60,951	160,622
Decrease in long-term financial instruments		3	5
Proceeds from disposals of long-term investment securities		230,751	365,987
Proceeds from disposals of investments in associates and joint ventures		220	44,505
Proceeds from disposals of property and equipment		12,965	51,663
Proceeds from disposals of intangible assets		5,838	9,720
Collection of long-term loans		1,646	9,833
Decrease in deposits		7,545	6,509
Proceeds from settlement of derivatives		519	-
Collection of lease receivables		20,148	-
Proceeds from disposals of other non-current assets		-	956
Proceeds from disposals of subsidiaries		4,863	-
Cash inflow from business combinations		5,016	8,163
Cash inflow from transfers of business		45,658	-
		<u>703,329</u>	<u>1,031,468</u>
Cash outflows for investing activities:			
Increase in short-term investment securities, net		-	(4,379)
Increase in short-term loans		(74,531)	(168,543)
Increase in long-term loans		(7,702)	(4,710)
Acquisition of long-term investment securities		(74,277)	(10,732)
Acquisition of investments in associates and joint ventures		(263,383)	(196,593)
Acquisition of property and equipment		(2,235,781)	(1,852,323)
Acquisition of intangible assets		(45,901)	(68,167)
Increase in deposits		(5,471)	(4,264)
Cash outflow for business combinations		(36,900)	(48,532)
Cash outflow for liquidation of subsidiaries		(927)	(1,836)
		<u>(2,744,873)</u>	<u>(2,360,079)</u>
Net cash used in investing activities	₩	<u>(2,041,544)</u>	<u>(1,328,611)</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

For the nine-month periods ended September 30, 2019 and 2018

(In millions of won)

	<u>Note</u>	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from issuance of debentures	₩	1,234,938	1,809,641
Proceeds from issuance of hybrid bonds		-	398,759
Cash inflows from capital increase by subsidiaries		-	499,926
Cash inflows from capital contribution from non-controlling shareholders		3,933	-
Cash inflows from settlement of derivatives		11,931	-
		<u>1,250,802</u>	<u>2,708,326</u>
Cash outflows for financing activities:			
Decrease in short-term borrowings, net		(30,466)	(78,393)
Repayments of long-term payables – other		(427,369)	(304,672)
Repayments of debentures		(730,000)	(1,086,550)
Repayments of long-term borrowings		(37,253)	(58,354)
Cash outflows from settlement of derivatives		-	(29,278)
Payments of cash dividends		(718,698)	(706,091)
Payments of interest on hybrid bonds		(11,075)	(12,112)
Repayments of hybrid bonds		-	(400,000)
Repayments of lease liabilities		(287,896)	-
Transactions with the non-controlling shareholders		(26,631)	(76,805)
		<u>(2,269,388)</u>	<u>(2,752,255)</u>
Net cash used in financing activities		<u>(1,018,586)</u>	<u>(43,929)</u>
Net increase (decrease) in cash and cash equivalents		(221,912)	1,306,385
Cash and cash equivalents at beginning of the period		1,506,699	1,457,735
Effects of exchange rate changes on cash and cash equivalents		4,926	(568)
Cash and cash equivalents at end of the period	₩	<u>1,289,713</u>	<u>2,763,552</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 nine-month periods ended September 30, 2019 and 2018

1. Reporting Entity

(1) General

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

The Parent Company’s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of September 30, 2019, the Parent Company’s total issued shares are held by the following shareholders:

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

(2) List of subsidiaries

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

	<u>Subsidiary</u>	<u>Location</u>	<u>Primary business</u>	<u>Ownership (%)(*1)</u>	
				<u>Sept. 30, 2019</u>	<u>Dec. 31, 2018</u>
Subsidiaries owned by the Parent Company	SK Telink Co., Ltd.	Korea	Telecommunication and Mobile Virtual Network Operator service	100.0	100.0
	SK Communications Co., Ltd.	Korea	Internet website services	100.0	100.0
	SK Broadband Co., Ltd.	Korea	Telecommunication services	100.0	100.0
	PS&Marketing Corporation	Korea	Communications device retail business	100.0	100.0
	SERVICEACE Co., Ltd.	Korea	Call center management service	100.0	100.0
	SERVICE TOP Co., Ltd.	Korea	Call center management service	100.0	100.0
	SK O&S Co., Ltd. (Formerly, Network O&S Co., Ltd.)	Korea	Base station maintenance service	100.0	100.0
	SK Telecom China Holdings Co., Ltd.	China	Investment (holdings company)	100.0	100.0
	SK Global Healthcare Business Group, Ltd.	Hong Kong	Investment	100.0	100.0
	YTK Investment Ltd.	Cayman Islands	Investment association	100.0	100.0
	Atlas Investment	Cayman Islands	Investment association	100.0	100.0
	SKT Americas, Inc.	USA	Information gathering and consulting	100.0	100.0
	One store Co., Ltd.	Korea	Telecommunication services	65.5	65.5
	SK Planet Co., Ltd.	Korea	Telecommunication services, system software development and supply services	98.7	98.7
	Eleven Street Co., Ltd.(*2)	Korea	E-commerce	80.3	81.8
	DREAMUS COMPANY (Formerly, IRIVER LIMITED)(*3)	Korea	Manufacturing digital audio players and other portable media devices	52.0	52.6
	SK Infosec Co., Ltd.	Korea	Information security service	100.0	100.0
	Life & Security Holdings Co., Ltd.	Korea	Investment(holdings company)	55.0	55.0
	Quantum Innovation Fund I	Korea	Investment	59.9	59.9
	SK Telecom Japan Inc.	Japan	Information gathering and consulting	100.0	100.0
	id Quantique SA(*4)	Switzerland	Quantum information and communications service	66.8	65.6
	SK Telecom TMT Investment Corp.(*5)	USA	Investment	100.0	-
	FSK L&S Co., Ltd.(*5)	Korea	Freight and logistics consulting business	60.0	60.0
	Incross Co., Ltd.(*5)	Korea	Media representative business	34.6	-

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

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

	Subsidiary	Location	Primary business	Ownership (%)(*1)	
				Sept. 30, 2019	Dec. 31, 2018
Subsidiaries owned by the Parent Company	SK Telecom CS T1 Co., Ltd.(*5)	Korea	E-Sports business	100.0	-
	Happy Hanool Co., Ltd.(*5)	Korea	Service	100.0	-
Subsidiaries owned by SK Planet Co., Ltd.	SK m&service Co., Ltd.	Korea	Data base and internet website service	100.0	100.0
	SK Planet Japan, K. K.	Japan	Digital contents sourcing service	79.8	79.8
	SKP GLOBAL HOLDINGS PTE. LTD.	Singapore	Investment (holdings company)	100.0	100.0
	SKP America LLC.	USA	Digital contents sourcing service	100.0	100.0
	shopkick Management Company, Inc.(*5)	USA	Investment	-	100.0
	shopkick, Inc.(*5)	USA	Reward points-based in-store shopping application development	-	100.0
Subsidiaries owned by DREAMUS COMPANY (Formerly, IRIVER LIMITED)	K-net Culture and Contents Venture Fund	Korea	Capital investing in startups	59.0	59.0
	iriver Enterprise Ltd.	Hong Kong	Management of Chinese subsidiaries	100.0	100.0
	iriver Inc.(*5)	USA	Marketing and sales in North America	-	100.0
	iriver China Co., Ltd.	China	Sales of and manufacturing MP3 and 4	100.0	100.0
	Dongguan iriver Electronics Co., Ltd.	China	Sales of and manufacturing e-book	100.0	100.0
	groovers Japan Co., Ltd.	Japan	Digital music contents sourcing and distribution service	100.0	100.0
	LIFE DESIGN COMPANY Inc.	Japan	Sale of goods in Japan	100.0	100.0
	groovers Inc.(*5)	Korea	Sale of contents and Mastering Quality Sound album	-	100.0
	SKinfosec Information Technology (Wuxi) Co., Ltd.(*5)	China	System software development and supply services	100.0	-
	Subsidiary owned by SK Infosec Co., Ltd.				
Subsidiaries owned by Life & Security Holdings Co., Ltd.	ADT CAPS Co., Ltd.	Korea	Unmanned security	100.0	100.0
	CAPSTEC Co., Ltd.	Korea	Manned security	100.0	100.0
	ADT SECURITY Co., Ltd.	Korea	Sales and trade of anti-theft devices and surveillance devices	100.0	100.0
Subsidiary owned by SK Telink Co., Ltd.	SK TELINK VIETNAM Co., Ltd.	Vietnam	Communications device retail business	100.0	100.0
Subsidiaries owned by SK Broadband Co.,Ltd.	Home & Service Co., Ltd.	Korea	Operation of information and communications facility	100.0	100.0
	SK stoa Co., Ltd.	Korea	Other telecommunication retail business	100.0	100.0
Subsidiary owned by id Quantique SA	Id Quantique LLC	Korea	Quantum information and communications service	100.0	100.0
Subsidiary owned by FSK L&S Co., Ltd.	FSK L&S (Shanghai) Co., Ltd.(*5)	China	Logistics business	66.0	-
Subsidiaries owned by Incross Co., Ltd.	Infra Communications Co., Ltd.(*5)	Korea	Service operation	100.0	-
	Mindknock Co., Ltd.(*5)	Korea	Software development	100.0	-
Others(*6)	SK Telecom Innovation Fund, L.P	USA	Investment	100.0	100.0
	SK Telecom China Fund I L.P.	Cayman Islands	Investment	100.0	100.0

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

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

- (*1) The ownership interest represents direct ownership interest in subsidiaries either by the Parent Company or subsidiaries of the Parent Company.
- (*2) 80.3% of the shares issued by Eleven Street Co., Ltd. are owned by the Parent Company and 18.2% of redeemable convertible preferred shares with voting rights are owned by non-controlling shareholder. During the nine-month period ended September 30, 2019, Eleven Street Co., Ltd. acquired 1.5% of its outstanding shares from SK Planet Co., Ltd., which is currently held as treasury shares as of September 30, 2019. The Parent Company is obliged to guarantee dividend of at least 1% per annum of the preferred share's issue price to the investor by the date on which Eleven Street Co., Ltd. is publicly listed or qualifying listing period is completed, whichever occurs first. The present value of obligatory dividends amounting to ₩18,675 million are recognized as financial liabilities as of September 30, 2019.
- (*3) The ownership has changed due to the conversion of the convertible bonds issued by DREAMUS COMPANYY (Formerly, IRIVER LIMITED) during the nine-month period ended September 30, 2019.
- (*4) The ownership has changed due to an unequal paid-in capital increase of id Quantique SA during the nine-month period ended September 30, 2019.
- (*5) Details of changes in the consolidation scope for the nine-month period ended September 30, 2019 are presented and explained separately in Note 1-(4).
- (*6) Others are owned together by Atlas Investment and another subsidiary of the Parent Company.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries

Condensed financial information of the significant subsidiaries as of and for the nine-month period ended September 30, 2019 is as follows:

(In millions of won)

Subsidiary	As of September 30, 2019			For the nine-month period ended September 30, 2019	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.(*1)	₩ 328,040	127,688	200,352	272,968	14,595
Eleven Street Co., Ltd.	971,070	476,495	494,575	443,263	4,621
SK m&service Co., Ltd.	116,554	66,579	49,975	158,565	2,628
SK Communications Co., Ltd.	72,667	30,728	41,939	30,281	(9,633)
SK Broadband Co., Ltd.	4,463,781	2,818,170	1,645,611	2,416,974	56,656
K-net Culture and Contents Venture Fund	147,688	20,873	126,815	-	(3)
PS&Marketing Corporation	481,382	264,423	216,959	1,257,650	911
SERVICE ACE Co., Ltd.	89,163	62,652	26,511	152,385	2,692
SERVICE TOP Co., Ltd.	64,971	48,789	16,182	141,980	749
SK O&S Co., Ltd. (Formerly, Network O&S Co., Ltd.)	80,652	41,621	39,031	185,930	(448)
SK Planet Co., Ltd.	668,133	360,514	307,619	204,979	(10,068)
DREAMUS COMPANY (Formerly, IRIVER LIMITED)(*2)	188,494	46,435	142,059	135,156	(23,310)
SKP America LLC.	50,827	1,117	49,710	-	(350,732)
Life & Security Holdings Co., Ltd.(*3)	2,678,247	2,339,779	338,468	681,163	14,156
SK Infosec Co., Ltd.(*4)	157,404	66,483	90,921	191,585	12,823
One store Co., Ltd.	131,625	82,244	49,381	96,752	(1,693)
Home & Service Co., Ltd.	122,629	81,650	40,979	269,982	(252)
SK stoa Co., Ltd.	65,761	56,699	9,062	138,096	(1,485)
FSK L&S Co., Ltd.(*5)	47,137	18,435	28,702	101,312	942
Incross Co., Ltd.(*6)	126,872	59,700	67,172	9,027	2,939

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

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

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

(*4) The condensed financial information of SK Infosec Co., Ltd. is consolidated financial information including SKinfosec Information Technology (Wuxi) Co., Ltd.

(*5) The condensed financial information of FSK L&S Co., Ltd. is consolidated financial information including FSK L&S (Shanghai) Co., Ltd.

(*6) The condensed financial information of Incross Co., Ltd. is consolidated financial information including Infra Communications Co., Ltd. and another subsidiary from the effective date of acquisition to September 30, 2019.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries, Continued

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

(In millions of won)

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

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

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

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

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

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

1. Reporting Entity, Continued

(4) Changes in subsidiaries

The list of subsidiaries that were newly included in consolidation during the nine-month period ended September 30, 2019 is as follows:

Subsidiary	Reason
SK Telecom TMT Investment Corp.	Established by the Parent Company
FSK L&S Co., Ltd.	Acquired by the Parent Company
FSK L&S (Shanghai) Co., Ltd.	Subsidiary of FSK L&S Co., Ltd.
Incross Co., Ltd.	Acquired by the Parent Company
Infra Communications Co., Ltd.	Subsidiary of Incross Co., Ltd.
Mindknock Co., Ltd.	Acquired by Incross Co., Ltd.
SK Telecom CS T1 Co., Ltd.	Established by the Parent Company
Happy Hanool Co., Ltd.	Established by the Parent Company
SKinfosec Information Technology (Wuxi) Co., Ltd.	Established by SK Infosec Co., Ltd.

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

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

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

For the nine-month periods ended September 30, 2019 and 2018

1. Reporting Entity, Continued

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

(In millions of won)

	DREAMUS COMPANY			
	(Formerly, IRIVER LIMITED)	Eleven Street Co., Ltd.	Life & Security Holdings Co., Ltd.	Incross Co., Ltd.
Ownership of non-controlling interests (%)	48.04	18.48	45.00	65.40
As of September 30, 2019				
Current assets	₩ 129,332	807,769	159,729	115,685
Non-current assets	59,162	163,301	2,518,518	11,187
Current liabilities	(41,704)	(443,932)	(310,114)	(58,953)
Non-current liabilities	(4,731)	(32,563)	(2,029,665)	(747)
Net assets	142,059	494,575	338,468	67,172
Fair value adjustment and others	-	(18,675)	(1,221,305)	-
Net assets on the consolidated financial statements	142,059	475,900	(882,837)	67,172
Carrying amount of non-controlling interests	68,606	87,924	(397,276)	42,369
For the nine-month period ended September 30, 2019				
Revenue	₩ 135,156	443,263	681,163	9,027
Profit (Loss) for the period	(23,310)	4,621	14,156	2,939
Depreciation of the fair value adjustment and others	-	(484)	(10,736)	-
Profit (Loss) for the period on the consolidated financial statements	(23,310)	4,137	3,420	2,939
Total comprehensive income (loss)	(21,067)	4,125	3,420	2,939
Profit (Loss) attributable to non-controlling interests	(11,124)	752	1,524	1,854
Net cash provided by (used in) operating activities	₩ (7,548)	14,441	197,008	(3,556)
Net cash provided by (used in) investing activities	(2,105)	114,249	(133,418)	17,728
Net cash used in financing activities	(2,246)	(69,479)	(28,926)	(620)
Effects on exchange rate changes on cash and cash equivalents	963	60	-	-
Net increase (decrease) in cash and cash equivalents	(10,936)	59,271	34,664	13,552
Dividends declared to non-controlling interests	₩ -	17,500	14,394	-

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

For the nine-month periods ended September 30, 2019 and 2018

1. Reporting Entity, Continued

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

	DREAMUS COMPANY (Formerly, IRIVER LIMITED)	Eleven Street Co., Ltd.	Life & Security Holdings Co., Ltd.
Ownership of non-controlling interests (%)	47.36	18.19	45.00
As of December 31, 2018			
Current assets	₩ 150,014	923,153	124,091
Non-current assets	54,465	122,793	2,487,747
Current liabilities	(41,957)	(486,391)	(243,064)
Non-current liabilities	(2,663)	(9,516)	(2,018,392)
Net assets	159,859	550,039	350,382
Fair value adjustment and others	-	(23,191)	(1,216,347)
Net assets on the consolidated financial statements	159,859	526,848	(865,965)
Carrying amount of non-controlling interests	76,204	95,811	(389,684)
2018			
Revenue	₩ 137,849	228,000	197,487
Profit (Loss) for the year	(21,314)	(9,507)	6,038
Depreciation of the fair value adjustment and others	-	(161)	(2,954)
Profit (Loss) for the year on the consolidated financial statements	(21,314)	(9,668)	3,084
Total comprehensive income (loss)	(21,125)	(8,897)	(991)
Profit (Loss) attributable to non-controlling interests	(10,094)	(1,758)	1,387
Net cash provided by (used in) operating activities	₩ 13,635	(69,347)	(23,451)
Net cash used in investing activities	(10,169)	(470,211)	(139,430)
Net cash provided by financing activities	69,267	494,923	124,076
Net increase (decrease) in cash and cash equivalents	72,733	(44,635)	(38,805)
Dividend paid to non-controlling interests	₩ -	-	-

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

2. Basis of Preparation

(1) Statement of compliance

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

The Group's applied K-IFRS No. 1116, *Leases*, effective January 1, 2019. Changes to significant accounting policies are described in note 3.

(2) Use of estimates and judgments

1) Critical judgments, assumptions and estimation uncertainties

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2018 except significant judgments and key sources of estimation uncertainty related to the K-IFRS No. 1116, *Leases* that are described in note 3.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

2. Basis of Preparation, Continued

(2) Use of estimates and judgments, Continued

2) Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has established policies and processes with respect to the measurement of fair values including Level 3 fair values, and the measurement of fair values is reviewed and is directly reported to the finance executives.

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

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

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

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

Information about assumptions used for fair value measurements are included in note 27.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

3. Significant Accounting Policies

The significant accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2018, except for the following changes in accounting policies described below. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending December 31, 2019.

(1) Changes in accounting policies

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

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

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

The Group has applied K-IFRS No. 1116 from January 1, 2019 using the cumulative effect method with the effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at January 1, 2019. Accordingly, the comparative information presented for 2018 has been presented, as previously reported, under K-IFRS No. 1017 and has not been restated. Details of the changes in accounting policies are disclosed below.

i) Definition of a lease

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

ii) As a lessee

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

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

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2019 and 2018

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

ii) As a lessee, Continued

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

① Significant accounting policies

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

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

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

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

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

For the nine-month periods ended September 30, 2019 and 2018

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

ii) As a lessee, Continued

② Transition

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

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

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

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

iii) As a lessor

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

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

For the nine-month periods ended September 30, 2019 and 2018

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

iv) Impacts on consolidated financial statements

① Impacts on transition

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

(In millions of won)

	<u>January 1, 2019</u>
Impacts on the assets:	
Right-of-use assets presented in property and equipment	₩ 654,449
Increase in accounts receivable – other (lease receivables)	31,355
Adjustments in property and equipment, intangible assets	(3,387)
Decrease in advanced payments and others	(52,584)
	<u>629,833</u>
Impacts on the liabilities:	
Increase in the lease liabilities	663,827
Decrease in deferred tax liabilities	(9,305)
	<u>654,522</u>
Decrease in retained earnings	(24,186)
Decrease in non-controlling interests	₩ (503)

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

(In millions of won)

	<u>January 1, 2019</u>
Operating lease commitments at December 31, 2018	₩ 766,978
Discounted using the incremental borrowing rate at January 1, 2019	735,051
- Recognition exemption for leases with less than 12 months of lease term at the lease commencement date	(66,548)
- Recognition exemption for leases of low-value assets	(4,676)
Lease liabilities recognized at January 1, 2019	<u>₩ 663,827</u>

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

For the nine-month periods ended September 30, 2019 and 2018

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

iv) Impacts for on consolidated financial statements, Continued

② Impacts subsequent to adoption

As a result of initially applying K-IFRS No. 1116, in relation to the leases that were previously classified as operating leases, the Group recognized ₩730,673 million of right-of-use assets and ₩733,766 million of lease liabilities as of September 30, 2019.

Also, in relation to those leases under K-IFRS No. 1116, the Group has recognized depreciation and interest costs, instead of operating lease expense. For the nine-month period ended September 30, 2019, the Group recognized ₩262,267 million of depreciation charges and ₩11,787 million of interest costs from those leases. Expenses related to short-term leases and leases of low-value assets are ₩113,703 million and ₩3,205 million, respectively.

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

4. Operating Segments

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

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

(In millions of won)

	For the nine-month period ended September 30, 2019						
	Cellular Services	Fixed-line telecommunication services	E-commerce Services	Others	Sub-total	Adjustments	Total
Total revenue	₩ 10,309,420	3,098,020	443,263	1,649,718	15,500,421	(2,167,273)	13,333,148
Inter-segment revenue	1,170,640	749,474	7,233	239,926	2,167,273	(2,167,273)	-
External revenue	9,138,780	2,348,546	436,030	1,409,792	13,333,148	-	13,333,148
Depreciation and amortization	1,986,960	559,559	23,289	213,603	2,783,411	-	2,783,411
Operating profit	803,410	94,803	5,069	44,210	947,492	-	947,492
Finance income and costs, net							(225,548)
Gain relating to investments in subsidiaries, associates and joint ventures, net							479,876
Other non-operating income and expense, net							(31,404)
Profit before income tax							1,170,416

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4. Operating Segments, Continued

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

(In millions of won)

		For the nine-month period ended September 30, 2018						
		Cellular Services	Fixed-line telecommu- nication services	E-commerce Services(*)	Others(*)	Sub-total	Adjustments	Total
Total revenue	₩	10,531,096	2,876,241	446,359	762,181	14,615,877	(2,093,624)	12,522,253
Inter-segment revenue		1,180,515	715,115	16,548	181,446	2,093,624	(2,093,624)	-
External revenue		9,350,581	2,161,126	429,811	580,735	12,522,253	-	12,522,253
Depreciation and amortization		1,772,934	474,561	8,666	65,069	2,321,230	-	2,321,230
Operating profit (loss)		1,035,390	127,254	(48,149)	(138,017)	976,478	-	976,478
Finance income and costs, net								(83,360)
Gain relating to investments in associates and joint ventures, net								2,534,688
Other non-operating income and expense, net								(55,842)
Profit before income tax								3,371,964

(*) Segment information for the nine-month period ended September 30, 2018 was recast to reflect Eleven Street Co., Ltd. only in the "E-Commerce Services" segment, with all the other businesses that were previously included in the "E-Commerce Services" segment now presented in "others" segment.

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

No single customer contributed 10% or more to the Group's total revenue for the nine-month periods ended September 30, 2019 and 2018.

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4. Operating Segments, Continued

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

(In millions of won)

		For the nine-month period ended	
		September 30, 2019	September 30, 2018
Products transferred at a point in time:			
Cellular revenue	Goods(*1)	₩ 903,277	902,728
Fixed-line telecommunication revenue	Goods	112,863	72,313
Other revenue	Goods	106,294	72,083
	Products	30,969	24,564
		<u>1,153,403</u>	<u>1,071,688</u>
Services transferred over time:			
Cellular revenue	Wireless service(*2)	7,191,880	7,376,379
	Cellular interconnection	369,645	437,524
	Other(*3)	673,978	633,950
Fixed-line telecommunication revenue	Fixed-line telephone service	204,169	219,840
	Fixed-line interconnection	69,706	77,170
	Internet Protocol Television(*4)	956,485	824,985
	International calls	56,226	61,282
	Internet service and miscellaneous(*5)	949,097	905,536
E-commerce services revenue	E-commerce service	436,030	429,811
Other revenue	Miscellaneous(*6)	1,272,529	484,088
		<u>12,179,745</u>	<u>11,450,565</u>
		<u>₩ 13,333,148</u>	<u>12,522,253</u>

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

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

(*3) Other revenue includes revenue from billing and collection services as well as other miscellaneous services.

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

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

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

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5. Trade and Other Receivables

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

(In millions of won)

	September 30, 2019		
	Gross amount	Loss allowance	Carrying amount
Current assets:			
Accounts receivable – trade	₩ 2,471,146	(252,887)	2,218,259
Short-term loans	75,793	(691)	75,102
Accounts receivable – other(*)	1,075,354	(57,036)	1,018,318
Accrued income	6,707	(166)	6,541
Guarantee deposits (Other current assets)	2,323	-	2,323
	<u>3,631,323</u>	<u>(310,780)</u>	<u>3,320,543</u>
Non-current assets:			
Long-term loans	81,972	(47,550)	34,422
Long-term accounts receivable – other(*)	544,893	-	544,893
Guarantee deposits	317,609	-	317,609
Long-term accounts receivable – trade (Other non-current assets)	17,081	(123)	16,958
	<u>961,555</u>	<u>(47,673)</u>	<u>913,882</u>
	<u>₩ 4,592,878</u>	<u>(358,453)</u>	<u>4,234,425</u>

(*) Gross and carrying amounts of accounts receivable – other as of September 30, 2019 include ₩812,991 million of financial instruments classified as FVTPL.

(In millions of won)

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

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

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5. Trade and Other Receivables, Continued

- (2) Changes in the loss allowance on trade and other receivables measured at amortized costs for the nine-month periods ended September 30, 2019 and 2018 are as follows:

(In millions of won)

	January 1, 2019	Impairment	Write-offs(*)	Collection of receivables previously written-off	Business Combination	September 30, 2019
Accounts receivable – trade	₩ 260,157	21,253	(39,423)	9,536	1,487	253,010
Accounts receivable – other	115,887	3,360	(21,803)	7,464	535	105,443
	<u>₩ 376,044</u>	<u>24,613</u>	<u>(61,226)</u>	<u>17,000</u>	<u>2,022</u>	<u>358,453</u>

(In millions of won)

	January 1, 2018	Impact of adopting K-IFRS No. 1109	Impairment	Write-offs(*)	Collection of receivables previously written-off	September 30, 2018
Accounts receivable – trade	₩ 239,448	12,950	27,344	(23,191)	11,037	267,588
Accounts receivable – other	122,723	99	5,483	(14,013)	4,807	119,099
	<u>₩ 362,171</u>	<u>13,049</u>	<u>32,827</u>	<u>(37,204)</u>	<u>15,844</u>	<u>386,687</u>

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

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

As the Group is a wireless and fixed-line telecommunications service provider, the Group's financial assets measured at amortized cost consist primarily of receivables from numerous individual customers, and, therefore, no significant credit concentration risk arises.

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6. Prepaid expenses

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

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Current assets:		
Incremental costs of obtaining contracts	₩ 1,801,681	1,577,992
Others	143,450	191,567
	<u>₩ 1,945,131</u>	<u>1,769,559</u>
Non-current assets:		
Incremental costs of obtaining contracts	₩ 1,137,543	799,607
Others	87,874	95,665
	<u>₩ 1,225,417</u>	<u>895,272</u>

(2) Incremental costs of obtaining contracts

Incremental costs of obtaining contracts that are capitalized as assets and the related amortization recognized as commissions during the three and nine-month periods ended September 30, 2019 and 2018 are as follows:

(In millions of won)

	<u>2019</u>		<u>2018</u>	
	<u>Three-month period ended September 30</u>	<u>Nine-month period ended September 30</u>	<u>Three-month period ended September 30</u>	<u>Nine-month period ended September 30</u>
Amortization recognized as commissions	₩ 568,582	1,603,194	511,362	1,531,089

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

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7. Contract assets and liabilities

(1) Details of contract assets and liabilities as of September 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Contract assets:		
Allocation of consideration between performance obligations	₩ 184,447	133,893
Contract liabilities:		
Wireless service contracts	15,573	18,425
Customer loyalty programs	23,016	17,113
Fixed-line service contracts	61,028	57,327
Commerce service	33	10
Security service	35,390	38,109
Others	65,702	52,829
	<u>₩ 200,742</u>	<u>183,813</u>

(2) The amount of revenue recognized for the nine-month period ended September 30, 2019 related to the contract liabilities carried forward from the prior period is ₩81,694 million.

8. Inventories

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

(In millions of won)

	<u>September 30, 2019</u>			<u>December 31, 2018</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	₩ 188,737	(12,376)	176,361	268,366	(8,842)	259,524
Finished goods	3,850	(1,961)	1,889	1,260	(251)	1,009
Work in process	3,793	(517)	3,276	3,985	(338)	3,647
Raw materials	12,081	(7,233)	4,848	11,729	(2,706)	9,023
Supplies	14,165	-	14,165	14,850	-	14,850
	<u>₩ 222,626</u>	<u>(22,087)</u>	<u>200,539</u>	<u>300,190</u>	<u>(12,137)</u>	<u>288,053</u>

(2) Inventories recognized as operating expenses for the nine-month periods ended September 30, 2019 and 2018 are ₩1,067,008 million and ₩1,054,779 million, respectively, which are included in the cost of goods sold.

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9. Investment Securities

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

(In millions of won)

	<u>Category</u>		<u>September 30, 2019</u>	<u>December 31, 2018</u>
Beneficiary certificates	FVTPL	₩	144,513	195,080

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

(In millions of won)

	<u>Category</u>		<u>September 30, 2019</u>	<u>December 31, 2018</u>
Equity instruments	FVOCI(*)	₩	391,659	542,496
	FVTPL		<u>2,201</u>	-
			393,860	542,496
Debt instruments	FVOCI		4,801	2,147
	FVTPL		<u>139,751</u>	<u>120,083</u>
			<u>144,552</u>	<u>122,230</u>
		₩	<u>538,412</u>	<u>664,726</u>

(*) The Group designated ₩391,659 million of equity instruments that are not held for trading as financial assets at FVOCI. During the nine-month period ended September 30, 2019, the Group disposed 6,109,000 shares of the common shares issued by Hana Financial Group Inc. in exchange for ₩221,146 million in cash. The valuation gain on financial assets at FVOCI of ₩30,073 million was reclassified from reserves to retained earnings.

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10. Investments in Associates and Joint Ventures

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

(In millions of won)

	Country	September 30, 2019		December 31, 2018	
		Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Investments in associates:					
SK China Company Ltd.	China	27.3	₩ 577,101	27.3	₩ 551,548
Korea IT Fund(*1)	Korea	63.3	285,516	63.3	281,684
KEB HanaCard Co., Ltd.(*2)	Korea	15.0	294,772	15.0	288,457
NanoEnTek, Inc.	Korea	28.9	41,983	28.9	40,974
SK Technology Innovation Company	Cayman Islands	49.0	45,603	49.0	42,469
SK hynix Inc.	Korea	20.1	11,498,445	20.1	11,208,315
SK MENA Investment B.V.	Netherlands	32.1	15,455	32.1	14,420
SM Culture & Contents Co., Ltd.	Korea	23.4	63,350	23.4	63,801
Hello Nature., Ltd.	Korea	49.9	24,040	49.9	28,549
12CM Japan, Inc.	Japan	28.2	7,951	28.2	7,734
MAKEUS Corp.(*2)	Korea	8.9	8,922	8.9	9,193
SK South East Asia Investment Pte. Ltd.	Singapore	20.0	224,470	20.0	111,000
Pacific Telecom Inc.(*2)	USA	15.0	40,629	15.0	37,075
Health Connect Co., Ltd. and others	-	-	222,610	-	106,394
			<u>13,350,847</u>		<u>12,791,613</u>
Investments in joint ventures:					
Dogus Planet, Inc.(*3)	Turkey	50.0	17,748	50.0	12,487
Finnq Co., Ltd.(*3)	Korea	49.0	25,429	49.0	7,671
NEXTGEN BROADCAST SERVICES CO, LLC(*3)	USA	50.0	8,409	-	-
NEXTGEN ORCHESTRATION, LLC(*3)	USA	50.0	1,802	-	-
Celcom Planet(*4)	Malaysia	-	-	44.7	-
			<u>53,388</u>		<u>20,158</u>
			<u>₩ 13,404,235</u>		<u>₩ 12,811,771</u>

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

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

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

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

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10. Investments in Associates and Joint Ventures, Continued

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

(In millions of won, except for share data)

	September 30, 2019			December 31, 2018		
	Market price per share (in won)	Number of shares	Market value	Market price per share (in won)	Number of shares	Market value
NanoEnTek, Inc.	₩ 4,460	7,600,649	33,899	4,235	7,600,649	32,189
SK hynix Inc.	82,200	146,100,000	12,009,420	60,500	146,100,000	8,839,050
SM Culture & Contents Co., Ltd.	1,410	22,033,898	31,068	2,020	22,033,898	44,508

- (3) The condensed financial information of significant associates as of and for the nine-month period ended September 30, 2019 and as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

	SK hynix Inc.	KEB HanaCard Co., Ltd.	Korea IT Fund	SK China Company Ltd.
As of September 30, 2019				
Current assets	₩ 14,175,499	7,772,208	94,065	626,077
Non-current assets	49,496,252	209,108	356,749	1,406,093
Current liabilities	6,827,424	1,125,591	-	48,473
Non-current liabilities	8,578,101	5,230,124	-	177,936

	For the nine-month period ended September 30, 2019			
Revenue	20,063,622	910,256	31,397	68,070
Profit for the period	2,134,639	49,847	16,197	5,914
Other comprehensive income (loss)	318,045	(607)	-	(30,256)
Total comprehensive income (loss)	2,452,684	49,240	16,197	(24,342)

(In millions of won)

	SK hynix Inc.	KEB HanaCard Co., Ltd.	Korea IT Fund	SK China Company Ltd.
As of December 31, 2018				
Current assets	₩ 19,894,146	7,781,888	118,024	677,686
Non-current assets	43,764,189	202,251	326,740	1,221,736
Current liabilities	13,031,852	1,122,538	-	71,396
Non-current liabilities	3,774,152	5,286,179	-	117,094

	2018			
Revenue	40,445,066	1,642,133	57,430	117,132
Profit for the period	15,539,984	106,675	45,110	30,274
Other comprehensive loss	(67,219)	(4,344)	(13,422)	(16,149)
Total comprehensive income	15,472,765	102,331	31,688	14,125

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10. Investments in Associates and Joint Ventures, Continued

- (4) The condensed financial information of significant joint ventures as of and for the nine-month period ended September 30, 2019 and as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

		<u>Dogus Planet, Inc.</u>	<u>Finnq Co., Ltd.</u>
		<u>As of September 30, 2019</u>	
Current assets	₩	62,086	51,727
Cash and cash equivalents		55,327	5,146
Non-current assets		24,608	13,468
Current liabilities		50,327	6,238
Accounts payable, other payables and provision		43,674	1,224
Non-current liabilities		871	7,226
		<u>For the nine-month period ended September 30, 2019</u>	
Revenue		60,003	1,021
Depreciation and amortization		(4,113)	(3,634)
Interest income		908	9
Interest expenses		(77)	(152)
Profit (Loss) for the period		10,135	(12,160)
Total comprehensive income (loss)		10,135	(12,160)

(In millions of won)

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

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10. Investments in Associates and Joint Ventures, Continued

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

(In millions of won)

		September 30, 2019				
		Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
SK hynix Inc. (*1,2)	₩	48,250,727	20.1	10,306,159	1,192,286	11,498,445
KEB HanaCard Co., Ltd.		1,625,601	15.0	243,840	50,932	294,772
Korea IT Fund		450,814	63.3	285,516	-	285,516
SK China Company Ltd. (*1)		1,804,107	27.3	492,002	85,099	577,101

(In millions of won)

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

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

(*2) The ownership interest is based on the number of shares owned by the Parent Company as divided by the total shares issued by the investee company. The Group applied the equity method using the effective ownership interest which is based on the number of shares owned by the Parent Company and the investee's total shares outstanding. The effective ownership interest applied for the equity method is 21.36%.

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For the nine-month periods ended September 30, 2019 and 2018

10. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the nine-month periods ended September 30, 2019 and 2018 are as follows:

(In millions of won)

	For the nine-month period ended September 30, 2019					
	Beginning balance	Acquisition and Disposal	Share of profits (losses)	Other comprehensive income (loss)	Other increase (decrease)	Ending balance
Investments in associates:						
SK China Company Ltd.	₩ 551,548	-	301	25,252	-	577,101
Korea IT Fund(*1)	281,684	-	10,258	1,706	(8,132)	285,516
KEB HanaCard Co., Ltd.	288,457	-	6,265	50	-	294,772
NanoEnTek, Inc.	40,974	-	1,079	(70)	-	41,983
SK Technology Innovation Company	42,469	-	59	3,075	-	45,603
SK hynix Inc.(*1)	11,208,315	-	444,880	64,401	(219,151)	11,498,445
SK MENA Investment B.V.	14,420	-	10	1,025	-	15,455
SM Culture & Contents Co., Ltd.	63,801	-	7	(458)	-	63,350
Health Connect Co., Ltd. and others(*1,2)	299,945	242,047	(2,885)	5,576	(16,061)	528,622
	12,791,613	242,047	459,974	100,557	(243,344)	13,350,847
Investments in joint ventures:						
Dogus Planet, Inc.	12,487	(81)	5,049	293	-	17,748
Finnq Co., Ltd.	7,671	24,500	(6,031)	(711)	-	25,429
NEXTGEN BROADCAST SERVICES CO, LLC	-	8,135	-	-	274	8,409
NEXTGEN ORCHESTRATION, LLC	-	1,743	-	-	59	1,802
Celcom Planet(*3)	-	6,141	(6,141)	-	-	-
	20,158	40,438	(7,123)	(418)	333	53,388
₩	12,811,771	282,485	452,851	100,139	(243,011)	13,404,235

(*1) Dividends declared by the associates are deducted from the carrying amount during the for the nine-month period ended September 30, 2019.

(*2) The acquisition for the nine-month period ended September 30, 2019 includes ₩113,470 million of additional investments on SK South East Asia Investment Pte. Ltd. in cash, ₩11,201 million of cash and ₩19,039 million of assets for the acquisition of Grab Geo Holdings PTE. LTD., and ₩90,858 million and ₩6,800 million of cash investments in Contents Wavve Co., Ltd. and Carrot Co., Ltd., respectively. Other increase (decrease) includes the changes in book value due to the reclassification of FSK L&S Co., Ltd. as investments in subsidiary from investments in associates.

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

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10. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the nine-month periods ended September 30, 2019 and 2018 are as follows, Continued:

(In millions of won)

	For the nine-month period ended September 30, 2018					
	Beginning balance	Acquisition and Disposal	Share of profits (losses)	Other comprehensive income (loss)	Other increase (decrease)	Ending balance
Investments in associates:						
SK China Company Ltd.	₩ 526,099	-	1,451	(3,956)	-	523,594
Korea IT Fund(*)	257,003	-	26,467	(7,496)	(3,499)	272,475
KEB HanaCard Co., Ltd.	280,988	-	10,510	(6,484)	-	285,014
NanoEnTek, Inc.	38,718	-	(270)	(601)	-	37,847
SK Technology Innovation Company	42,511	-	(26)	1,654	-	44,139
HappyNarae Co., Ltd.	21,873	-	3,240	7	-	25,120
SK hynix Inc.(*)	8,130,000	-	2,515,916	(6,188)	(146,100)	10,493,628
SK MENA Investment B.V.	13,853	-	(4)	523	-	14,372
SM Culture & Contents Co., Ltd.	64,966	-	(1,431)	(315)	-	63,220
Xian Tianlong Science and Technology Co., Ltd.	25,891	(25,553)	(338)	-	-	-
Hello Nature., Ltd.	-	-	372	-	29,880	30,252
12CM Japan, Inc.	-	7,697	(16)	(85)	-	7,596
MAKEUS Corp.	-	9,773	(286)	-	-	9,487
SK SOUTH EAST ASIA INVESTMENT PTE. LTD. (Formerly, SE ASIA INVESTMENT PTE. LTD.)	-	111,000	-	-	-	111,000
Pacific Telecom Inc.	-	36,487	-	-	-	36,487
Daehan Kanggun BcN Co., Ltd. and others(*)	96,479	17,942	(3,416)	(113)	(8,280)	102,612
	<u>9,498,381</u>	<u>157,346</u>	<u>2,552,169</u>	<u>(23,054)</u>	<u>(127,999)</u>	<u>12,056,843</u>
Investments in joint ventures:						
Dogus Planet, Inc.	13,991	(76)	1,785	(1,648)	(98)	13,954
Finnq Co., Ltd.	16,474	-	(6,402)	(46)	-	10,026
12CM GLOBAL PTE. LTD.	9,592	(9,631)	42	(3)	-	-
Celcom Planet and others	-	12,932	(12,932)	-	-	-
	<u>40,057</u>	<u>3,225</u>	<u>(17,507)</u>	<u>(1,697)</u>	<u>(98)</u>	<u>23,980</u>
₩	<u>9,538,438</u>	<u>160,571</u>	<u>2,534,662</u>	<u>(24,751)</u>	<u>(128,097)</u>	<u>12,080,823</u>

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

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10. 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 September 30, 2019 are as follows:

(In millions of won)

		Unrecognized loss		Unrecognized change in equity	
		For the nine-month period ended		For the nine-month period ended	
		September 30, 2019	Cumulative loss	September 30, 2019	Cumulative loss
Wave City Development Co., Ltd.	₩	(1,611)	4,923	-	-
Daehan Kanggun BcN Co., Ltd. and others		(3,384)	12,026	-	365
	₩	<u>(4,995)</u>	<u>16,949</u>	<u>-</u>	<u>365</u>

11. Property and Equipment

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

(In millions of won)

For the nine-month period ended September 30, 2019										
		Beginning balance	Impact of adopting K-IFRS No. 1116	Acquisition	Disposal	Transfer	Depreciation	Impairment	Business Combination	Ending balance
Land	₩	938,344	-	1,568	(3)	33,627	-	-	569	974,105
Buildings		863,294	-	2,097	(447)	36,189	(41,187)	-	658	860,604
Structures		356,039	-	7,521	-	7,339	(27,001)	-	-	343,898
Machinery		7,146,724	-	431,809	(23,211)	1,518,408	(1,709,953)	-	-	7,363,777
Other		848,596	(1,113)	1,049,482	(1,721)	(967,355)	(150,640)	(127)	214	777,336
Right-of-use assets		-	654,449	469,229	(131,720)	-	(262,267)	-	982	730,673
Construction in progress		565,357	-	696,179	(10,840)	(716,032)	-	-	-	534,664
	₩	<u>10,718,354</u>	<u>653,336</u>	<u>2,657,885</u>	<u>(167,942)</u>	<u>(87,824)</u>	<u>(2,191,048)</u>	<u>(127)</u>	<u>2,423</u>	<u>11,585,057</u>

(In millions of won)

For the nine-month period ended September 30, 2018										
		Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Business Combination	Disposal of subsidiaries	Ending balance	
Land	₩	862,861	2,418	(7,151)	8,275	-	-	-	866,403	
Buildings		882,650	920	(4,149)	20,795	(39,057)	-	-	861,159	
Structures		378,575	4,763	(26)	3,276	(27,071)	-	-	359,517	
Machinery		7,079,798	412,275	(27,542)	777,206	(1,656,915)	20	-	6,584,842	
Other		531,057	392,333	(4,445)	(352,321)	(101,034)	500	(3,079)	463,011	
Construction in progress		409,941	520,930	(3,585)	(582,834)	-	-	-	344,452	
	₩	<u>10,144,882</u>	<u>1,333,639</u>	<u>(46,898)</u>	<u>(125,603)</u>	<u>(1,824,077)</u>	<u>520</u>	<u>(3,079)</u>	<u>9,479,384</u>	

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11. Property and Equipment, Continued

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

(In millions of won)

		September 30, 2019	January 1, 2019
Buildings, Land and Structures	₩	630,267	532,029
Other		100,406	122,420
	₩	<u>730,673</u>	<u>654,449</u>

12. Intangible Assets

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

(In millions of won)

		For the nine-month period ended September 30, 2019							
	Beginning balance	Impact of adopting K-IFRS No. 1116	Acquisition	Disposal	Transfer	Amortization	Impairment	Business Combination	Ending balance
Frequency usage rights	₩ 3,139,978	-	-	-	-	(361,983)	-	-	2,777,995
Land usage rights	10,511	-	1,484	(415)	-	(3,751)	-	-	7,829
Industrial rights	83,627	-	1,064	(537)	1,870	(3,531)	-	(14,467)	68,026
Development costs	8,990	-	1,471	-	1,542	(4,055)	(661)	4,790	12,077
Facility usage rights	31,027	-	1,465	(12)	234	(5,706)	-	-	27,008
Customer relations	625,091	-	250	(258)	304	(25,541)	-	-	599,846
Club memberships	80,475	-	2,299	(1,574)	(1,200)	-	(63)	1,188	81,125
Brand	374,096	-	-	-	-	-	-	-	374,096
Other	1,159,715	(2,274)	38,686	(2,820)	86,840	(311,272)	(486)	(9,869)	958,520
	₩ 5,513,510	(2,274)	46,719	(5,616)	89,590	(715,839)	(1,210)	(18,358)	4,906,522

(In millions of won)

		For the nine-month period ended September 30, 2018							
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Business Combination	Ending balance	
Frequency usage rights	₩ 2,176,940	-	-	-	(302,916)	-	-	1,874,024	
Land usage rights	15,750	2,600	(842)	406	(5,737)	-	-	12,177	
Industrial rights	111,347	4,274	(768)	4,119	(5,314)	-	55	113,713	
Development costs	4,103	3,968	-	-	(1,319)	-	209	6,961	
Facility usage rights	36,451	1,472	(36)	100	(5,806)	-	-	32,181	
Customer relations	4,035	213	-	126	(1,391)	-	-	2,983	
Club memberships	73,614	4,510	(2,304)	-	-	(173)	-	75,647	
Other	1,164,725	48,503	(12,284)	160,149	(291,158)	(904)	9,942	1,078,973	
	₩ 3,586,965	65,540	(16,234)	164,900	(613,641)	(1,077)	10,206	3,196,659	

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12. Intangible Assets, Continued

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

(In millions of won)

	Amount	Description	Commencement of amortization	Completion of amortization
800MHz license	₩ 70,952	CDMA and LTE service	Jul. 2011	Jun. 2021
1.8GHz license	282,645	LTE service	Sept. 2013	Dec. 2021
2.6GHz license	880,285	LTE service	Sept. 2016	Dec. 2026
2.1GHz license	237,407	W-CDMA and LTE service	Dec. 2016	Dec. 2021
3.5GHz license(*)	1,104,023	5G service	Apr. 2019	Nov. 2028
28GHz license(*)	202,683	5G service	-	Nov. 2023
	₩ <u>2,777,995</u>			

(*) The Group participated in the frequency usage rights allocation auction hosted by Ministry of Science and Information and Communication Technology(ICT) and was assigned the 3.5GHz and 28GHz bands of frequency during the year ended December 31, 2018. The considerations payable for the bands of frequency are ₩1,218,500 million and ₩207,300 million, respectively. These bands of frequency were assigned in December 2018 and the annual payments in installment of the remaining balances will be made for the next ten and five years, respectively. The Group recognized these frequency usage rights as intangible assets at the date of initial lump sum payment and began amortization for 3.5GHz license in April 2019. The amortization for 28GHz license will begin when it is in the condition necessary for it to be capable of operating in the manner intended by management.

13. Borrowings and Debentures

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

(In millions of won)

	Lender	Annual interest rate(%)	September 30, 2019	December 31, 2018
Short-term borrowings	Shinhan Bank	3.36	₩ 30,000	30,000
	Shinhan Bank	2.27	-	30,000
	Shinhan Bank	3.63	15,000	15,000
	KEB Hana Bank	3.24	5,000	5,000
			₩ <u>50,000</u>	<u>80,000</u>

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13. Borrowings and Debentures, Continued

(2) Changes in the long-term borrowings for the nine-month period ended September 30, 2019 are as follows:

(In millions of won)

	<u>Lender</u>	<u>Annual interest rate(%)</u>	<u>Maturity</u>	<u>Book value</u>
Current				₩ 89,631
Non-current				2,015,365
As of January 1, 2019				<u>2,104,996</u>
Repayments of long-term borrowings:				
	Korea Development Bank	2.20	Jul. 30, 2019	(9,750)
	Korea Development Bank	2.20	Jul. 30, 2019	(2,500)
	Korea Development Bank	2.32	Dec. 20, 2021	(9,187)
	Korea Development Bank	2.78	Dec. 21, 2022	(9,375)
	Export Kreditnamnden	1.70	Apr. 29, 2022	(6,441)
				<u>(37,253)</u>
Other changes(*1)				<u>7,569</u>
Current(*2)				87,793
Non-current(*2)				1,987,519
As of September 30, 2019				<u>₩ 2,075,312</u>

(*1) Other changes include the effects on foreign currency translation of foreign currency-denominated long-term borrowings and changes in present value discount during the nine-month period ended September 30, 2019.

(*2) ₩6,540 million were transferred from non-current to current for the nine-month period ended September 30, 2019.

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13. Borrowings and Debentures, Continued

(3) Changes in debentures for the nine-month period ended September 30, 2019 are as follows:

(In millions of won)

	Purpose	Annual interest rate(%)	Maturity	Face value	Book value
Current				₩ 895,479	894,641
Non-current				6,598,963	6,572,211
As of January 1, 2019				<u>7,494,442</u>	<u>7,466,852</u>
Debentures newly issued:					
Unsecured corporate bonds	Operating fund	2.03	Mar. 6, 2022	180,000	179,234
		2.09	Mar. 6, 2024	120,000	119,498
		2.19	Mar. 6, 2029	50,000	49,801
		2.23	Mar. 6, 2039	50,000	49,812
	Operating and refinancing fund	1.40	Jul. 29, 2022	120,000	119,487
		1.49	Jul. 29, 2024	60,000	59,760
		1.50	Jul. 29, 2029	120,000	119,552
		1.52	Jul. 29, 2039	50,000	49,812
		1.56	Jul. 29, 2049	50,000	49,812
		2.00	Mar. 26, 2022	50,000	49,781
Refinancing fund(*1)	2.09	Mar. 26, 2024	160,000	159,300	
	1.71	Sept. 23, 2022	80,000	79,684	
Operating and refinancing fund(*1)	1.71	Sept. 23, 2024	100,000	99,610	
	1.86	Sept. 23, 2026	50,000	49,795	
Private placement corporate bonds	Operating fund	-	Oct. 1, 2023	5,758	5,178
				<u>₩ 1,245,758</u>	<u>1,240,116</u>
Debentures repaid:					
Unsecured corporate bonds	Operating and refinancing fund	3.24	Aug. 28, 2019	(170,000)	(170,000)
		3.30	May 14, 2019	(50,000)	(50,000)
	Operating fund	4.72	May 14, 2029	(61,757)	(61,757)
		1.65	Mar. 4, 2019	(70,000)	(70,000)
		1.62	Jun. 3, 2019	(50,000)	(50,000)
Corporate bonds	Operating fund(*1)	3.49	Apr. 2, 2019	(210,000)	(210,000)
		2.76	Sept. 28, 2019	(130,000)	(130,000)
				<u>₩ (741,757)</u>	<u>(741,757)</u>
Other changes(*2)				121,853	126,689
Current(*3)				932,444	932,412
Non-current(*3)				7,187,852	7,159,488
As of September 30, 2019				<u>₩ 8,120,296</u>	<u>8,091,900</u>

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

(*2) Other changes include the effects from translation of foreign currency-denominated debentures and changes in present value discount on debentures during the nine-month period ended September 30, 2019.

(*3) ₩720,314 million were transferred from non-current to current for the nine-month period ended September 30, 2019.

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14. Long-term Payables – other

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

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Payables related to acquisition of frequency usage rights	₩ 1,538,937	1,939,082
Other(*)	6,364	29,702
	<u>₩ 1,545,301</u>	<u>1,968,784</u>

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

(2) As of September 30, 2019 and December 31, 2018, details of long-term payables – other related to the acquisition of frequency usage rights are as follows (See note 12):

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Long-term payables – other	₩ 2,051,389	2,476,738
Present value discount on long-term payables – other	(90,335)	(113,772)
Current installments of long-term payables – other	(422,117)	(423,884)
Carrying amount at period end	<u>₩ 1,538,937</u>	<u>1,939,082</u>

(3) The Group repaid ₩425,349 million of the principal amount of long-term payables – other related to the acquisition of frequency usage rights during the nine-month period ended September 30, 2019. The repayment schedule of the principal amount of long-term payables – other as of September 30, 2019 is as follows:

(In millions of won)

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

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15. Provisions

Changes in provisions for the nine-month periods ended September 30, 2019 and 2018 are as follows:

(In millions of won)

	For the nine-month period ended September 30, 2019						As of September 30, 2019		
	Beginning balance	Increase	Utilization	Reversal	Other	Business Combination	Ending balance	Current	Non-current
Provision for restoration	₩ 77,741	3,688	(2,514)	(1,704)	83	40	77,334	44,905	32,429
Emission allowance	2,238	3,495	(1,085)	(932)	-	-	3,716	3,716	-
Other provisions(*)	107,229	708	(28,223)	(103)	(11,645)	-	67,966	37,867	30,099
	₩ 187,208	7,891	(31,822)	(2,739)	(11,562)	40	149,016	86,488	62,528

(*) ₩37,475 million of current provisions and ₩30,099 million of non-current provisions are included in the other provisions relating to SK Planet Co., Ltd.'s onerous contracts. (See note 29)

(In millions of won)

	For the nine-month period ended September 30, 2018						As of September 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	-	-	(1,075)	(2,799)	-	-	-	-
Provision for restoration	73,267	-	3,712	(676)	(654)	105	75,754	43,541	32,213
Emission allowance	4,650	-	2,896	(1,334)	(3,306)	-	2,906	2,906	-
Other provisions	2,935	(215)	555	(134)	(536)	-	2,605	2,605	-
	₩ 84,726	(215)	7,163	(3,219)	(7,295)	105	81,265	49,052	32,213

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16. Defined Benefit Liabilities (Assets)

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

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	₩ 1,026,714	926,302
Fair value of plan assets	(819,373)	(816,699)
Defined benefit assets(*)	-	(31,926)
Defined benefit liabilities	<u>207,341</u>	<u>141,529</u>

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

(2) Changes in defined benefit obligations for the nine-month periods ended September 30, 2019 and 2018 are as follows:

(In millions of won)

	<u>For the nine-month period ended</u>	
	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Beginning balance	₩ 926,302	679,625
Business combination	3,653	-
Current service cost	127,404	101,018
Interest cost	17,480	15,320
Remeasurement:		
- Adjustment based on experience	8,264	8,267
Benefit paid	(60,336)	(32,739)
Others	3,947	552
Ending balance	<u>₩ 1,026,714</u>	<u>772,043</u>

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

(In millions of won)

	<u>For the nine-month period ended</u>	
	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Beginning balance	₩ 816,699	663,617
Business combination	3,207	-
Interest income	14,786	14,488
Remeasurement	(1,302)	(4,106)
Contribution	51,254	33,153
Benefit paid	(66,119)	(41,501)
Others	848	4,414
Ending balance	<u>₩ 819,373</u>	<u>670,065</u>

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16. 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 nine-month periods ended September 30, 2019 and 2018 are as follows:

(In millions of won)

	For the nine-month period ended	
	September 30, 2019	September 30, 2018
Current service cost	₩ 127,404	101,018
Net interest cost	2,694	832
	₩ <u>130,098</u>	<u>101,850</u>

17. Share Capital and Capital Surplus and Others

- (1) The Parent Company's outstanding share capital consists entirely of common shares with a par value of ₩500. The number of authorized, issued and outstanding common shares and the details of capital surplus and others as of September 30, 2019 and December 31, 2018 are as follows:

(In millions of won, except for share data)

	September 30, 2019	December 31, 2018
Number of authorized shares	220,000,000	220,000,000
Number of issued shares	80,745,711	80,745,711
Share capital:		
Common shares	₩ 44,639	44,639
Capital surplus and others:		
Paid-in capital surplus	2,915,887	2,915,887
Treasury shares	(1,979,475)	(1,979,475)
Hybrid bonds(*1)	398,759	398,759
Share option(note 18)	1,236	1,007
Others(*2)	(685,206)	(681,094)
	₩ <u>651,201</u>	<u>655,084</u>

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

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

- (2) There were no changes in share capital during the nine-month periods ended September 30, 2019 and 2018 and details of shares outstanding as of September 30, 2019 and 2018 are as follows:

(In shares)

	September 30, 2019			September 30, 2018		
	Issued shares	Treasury shares	Outstanding shares	Issued shares	Treasury shares	Outstanding shares
Shares outstanding	80,745,711	8,875,883	71,869,828	80,745,711	10,136,551	70,609,160

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18. Share option

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

	Parent Company					
	Series					
	1-1	1-2	1-3	2	3	4
Grant date		March 24, 2017		February 20, 2018	February 22, 2019	March 26, 2019
Types of shares to be issued	Registered common shares					
Grant method		Reissue of treasury shares			Reissue of treasury shares, cash settlement	
Number of shares (in shares)	22,168	22,168	22,168	1,358	5,477	1,734
Exercise price (in won)	246,750	266,490	287,810	254,120	265,260	254,310
Exercise period	Mar. 25, 2019 ~ Mar. 24, 2022	Mar. 25, 2020 ~ Mar. 24, 2023	Mar. 25, 2021 ~ Mar. 24, 2024	Feb. 21, 2020 ~ Feb. 20, 2023	Feb. 23, 2021 ~ Feb. 22, 2024	Mar. 27, 2021 ~ Mar. 26, 2024
Vesting conditions	2 years' service from the grant date	3 years' service from the grant date	4 years' service from the grant date	2 years' service from the grant date	2 years' service from the grant date	2 years' service from the grant date
		DREAMUS COMPANY(Formerly, IRIVER LIMITED)				
	One store Co., Ltd.(*)	1-1	1-2	1-3		
Grant date	April 27, 2018	March 28, 2019	March 28, 2019	March 28, 2019		
Types of shares to be issued	Common shares of One store Co., Ltd.	Common shares of DREAMUS COMPANY (Formerly, IRIVER LIMITED)				
Grant method	Issuance of new shares	Issuance of new shares, reissue of treasury shares, cash settlement				
Number of shares (in shares)(*)	978,650	406,681	406,672	406,647		
Exercise price (in won)	5,390	9,160	9,160	9,160		
Exercise period	Apr. 28, 2020 ~ Apr. 27, 2024	Mar. 29, 2021 ~ Mar. 28, 2024	Mar. 29, 2022 ~ Mar. 28, 2025	Mar. 29, 2023 ~ Mar. 28, 2026		
Vesting conditions	2 years' service from the grant date	2 years' service from the grant date	3 years' service from the grant date	4 years' service from the grant date		

(*) Parts of the grant of One store Co., Ltd. that have not met the vesting conditions have been forfeited during the nine-month period ended September 30, 2019 and during the year ended December 31, 2018.

	Incross Co., Ltd.			
	3	4	5	6
Grant date	March 30, 2016	March 7, 2017	March 7, 2018	March 7, 2019
Types of shares to be issued	Common shares of Incross Co., Ltd.			
Grant method	Issuance of new shares, reissue of treasury shares			
Number of shares (in shares)	19,750	29,625	9,900	6,600
Exercise price (in won)	10,571	17,485	25,861	16,895
Exercise period	Mar. 31, 2020 ~ Mar. 30, 2022	Mar. 8, 2021 ~ Mar. 6, 2023	Mar. 8, 2022 ~ Mar. 6, 2024	Mar. 8, 2023 ~ Mar. 6, 2025
Vesting conditions	3 years' service from the grant date	3 years' service from the grant date	3 years' service from the grant date	3 years' service from the grant date

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18. Share option, Continued

- (2) Share compensation expense recognized during the nine-month period ended September 30, 2019 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

(In millions of won)

	<u>Share compensation expense</u>
Accumulated compensation expenses as of December 31, 2018	₩ 1,203
For the nine-month period ended September 30, 2019	732
In subsequent periods	1,844
	<u>₩ 3,779</u>

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

(In won)

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

(In won)

	<u>DREAMUS COMPANY(Formerly, IRIVER LIMITED)</u>			
	<u>One store Co., Ltd.</u>	<u>1-1</u>	<u>1-2</u>	<u>1-3</u>
Risk-free interest rate	2.61%	1.73%	1.77%	1.82%
Estimated option's life	6 years	-	-	-
Share price (Closing price on the preceding day)(*)	4,925	8,950	8,950	8,950
Expected volatility	9.40%	16.17%	16.17%	16.17%
Expected dividends	0.00%	0.00%	0.00%	0.00%
Exercise price	5,390	9,160	9,160	9,160
Per share fair value of the option	566	1,132	1,372	1,542

(In won)

	<u>Incross Co., Ltd.</u>			
	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
Risk-free interest rate	2.09%	1.35%	1.50%	1.76%
Estimated option's life	6 years	6 years	6 years	6 years
Share price (Closing price on the preceding day)	17,993	43,843	27,300	17,000
Expected volatility	20.67%	18.67%	21.28%	25.58%
Expected dividends	0.00%	0.00%	0.00%	0.00%
Exercise price	10,571	17,485	25,861	16,895
Per share fair value of the option	1,965	9,423	7,277	4,887

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

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19. Retained Earnings

Retained earnings as of September 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Appropriated:		
Legal reserve	₩ 22,320	22,320
Reserve for business expansion	11,531,138	10,531,138
Reserve for technology development	4,265,300	3,321,300
	<u>15,818,758</u>	<u>13,874,758</u>
Unappropriated	6,508,965	8,269,783
	<u>₩ 22,327,723</u>	<u>22,144,541</u>

20. Reserves

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

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Valuation loss on financial assets at FVOCI	₩ (40,269)	(124)
Other comprehensive loss of investments in associates	(236,774)	(334,637)
Valuation loss on derivatives	(5,714)	(41,601)
Foreign currency translation differences for foreign operations	7,818	2,920
	<u>₩ (274,939)</u>	<u>(373,442)</u>

(2) Changes in reserves for the nine-month periods ended September 30, 2019 and 2018 are as follows:

(In millions of won)

	<u>Valuation gain (loss) on financial assets at FVOCI</u>	<u>Valuation gain (loss) on available-for- sale financial assets</u>	<u>Other compre- hensive income (loss) of investments in associates</u>	<u>Valuation gain (loss) on derivatives</u>	<u>Foreign currency translation differences for foreign operations</u>	<u>Total</u>
Balance at December 31, 2017	₩ -	168,211	(320,060)	(73,828)	(9,050)	(234,727)
Impact of adopting K-IFRS No. 1109	99,407	(168,211)	-	-	-	(68,804)
Balance at January 1, 2018	99,407	-	(320,060)	(73,828)	(9,050)	(303,531)
Changes, net of taxes	(28,705)	-	(24,434)	(14,289)	14,878	(52,550)
Balance at September 30, 2018	70,702	-	(344,494)	(88,117)	5,828	(356,081)
Balance at January 1, 2019	(124)	-	(334,637)	(41,601)	2,920	(373,442)
Changes, net of taxes	(40,145)	-	97,863	35,887	4,898	98,503
Balance at September 30, 2019	<u>₩ (40,269)</u>	<u>-</u>	<u>(236,774)</u>	<u>(5,714)</u>	<u>7,818</u>	<u>(274,939)</u>

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21. Other Operating Expenses

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

(In millions of won)

	2019		2018	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Communication	₩ 11,726	32,601	8,123	24,746
Utilities	90,272	237,537	81,955	221,418
Taxes and dues	7,970	34,728	6,657	30,111
Repair	87,336	268,646	89,704	260,027
Research and development	93,631	289,619	94,110	281,808
Training	10,099	25,900	10,440	26,109
Bad debt for accounts receivable – trade	6,000	21,253	7,133	27,344
Travel	7,056	21,942	6,144	19,473
Supplies and others	59,797	186,916	41,695	126,130
	₩ <u>373,887</u>	<u>1,119,142</u>	<u>345,961</u>	<u>1,017,166</u>

22. Other Non-operating Income and Expenses

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

(In millions of won)

	2019		2018	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Other Non-operating Income:				
Gain on disposal of property and equipment and intangible assets	₩ 4,276	11,769	31,725	35,265
Gain on business transfer	10,147	10,147	-	-
Others	5,905	14,900	4,498	23,303
	₩ <u>20,328</u>	<u>36,816</u>	<u>36,223</u>	<u>58,568</u>
Other Non-operating Expenses:				
Loss on impairment of property and equipment and intangible assets	₩ -	1,337	-	1,077
Loss on disposal of property and equipment and intangible assets	8,777	34,805	18,065	37,821
Donations	3,320	15,776	16,725	48,724
Bad debt for accounts receivable – other	1,265	3,360	937	5,483
Loss on impairment of investment assets	272	1,670	441	3,175
Others	2,672	11,272	5,010	18,130
	₩ <u>16,306</u>	<u>68,220</u>	<u>41,178</u>	<u>114,410</u>

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23. Finance Income and Costs

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

(In millions of won)

	2019		2018	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Finance Income:				
Interest income	₩ 17,817	46,912	14,031	49,251
Gain on sale of accounts receivable – other	2,366	14,353	9,202	17,341
Dividends	-	9,924	19,752	34,894
Gain on foreign currency transactions	3,523	9,168	4,127	13,587
Gain on foreign currency translations	4,915	9,928	-	3,795
Gain relating to financial assets at FVTPL	1,128	3,026	58,647	68,586
Gain relating to financial liabilities at FVTPL	-	56	-	-
Gain on valuation of derivatives	-	465	526	1,423
Gain on settlement of derivatives	-	389	-	-
	₩ <u>29,749</u>	<u>94,221</u>	<u>106,285</u>	<u>188,877</u>
Finance Costs:				
Interest expenses	₩ 98,730	300,504	71,031	218,007
Loss on sale of accounts receivable – other	-	561	1,066	5,446
Loss on foreign currency transactions	4,486	10,111	3,207	13,064
Loss on foreign currency translations	3,711	8,051	1,687	3,043
Loss relating to financial liabilities at FVTPL	-	43	363	1,143
Loss relating to financial assets at FVTPL	-	182	7,598	8,376
Loss on settlement of derivatives	-	317	65	12,221
Other financial commissions	-	-	10,937	10,937
	₩ <u>106,927</u>	<u>319,769</u>	<u>95,954</u>	<u>272,237</u>

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

(In millions of won)

	2019		2018	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Interest income on cash equivalents and short-term financial instruments	₩ 7,202	22,351	8,831	23,450
Interest income on loans and others	10,615	24,561	5,200	25,801
	₩ <u>17,817</u>	<u>46,912</u>	<u>14,031</u>	<u>49,251</u>

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23. Finance Income and Costs, Continued

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

(In millions of won)

	2019		2018	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Interest expenses on borrowings	₩ 26,149	77,777	2,126	8,458
Interest expenses on debentures	56,376	168,252	57,260	172,844
Others	16,205	54,475	11,645	36,705
	₩ 98,730	300,504	71,031	218,007

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

(In millions of won)

	2019		2018	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Accounts receivable – trade	₩ 6,000	21,253	7,133	27,344
Other receivables	1,265	3,360	937	5,483
	₩ 7,265	24,613	8,070	32,827

24. Income Tax Expense

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

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25. Earnings per Share

(1) Basic earnings per share

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

(In millions of won, except for share data)

	2019		2018	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Profit attributable to owners of the Parent Company on common shares	₩ 274,380	916,966	1,031,375	2,642,986
Interest on hybrid bonds	(3,692)	(11,075)	(3,691)	(12,111)
Profit for the period available for common shares	270,688	905,891	1,027,684	2,630,875
Weighted average number of common shares outstanding	71,869,828	71,869,828	70,609,160	70,609,160
Basic earnings per share (in won)	₩ 3,766	12,605	14,555	37,260

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

(In shares)

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

(In shares)

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

(2) Diluted earnings per share

For the nine-month periods ended September 30, 2019 and 2018, diluted earnings per share are the same as basic earnings per share as there are no dilutive potential common shares.

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26. Categories of Financial Instruments

(1) Financial assets by category as of September 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	September 30, 2019					
	Financial assets at FVTPL	Equity instruments at FVOCI	Debt instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	Total
Cash and cash equivalents	₩ -	-	-	1,289,713	-	1,289,713
Financial instruments	-	-	-	830,237	-	830,237
Short-term investment securities	144,513	-	-	-	-	144,513
Long-term investment securities(*)	141,952	391,659	4,801	-	-	538,412
Accounts receivable – trade	-	-	-	2,235,217	-	2,235,217
Loans and other receivables	812,991	-	-	1,186,217	-	1,999,208
Derivative financial assets	4,120	-	-	-	204,634	208,754
	₩ 1,103,576	391,659	4,801	5,541,384	204,634	7,246,054

(*) The Group designated ₩391,659 million of equity instruments that are not held for trading as financial assets measured at FVOCI.

(In millions of won)

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

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

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26. Categories of Financial Instruments, Continued

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

(In millions of won)

		September 30, 2019		
		Financial liabilities at amortized cost	Derivatives hedging instrument	Total
Accounts payable – trade	₩	455,288	-	455,288
Derivative financial liabilities		-	1,383	1,383
Borrowings		2,125,312	-	2,125,312
Debentures		8,091,900	-	8,091,900
Lease liabilities		733,766	-	733,766
Accounts payable – other and others		6,542,176	-	6,542,176
	₩	<u>17,948,442</u>	<u>1,383</u>	<u>17,949,825</u>

(In millions of won)

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

(*) Debentures classified as financial liabilities at FVTPL as of December 31, 2018 are structured bonds, and they were designated as financial liabilities at FVTPL in order to eliminate a measurement inconsistency with the related derivatives.

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27. Financial Risk Management

(1) Financial risk management

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

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

1) Market risk

(i) Currency risk

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

Monetary assets and liabilities denominated in foreign currencies as of September 30, 2019 are as follows:

(In millions of won, thousands of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Won equivalent	Foreign currencies	Won equivalent
USD	124,068 ₩	149,043	1,598,783 ₩	1,920,606
EUR	2,726	3,585	339	446
JPY	857,121	9,544	225,792	2,514
Others	-	22,721	-	12,352
	₩	<u>184,893</u>	₩	<u>1,935,918</u>

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

As of September 30, 2019, a hypothetical change in exchange rates by 10% would have increase (reduce) the Group's profit before income tax as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	₩ 5,883	(5,883)
EUR	314	(314)
JPY	703	(703)
Others	1,037	(1,037)
	₩ <u>7,937</u>	<u>(7,937)</u>

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27. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(ii) Interest rate risk

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

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

As of September 30, 2019, the floating-rate borrowings and debenture of the Group are ₩208,169 million and ₩360,390 million, respectively, and the Group has entered into interest rate swap agreements for most of floating rate borrowings and debentures to hedge interest rate risk. If the interest rate increases (decreases) 1%p with all other variables held constant, profit before income taxes for the nine-month period ended September 30, 2019, would change by ₩1,051 million in relation to floating-rate borrowings that are exposed to interest rate risk.

As of September 30, 2019, the floating-rate long-term payables – other are ₩2,051,389 million. If the interest rate increases (decreases) 1%p with all other variables held constant, profit before income taxes for the nine-month ended September 30, 2019, would change by ₩15,386 million in relation to floating-rate long-term payables – other that are exposed to interest rate risk.

2) Credit risk

The maximum credit exposure as of September 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents	₩ 1,289,377	1,506,432
Financial instruments	830,237	1,046,897
Investment securities	11,722	11,672
Accounts receivable – trade	2,235,217	2,019,933
Loans and other receivables	1,999,208	1,621,938
Derivative financial assets	208,754	55,457
	<u>₩ 6,574,515</u>	<u>6,262,329</u>

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

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27. Financial Risk Management, Continued

(1) Financial risk management, Continued

2) Credit risk, Continued

The Group establishes a loss allowance in respect of accounts receivable – trade. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been expected to occur. The collective loss allowance is determined based on historical data of collection statistics for similar financial assets. Also, the Group’s credit risk can arise from transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Group has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets as of September 30, 2019.

3) Liquidity risk

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

Contractual maturities of financial liabilities as of September 30, 2019 are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Accounts payable – trade	₩ 455,288	455,288	455,288	-	-
Borrowings(*)	2,125,312	2,520,187	232,579	2,287,608	-
Debentures(*)	8,091,900	9,372,331	1,151,092	5,044,485	3,176,754
Lease liabilities	733,766	785,672	313,960	364,512	107,200
Accounts payable – other and others(*)	6,542,176	6,730,898	5,003,907	1,148,733	578,258
	₩ <u>17,948,442</u>	<u>19,864,376</u>	<u>7,156,826</u>	<u>8,845,338</u>	<u>3,862,212</u>

(*) Includes interest payables.

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

As of September 30, 2019, periods in which cash flows from cash flow hedge derivatives are expected to occur are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Assets	₩ 204,634	208,607	58,044	138,845	11,718
Liabilities	(1,383)	(1,383)	-	(1,383)	-
	₩ <u>203,251</u>	<u>207,224</u>	<u>58,044</u>	<u>137,462</u>	<u>11,718</u>

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27. Financial Risk Management, Continued

(2) Capital management

The Group manages its capital to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity structure. The overall strategy of the Group is the same as that of the Group as of and for the year ended December 31, 2018.

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

Debt-equity ratio as of September 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Total liabilities	₩ 21,327,135	20,019,861
Total equity	22,656,645	22,349,250
Debt-equity ratio	94.13%	89.58%

(3) Fair value

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

(In millions of won)

		<u>September 30, 2019</u>				
		<u>Carrying amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets that are measured at fair value:						
FVTPL	₩	1,103,576	-	961,624	141,952	1,103,576
Derivatives hedging instruments		204,634	-	204,634	-	204,634
FVOCI		396,460	55,368	-	341,092	396,460
	₩	<u>1,704,670</u>	<u>55,368</u>	<u>1,166,258</u>	<u>483,044</u>	<u>1,704,670</u>
Financial liabilities that are measured at fair value:						
Derivatives hedging instruments	₩	1,383	-	1,383	-	1,383
Financial liabilities that are not measured at fair value:						
Borrowings	₩	2,125,312	-	2,308,919	-	2,308,919
Debentures		8,091,900	-	8,664,808	-	8,664,808
Long-term payables – other		1,967,418	-	2,054,513	-	2,054,513
	₩	<u>12,184,630</u>	<u>-</u>	<u>13,028,240</u>	<u>-</u>	<u>13,028,240</u>

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For the nine-month periods ended September 30, 2019 and 2018

27. Financial Risk Management, Continued

(3) Fair value, Continued

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

(In millions of won)

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

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

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

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

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For the nine-month periods ended September 30, 2019 and 2018

27. Financial Risk Management, Continued

(3) Fair value, Continued

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

	<u>Interest rate</u>
Derivative instruments	1.00% ~ 2.29%
Borrowings and debentures	1.62% ~ 2.32%
Long-term payables – other	1.58% ~ 1.71%

3) There have been no transfers between Level 2 and Level 1 for the nine-month period ended September 30, 2019. The changes of financial assets classified as Level 3 for the nine-month period ended September 30, 2019 are as follows:

(In millions of won)

	<u>Balance at January 1, 2019</u>	<u>Gain for the period</u>	<u>OCI</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Balance at September 30, 2019</u>
FVTPL	₩ 124,374	2,085	2,009	19,690	(6,206)	141,952
FVOCI	250,718	-	4,786	91,805	(6,217)	341,092
	<u>₩ 375,092</u>	<u>2,085</u>	<u>6,795</u>	<u>111,495</u>	<u>(12,423)</u>	<u>483,044</u>

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Notes to the Condensed Consolidated Interim Financial Statements

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27. Financial Risk Management, Continued

(4) Enforceable master netting agreement or similar agreement

1) Carrying amount of financial instruments recognized of which offset agreements are applicable as of September 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	September 30, 2019				
	Gross financial instruments recognized	Amount offset	Net financial instruments presented on the statement of financial position	Relevant financial instruments not offset	Net amount
Financial assets:					
Accounts receivable – trade and others	₩ 91,869	(90,279)	1,590	-	1,590
Financial liabilities:					
Accounts payable – trade and others	₩ 90,279	(90,279)	-	-	-

(In millions of won)

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

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

SK TELECOM CO., LTD. and Subsidiaries
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28. Transactions with Related Parties

(1) List of related parties

Relationship	Company
Ultimate Controlling Entity	SK Holdings Co., Ltd.
Joint ventures	Dogus Planet, Inc. and 3 others
Associates	SK hynix Inc. and 43 others
Others	The Ultimate Controlling Entity's subsidiaries and associates, etc.

As of September 30, 2019, the Group belongs to SK Group, a conglomerate as defined in the *Monopoly Regulation and Fair Trade Act of the Republic of Korea*. All of the other entities included in SK Group are considered related parties of the Group.

(2) Compensation for the key management

The Parent Company considers registered directors (3 executive and 5 non-executive directors) who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the three and nine-month periods ended September 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Salaries	₩ 545	5,420	779	3,995
Defined benefits plan expenses	142	1,095	121	799
Share option	66	260	170	441
	₩ 753	6,775	1,070	5,235

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

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28. Transactions with Related Parties, Continued

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

(In millions of won)

Scope	Company	For the period ended September 30, 2019					
		Operating revenue and others		Operating expense and others(*1)		Acquisition of property and equipment	
		Three-month	Nine-month	Three-month	Nine-month	Three-month	Nine-month
Ultimate Controlling Entity	SK Holdings Co., Ltd.(*2)	₩ 8,652	25,455	112,775	503,033	18,217	28,925
Associates	F&U Credit information Co., Ltd.	581	1,795	15,296	41,388	-	-
	SK hynix Inc.(*3)	14,292	255,440	40	409	-	-
	KEB HanaCard Co., Ltd.	99	693	634	1,700	-	-
	SK Wyverns Co., Ltd.	317	952	3,135	18,388	-	-
	Others(*4)	1,525	9,855	3,809	10,069	-	37
			16,814	268,735	22,914	71,954	-
Other	SK Engineering & Construction Co., Ltd.	2,223	7,286	342	820	2,400	7,400
	SK Innovation Co., Ltd.	9,664	21,073	961	1,354	-	-
	SK Networks Co., Ltd.(*5)	5,418	24,137	328,742	801,098	-	443
	SK Networks Service Co., Ltd.	238	768	20,568	54,336	717	743
	SK Telesys Co., Ltd.	117	353	2,234	6,791	11,859	27,272
	SK TNS Co., Ltd.	62	179	11,939	23,841	127,966	290,302
	SK Energy Co., Ltd.	2,437	10,626	70	421	-	-
	SK hynix Semiconductor (China) Ltd.	14,431	59,876	-	-	-	-
	SK Global Chemical International Trading (Shanghai) Co., Ltd.	3,786	10,181	31	100	-	-
	Others	23,533	62,291	45,518	76,850	30,205	50,868
		61,909	196,770	410,405	965,611	173,147	377,028
		₩ 87,375	490,960	546,094	1,540,598	191,364	405,990

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

(*2) Operating expense and others include ₩216,241 million of dividends paid by the Parent Company.

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

(*4) Operating revenue and others include ₩8,350 million of dividends received from Korea IT Fund and UniSK which was deducted from the investment in associates.

(*5) Operating expenses and others include costs for handset purchases amounting to ₩779,858 million.

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28. Transactions with Related Parties, Continued

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

(In millions of won)

Scope	Company	For the period ended September 30, 2018					
		Operating revenue and others		Operating expense and others		Acquisition of property and equipment	
		Three-month	Nine-month	Three-month	Nine-month	Three-month	Nine-month
Ultimate Controlling Entity	SK Holdings Co., Ltd.(*1)	₩ 5,019	16,313	119,113	494,320	25,835	45,079
Associates	F&U Credit information Co., Ltd.	711	2,061	13,357	40,963	-	-
	HappyNarae Co., Ltd.	176	1,942	5,465	12,926	17,333	41,495
	SK hynix Inc.(*2)	7,475	166,878	14	220	-	-
	KEB HanaCard Co., Ltd.	3,151	12,089	3,818	11,655	-	-
	Others(*3)	2,354	5,282	3,964	22,441	355	898
			<u>13,867</u>	<u>188,252</u>	<u>26,618</u>	<u>88,205</u>	<u>17,688</u>
Other	SK Engineering & Construction Co., Ltd.	895	3,662	220	792	-	-
	SK Innovation Co., Ltd.	2,326	6,739	181	700	-	-
	SK Networks Co., Ltd.(*4)	7,020	17,236	299,440	852,769	376	460
	SK Networks Service Co., Ltd.	194	576	21,934	67,780	726	2,759
	SK Telesys Co., Ltd.	74	268	2,533	8,460	29,115	68,024
	SK TNS Co., Ltd.	35	107	12,339	21,190	133,089	256,331
	SK Energy Co., Ltd.	2,694	5,963	241	646	-	-
	SKC Infra Services Co., Ltd.	10	51	14,322	36,184	3,789	16,447
	SK infosec Co., Ltd.	131	634	12,446	39,671	6,175	8,725
	SK trading international Co., Ltd.	11,269	11,308	-	-	-	-
	Others	8,444	43,306	6,021	14,414	-	-
		<u>33,092</u>	<u>89,850</u>	<u>369,677</u>	<u>1,042,606</u>	<u>173,270</u>	<u>352,746</u>
		<u>₩ 51,978</u>	<u>294,415</u>	<u>515,408</u>	<u>1,625,131</u>	<u>216,793</u>	<u>440,218</u>

(*1) Operating expenses and others include ₩203,635 million of dividends paid by the Parent Company.

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

(*3) Operating revenue and others include ₩4,338 million of dividends declared by Korea IT Fund, KIF Stonebridge IT Investment Fund and UniSK which were deducted from the investment in associates.

(*4) Operating expenses and others include costs for handset purchases.

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28. Transactions with Related Parties, Continued

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

(In millions of won)

Scope	Company	September 30, 2019		
		Receivables		Payables
		Loans	Accounts receivable – trade, etc.	Accounts payable – other, etc.
Ultimate				
Controlling				
Entity	SK Holdings Co., Ltd.	₩ -	7,695	47,895
Associates	F&U Credit information Co., Ltd.	-	5	4,654
	SK hynix Inc.	-	11,400	1
	Wave City Development Co., Ltd.	-	31,523	-
	Daehan Kanggun BcN Co., Ltd.(*)	22,147	-	-
	KEB HanaCard Co., Ltd.	-	572	4,234
	Others	408	1,595	94
		22,555	45,095	8,983
Other				
	SK Engineering & Construction Co., Ltd.	-	1,806	2
	SK Innovation Co., Ltd.	-	7,093	23,556
	SK Networks Co., Ltd.	-	2,904	138,792
	SK Networks Services Co., Ltd.	-	11	4,194
	SK Telesys Co., Ltd.	-	53	4,834
	SK Energy Co., Ltd.	-	2,015	860
	SK hystec Co., Ltd.	-	1,396	238
	SK hynix Semiconductor (China) Ltd.	-	9,537	-
	Others	-	17,628	50,925
		-	42,443	223,401
		₩ 22,555	95,233	280,279

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

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28. Transactions with Related Parties, Continued

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

(In millions of won)

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

- (*) As of December 31, 2018, the Parent Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as loss allowances.
- (5) SK Infosec Co., Ltd. and SK Telink Co., Ltd., subsidiaries of the Parent Company, provided a blank note to SK Holdings Co., Ltd. with regard to performance guarantee.
- (6) The details of additional investments and disposal of associates and joint ventures for the nine-month period ended September 30, 2019 as presented in note 10.

SK TELECOM CO., LTD. and Subsidiaries

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29. Commitments and Contingencies

(1) Collateral assets and commitments

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases on buildings in the amount of ₩4,013 million as of September 30, 2019.

In addition, Life & Security Holdings Co., Ltd., a subsidiary of the Parent Company, has pledged its shares of ADT CAPS Co., Ltd., CAPSTEC Co., Ltd., and ADT SECURITY Co., Ltd. for the long-term borrowings with a face value of ₩1,900,000 million as of September 30, 2019.

(2) Legal claims and litigations

As of September 30, 2019 the Group is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. In connection with those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

Meanwhile, the pending litigation over the validity of partnership contract that the Group was involved as the defendant (Plaintiff: Nonghyup Bank) was settled by the agreement between the parties during the year ended December 31, 2018. As a result of the settlement, the credit card business partnership between the Group and Nonghyup Bank will be maintained until April 2021, and the Group is obligated to pay the commission fees based on the customers' credit card usage until September 2021, the expiration date of the credit cards. The Group determined that the contract and the subsidiary agreements meet the definition of an onerous contract according to K-IFRS No.1037, for which the Group recognized provisions with the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. In this regard, ₩37,475 million and ₩30,099 million are recognized as current provisions and non-current provisions, respectively as of September 30, 2019.

(3) Accounts receivables from sale of handsets

The sales agents of the Parent Company sell handsets to the Parent Company's subscribers on an installment basis. The Parent Company entered into comprehensive agreements to purchase accounts receivables from handset sales with retail stores and authorized dealers and to transfer the accounts receivables from handset sales to special purpose companies which were established with the purpose of liquidating receivables, respectively.

The accounts receivables from sale of handsets amounting to ₩916,844 million as of September 30, 2019 which the Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

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

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30. Statements of Cash Flows

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

(In millions of won)

	For the nine-month period ended	
	September 30, 2019	September 30, 2018
Interest income	₩ (46,912)	(49,251)
Dividends	(9,924)	(34,894)
Gain on foreign currency translations	(9,928)	(3,795)
Gain on valuation of derivatives	(465)	(1,423)
Gain on settlement of derivatives	(389)	-
Gain on sale of accounts receivable – other	(14,353)	(17,341)
Gain on investments in subsidiaries, associates and joint ventures, net	(479,876)	(2,534,688)
Gain on disposal of property and equipment and intangible assets	(11,769)	(35,265)
Gain relating to financial assets at FVTPL	(3,026)	(68,586)
Gain relating to financial liabilities at FVTPL	(56)	-
Other income	(10,486)	(280)
Interest expense	300,504	218,007
Loss on foreign currency translations	8,051	3,043
Loss on sale of accounts receivable – other	561	5,446
Income tax expense	263,304	714,468
Expense related to defined benefit plan	130,098	101,850
Share option	732	567
Depreciation and amortization	2,906,887	2,437,718
Bad debt for accounts receivable – trade	21,253	27,344
Loss on disposal of property and equipment and intangible assets	34,805	37,821
Loss on impairment of property and equipment and intangible assets	1,337	1,077
Bad debt for accounts receivable – other	3,360	5,483
Loss on settlement of derivatives	317	12,221
Loss relating to financial assets at FVTPL	182	8,376
Loss relating to financial liabilities at FVTPL	43	1,143
Loss on impairment of investment assets	1,670	3,175
Other expenses	16,475	5,102
	₩ 3,102,395	837,318

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

For the nine-month periods ended September 30, 2019 and 2018

30. Statements of Cash Flows, Continued

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

(In millions of won)

	For the nine-month period ended	
	September 30, 2019	September 30, 2018
Accounts receivable – trade	₩ (189,692)	(459,345)
Accounts receivable – other	(54,422)	222,456
Advance payments	(94,194)	11,117
Prepaid expenses	(572,685)	19,570
Value-Added Tax refundable	9,121	5,624
Inventories	77,571	16,165
Long-term accounts receivable – other	(254,742)	(30,554)
Contract assets	(49,733)	8,850
Guarantee deposits	3,827	(3,373)
Accounts payable – trade	(17,669)	(87,811)
Accounts payable – other	285,990	(51,411)
Withholdings	(60,299)	(75,567)
Contract liabilities	13,191	(15,072)
Deposits received	(277)	1,482
Accrued expenses	88,542	(23,896)
Value-Added Tax payable	18,967	10,142
Provisions	(28,549)	(4,360)
Long-term provisions	(1,770)	3,149
Plan assets	14,865	8,348
Retirement benefit payment	(60,336)	(32,739)
Others	6,126	(6,607)
	<u>₩ (866,168)</u>	<u>(483,832)</u>

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

(In millions of won)

	For the nine-month period ended	
	September 30, 2019	September 30, 2018
Decrease in accounts payable – other relating to the acquisition of property and equipment and intangible assets	₩ (38,862)	(521,311)
Increase of right-of-use assets upon adoption of K-IFRS 1116	461,784	-