

SK TELECOM CO LTD
Form 6-K
April 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
FOR THE MONTH OF April 2018
COMMISSION FILE NUMBER 333-04906

SK Telecom Co., Ltd.

(Translation of registrant's name into English)

Euljiro65(Euljiro2-ga), Jung-gu

Seoul 100-999, Korea

(Address of principal executive offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submission to furnish a report or other document that the registration foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes No

If Yes is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b):
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ANNUAL BUSINESS REPORT

(From January 1, 2017 to December 31, 2017)

THIS IS A SUMMARY OF THE ANNUAL BUSINESS REPORT ORIGINALLY PREPARED IN KOREAN WHICH IS IN SUCH FORM AS REQUIRED BY THE KOREAN FINANCIAL SERVICES COMMISSION.

IN THE TRANSLATION PROCESS, SOME PARTS OF THE REPORT WERE REFORMATTED, REARRANGED OR SUMMARIZED FOR THE CONVENIENCE OF READERS.

ALL REFERENCES TO THE COMPANY, WE, US, OR OUR SHALL MEAN SK TELECOM CO., LTD. AND, UNLESS THE CONTEXT OTHERWISE REQUIRES, ITS CONSOLIDATED SUBSIDIARIES. REFERENCES TO SK TELECOM SHALL MEAN SK TELECOM CO., LTD., BUT SHALL NOT INCLUDE ITS CONSOLIDATED SUBSIDIARIES.

UNLESS EXPRESSLY STATED OTHERWISE, ALL INFORMATION CONTAINED HEREIN IS PRESENTED ON A CONSOLIDATED BASIS IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED FOR USE IN KOREA (K-IFRS) WHICH DIFFER IN CERTAIN RESPECTS FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CERTAIN OTHER COUNTRIES, INCLUDING THE UNITED STATES. WE HAVE MADE NO ATTEMPT TO IDENTIFY OR QUANTIFY THE IMPACT OF THESE DIFFERENCES.

I. COMPANY OVERVIEW**1. Company Overview**

The Company's annual business report for the year ended December 31, 2017 includes the following consolidated subsidiaries:

| Name | Date of Establishment | Principal Business | Total Assets as of Dec. 31, 2017 (millions of Won) | Material Subsidiary* |
|---|------------------------------|---|---|-----------------------------|
| SK Telink Co., Ltd. | Apr. 9, 1998 | Telecommunication services and satellite broadcasting services | 455,685 | Material |
| SK M&Service Co., Ltd. | Feb. 10, 2000 | Online information services | 113,515 | Material |
| SK Communications Co., Ltd. | Sept. 19, 1996 | Internet portal and other Internet information services | 90,923 | Material |
| SK Broadband Co., Ltd. | Sept. 5, 1997 | Fixed-line telecommunication services, multimedia and IPTV services | 3,802,349 | Material |
| Home & Service Co., Ltd. | June 5, 2017 | Information and telecommunication network maintenance | 83,698 | Material |
| SK Stoa Co., Ltd. | December 1, 2017 | Data broadcasting and commercial retail platform services | 42,898 | |
| K-net Culture and Contents Venture Fund | Nov. 24, 2008 | Investment partnership | 250,747 | Material |
| PS&Marketing Co., Ltd. | Apr. 3, 2009 | Sale of telecommunication devices | 506,883 | Material |
| Service Ace Co., Ltd. | Jul. 1, 2010 | Customer center management services | 77,681 | Material |
| Service Top Co., Ltd. | Jul. 1, 2010 | Customer center management services | 65,406 | |
| Network O&S Co., Ltd. | Jul. 1, 2010 | Network maintenance services | 87,000 | Material |
| SK Planet Co., Ltd. | Oct. 1, 2011 | Telecommunication and platform services | 1,534,866 | Material |
| NSOK Co., Ltd. | Jun. 12, 2008 | Security system services | 94,114 | Material |
| Iriver Ltd. | Jul. 12, 2000 | Audio device manufacturing | 130,878 | Material |
| Iriver Enterprise Ltd. | Jan. 14, 2014 | Management of Chinese subsidiary | 36,465 | |
| Iriver Inc. | Feb. 15, 2007 | North America marketing and sales | 1,498 | |
| Iriver China Co., Ltd. | Jun 24, 2004 | Electronic device manufacturing | 3,401 | |
| DongGuan Iriver Electronics Co., Ltd. | Jul. 6, 2006 | Electronic device manufacturing | 43 | |
| groovers Japan Co., Ltd. | Feb. 25, 2015 | | 1,232 | |

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| | | Contents and information distribution | |
|---|----------------|---------------------------------------|--------|
| S.M. Life Design Company Japan Inc. | June 25, 2008 | Japanese merchandise business | 6,366 |
| S.M. Mobile Communications JAPAN Inc. | May 6, 2016 | Contents and information distribution | 125 |
| SK Telecom China Holdings Co., Ltd. | Jul. 12, 2007 | Investment (holding company) | 43,290 |
| SK Global Healthcare Business Group, Ltd. | Sept. 14, 2012 | Investment (SPC) | 14,033 |
| SK Planet Japan, K. K. | Mar. 14, 2012 | Digital contents sourcing services | 2,945 |
| SKT Vietnam PTE., Ltd. | Apr. 5, 2000 | Telecommunication services | 4,135 |

| Name | Date of Establishment | Principal Business | Total Assets as of Dec. 31, 2017 (millions of Won) | Material Subsidiary* |
|-----------------------------------|-----------------------|---|--|----------------------|
| SK Planet Global PTE, LTD. | Aug. 4, 2012 | Digital contents sourcing services | 87 | |
| SKP GLOBAL HOLDINGS PTE, LTD. | Aug. 10, 2012 | Investment (holding company) | 41,320 | |
| SKT Americas, Inc. | Dec. 29, 1995 | Information collection and management consulting services | 32,923 | |
| SKP America LLC | Jan. 27, 2012 | Digital contents sourcing services | 412,251 | Material |
| YTK Investment Ltd. | Jul. 1, 2010 | Investment | 3,169 | |
| Atlas Investment | Jun. 24, 2011 | Investment | 71,908 | |
| SK Telecom Innovation Fund, L.P. | Jan. 15, 2016 | Investment | 33,084 | |
| SK Telecom China Fund I L.P. | Sept. 14, 2011 | Investment | 19,666 | |
| SK TechX Co., Ltd. | Mar. 1, 2016 | Telecommunication services | 237,700 | Material |
| Onestore Co., Ltd. | Mar. 1, 2016 | Contents distribution | 104,891 | Material |
| Shopkick Management Company, Inc. | Oct. 9, 2014 | Investment | 338,650 | Material |
| Shopkick, Inc. | Jun. 1, 2009 | Mileage based e-commerce application development | 37,336 | |
| 11st (Thailand) Co., Ltd. | Apr. 5, 2016 | E-commerce | 17,886 | |
| HelloNature Co., Ltd. | Jan. 5, 2012 | B2C organic food e-commerce | 548 | |

Material Subsidiary means a subsidiary with total assets of Won 75 billion or more as of the end of the latest fiscal year.

On January 2, 2017, SK M&Service Co., Ltd. changed its name to SK M&Service Co., Ltd. from M&Service Co., Ltd.

On April 6, 2017, NSOK Co., Ltd. changed its name to NSOK Co., Ltd. from Neosnetworks Co., Ltd.

Changes in subsidiaries during the year ended December 31, 2017 are set forth below.

| Change | Name | Remarks |
|------------|---|---|
| Additions | S.M. Life Design Company Japan Inc. | Newly acquired by Iriver Ltd. |
| | S.M. Mobile Communications JAPAN Inc. | Newly acquired by Iriver Ltd. |
| | Home&Service Co., Ltd. | Newly established by SK Broadband Co., Ltd. |
| | SK Stoa Co., Ltd. | Newly established by SK Broadband Co., Ltd. |
| Exclusions | Entrix Co., Ltd. | Merged into SK TechX Co., Ltd. |
| | Planet11 E-commerce Solutions India Pvt. Ltd. | Disposed of equity investment |
| | Stonebridge Cinema Fund | Disposed of equity investment |

A. Corporate Legal Business Name: SK Telecom Co., Ltd.

B. Date of Incorporation: March 29, 1984

C. Location of Headquarters

(1) Address: 65 Euljiro, Jung-gu, Seoul, Korea

(2) Phone: +82-2-6100-2114

(3) Website: <http://www.sktelecom.com>

D. Major Businesses

(1) Wireless business

The Company provides wireless telecommunications services, characterized by its competitive strengths in handheld devices, affordable pricing, network coverage and an extensive contents library. We continue to maintain our reputation as the unparalleled premium network operator in the 2G, 3G and LTE markets on the basis of our technological leadership and network management technology. In addition, we are leading the process of global technology standardization with the aim of being the world's first to commercialize 5G technology.

In order to strengthen its sales channels, the Company has been offering a variety of fixed-line and wireless telecommunication convergence products through its subsidiary, PS&Marketing Co., Ltd. (PS&Marketing). PS&Marketing provides differentiated service to customers through the establishment of new sales channels and product development. Through its subsidiaries Service Ace Co., Ltd. and Service Top Co., Ltd, the Company operates customer service centers in Seoul and provides telemarketing services. Additionally, Network O&S Co., Ltd., the Company's subsidiary responsible for the operation of the Company's 2G to 4G networks, provides customers with quality network services and provides the Company with technological know-how in network operations.

The Company plans to increase its profitability by strengthening its retention policy, which is the fundamental basis of competitiveness for telecommunication companies in this data-intensive era. The Company will lead the information and communication technology (ICT) trend by providing products through which customers can have a distinctive experience and by providing innovative services to transition to service-based competition.

In addition to the mobile network operator (MNO) business, the Company is building next-generation growth businesses in Internet of Things (IoT) solutions and artificial intelligence. In July 2016, the Company deployed the world's first low-cost Low Power Wide Area Network designed to support IoT devices based on LoRa technology. In September 2016, the Company launched NUGU, the first intelligent virtual assistant service launched in Korea with Korean language capabilities based on advanced voice recognition technologies. The Company plans to further utilize its big data analysis capabilities to achieve growth in new business areas such as artificial intelligence.

(2) Fixed-line business

SK Broadband Co., Ltd. (SK Broadband) is engaged in providing telecommunications, broadcasting and new media services and various other services that are permitted to be carried out by SK Broadband under relevant regulations, as well as business activities that are directly or indirectly related to providing those services. In 1999, SK Broadband launched its high-speed Internet service in Seoul, Busan, Incheon and Ulsan and currently provides such services nationwide. SK Broadband also commercialized its TV-Portal service in July 2006 and its IPTV service in January 2009 upon receipt of permit in September 2008.

(3) Other businesses

The Company is a leading player in the Korean e-commerce industry with 11st, an e-commerce platform service that connects various sellers and purchasers through its online and mobile platforms, and Shocking Deal, a mobile commerce curation service. In addition, the Company has rapidly grown into a top tier player in Turkey, Malaysia and Thailand after launching open market businesses in these countries by optimizing its businesses for the respective local markets and utilizing its expertise in the e-commerce platform business. In the online-to-offline (O2O) area, the Company is a leading player and continues to expand its market power with OK Cashbag, Korea's largest loyalty mileage program, SyrupWallet, which offers smart shopping services utilizing its network of business partners and information technology such as big data, and other Syrup-related services such as gifticon and 11Pay. The Company focuses on the mobile platform to connect various on- and offline commerce service platforms that provide various benefits and information at the right place and the right time to give consumers a pleasant and convenient shopping experience and retailers an integrated marketing solution to reach their target audience. The Company intends to continue its efforts to secure the market leading position in these markets.

In the location-based services business area, the Company provides real time traffic information and various local information through its T-Map Navigation service. In the digital contents business area, the Company provides high-quality digital contents in its leading mobile contents marketplace, Onestore.

The Company is also engaged in display advertising and search engine-based advertising and provides contents and other services. Display advertising provides exposure to the advertiser's brand in the form of flash media, images or videos. Search engine-based advertising provides exposure through the search results of specific keywords entered in our NATE search engine, and is utilized mostly by small and medium-sized advertisers. We also derive revenue by providing contents and other services.

See II-1. Business Overview for more information.

E. Credit Ratings

(1) Corporate bonds

| Credit rating date | Subject of rating | Credit rating | Credit rating entity (Credit rating range) | Rating classification |
|---------------------------|--------------------------|----------------------|---|------------------------------|
| April 22, 2014 | Corporate bond | AAA | Korea Ratings | Regular rating |
| April 22, 2014 | Corporate bond | AAA | Korea Investors Service, Inc. | Regular rating |
| April 22, 2014 | Corporate bond | AAA | NICE Investors Service Co., Ltd. | Regular rating |
| April 22, 2014 | Corporate bond | AAA | Korea Ratings | Current rating |
| April 22, 2014 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |
| April 22, 2014 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |
| October 15, 2014 | Corporate bond | AAA | Korea Ratings | Current rating |
| October 15, 2014 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |
| October 15, 2014 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |
| February 9, 2015 | Corporate bond | AAA | Korea Ratings | Current rating |
| February 9, 2015 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |
| February 9, 2015 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |
| May 21, 2015 | Corporate bond | AAA | Korea Ratings | Regular rating |
| May 27, 2015 | Corporate bond | AAA | Korea Investors Service, Inc. | Regular rating |
| June 10, 2015 | Corporate bond | AAA | NICE Investors Service, Co., Ltd | Regular rating |
| July 6, 2015 | Corporate bond | AAA | Korea Ratings | Current rating |
| July 6, 2015 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |
| July 6, 2015 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |
| October 26, 2015 | Corporate bond | AAA | Korea Ratings | Current rating |
| October 26, 2015 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |
| October 26, 2015 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |
| February 19, 2016 | Corporate bond | AAA | Korea Ratings | Current rating |
| February 19, 2016 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |
| February 19, 2016 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |
| May 19, 2016 | Corporate bond | AAA | Korea Ratings | Current rating |
| May 20, 2016 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |
| May 20, 2016 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |
| April 12, 2017 | Corporate bond | AAA | Korea Ratings | Regular rating |
| April 12, 2017 | Corporate bond | AAA | Korea Investors Service, Inc. | Regular rating |
| April 12, 2017 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Regular rating |
| April 12, 2017 | Corporate bond | AAA | Korea Ratings | Current rating |
| April 12, 2017 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |

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|------------------|----------------|-----|-----------------------------------|----------------|
| April 12, 2017 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |
| October 30, 2017 | Corporate bond | AAA | Korea Ratings | Current rating |
| October 30, 2017 | Corporate bond | AAA | Korea Investors Service, Inc. | Current rating |
| October 30, 2017 | Corporate bond | AAA | NICE Investors Service, Co., Ltd. | Current rating |

* Rating definition: AAA The certainty of principal and interest payment is at the highest level with extremely low investment risk and is stable such that it will not be influenced by reasonably foreseeable changes in external factors.

(2) Commercial paper (CP)

| Credit rating date | Subject of rating | Credit rating | Credit rating entity (Credit rating range) | Rating classification |
|---------------------------|--------------------------|----------------------|---|----------------------------------|
| April 22, 2014 | CP | A1 | Korea Ratings | Current rating |
| April 22, 2014 | CP | A1 | Korea Investors Service, Inc. | Current rating |
| April 22, 2014 | CP | A1 | NICE Investors Service Co., Ltd. | Current rating |
| October 15, 2014 | CP | A1 | Korea Ratings | Regular rating |
| October 15, 2014 | CP | A1 | Korea Investors Service, Inc. | Regular rating |
| October 15, 2014 | CP | A1 | NICE Investors Service Co., Ltd. | Regular rating |
| May 21, 2015 | CP | A1 | Korea Ratings | Current rating |
| May 27, 2015 | CP | A1 | Korea Investors Service, Inc. | Current rating |
| June 10, 2015 | CP | A1 | NICE Investors Service Co., Ltd. | Current rating |
| January 19, 2016 | Short-term bond | A1 | Korea Ratings | Current rating |
| January 19, 2016 | Short-term bond | A1 | Korea Investors Service, Inc. | Current rating |
| January 19, 2016 | Short-term bond | A1 | NICE Investors Service Co., Ltd. | Current rating |
| April 27, 2016 | CP | A1 | Korea Ratings | Current rating |
| April 27, 2016 | Short-term bond | A1 | Korea Ratings | Current rating |
| May 11, 2016 | CP | A1 | Korea Investors Service, Inc. | Current rating |
| May 11, 2016 | Short-term bond | A1 | Korea Investors Service, Inc. | Current rating |
| May 12, 2016 | CP | A1 | NICE Investors Service Co., Ltd. | Current rating |
| May 12, 2016 | Short-term bond | A1 | NICE Investors Service Co., Ltd. | Current rating |
| October 26, 2016 | CP | A1 | Korea Ratings | Regular rating |
| October 26, 2016 | Short-term bond | A1 | NICE Investors Service Co., Ltd. | Regular rating |
| October 26, 2016 | CP | A1 | NICE Investors Service Co., Ltd. | Regular rating |
| October 26, 2016 | Short-term bond | A1 | Korea Ratings | Regular rating |
| November 3, 2016 | CP | A1 | Korea Investors Service, Inc. | Regular rating |
| November 3, 2016 | Short-term bond | A1 | Korea Investors Service, Inc. | Regular rating |
| April 12, 2017 | CP | A1 | Korea Ratings | Current rating |
| April 12, 2017 | CP | A1 | Korea Investors Service, Inc. | Current rating |
| April 12, 2017 | CP | A1 | NICE Investors Service Co., Ltd. | Current rating |
| April 12, 2017 | Short-term bond | A1 | Korea Ratings | Current rating |
| April 12, 2017 | Short-term bond | A1 | Korea Investors Service, Inc. | Current rating |
| April 12, 2017 | Short-term bond | A1 | NICE Investors Service Co., Ltd. | Current rating |
| October 30, 2017 | CP | A1 | Korea Ratings | Regular rating |
| October 30, 2017 | CP | A1 | Korea Investors Service, Inc. | Regular rating |
| October 30, 2017 | CP | A1 | NICE Investors Service Co., Ltd. | Regular rating |
| October 30, 2017 | Short-term bond | A1 | Korea Ratings | Regular rating |

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| | | | | |
|------------------|-----------------|----|----------------------------------|----------------|
| October 30, 2017 | Short-term bond | A1 | Korea Investors Service, Inc. | Regular rating |
| October 30, 2017 | Short-term bond | A1 | NICE Investors Service Co., Ltd. | Regular rating |

* Rating definition: A1 Timely repayment capability is at the highest level with extremely low investment risk and is stable such that it will not be influenced by reasonably foreseeable changes in external factors.

(3) International credit ratings

| Date of credit rating | Subject of rating | Credit rating of securities | Credit rating company | Rating type |
|------------------------------|-----------------------------------|------------------------------------|-----------------------------------|--------------------|
| October 24, 2012 | Bonds denominated in U.S. dollars | A- | Fitch Inc. | Current rating |
| October 24, 2012 | Bonds denominated in U.S. dollars | A3 | Moody's Investors Service | Current rating |
| October 24, 2012 | Bonds denominated in U.S. dollars | A- | Standard & Poor's Rating Services | Current rating |

* On August 9, 2013, Moody's Investors Service raised the outlook on the Company's rating from A3 (Negative) to A3 (Stable).

* On November 4, 2015, S&P lowered the outlook on the Company's rating from A- (Positive) to A- (Stable).

2. Company History

February 2012: Purchased shares of SK hynix Inc. (formerly, Hynix Semiconductor Inc.)

June 2015: Consummation of the comprehensive share exchange transaction (the Share Exchange) through which the Company acquired all of the shares of SK Broadband that it did not otherwise own in exchange for its treasury shares such that SK Broadband became a wholly-owned subsidiary of the Company.

April 2016: The spin-off and merger of the location-based services business and the mobile phone verification services business of SK Planet Co., Ltd.

December 2017: Comprehensive exchange of shares of SK Telink following which SK Telink became a wholly-owned subsidiary of the Company.

A. Location of Headquarters

22 Dohwa-dong, Mapo-gu, Seoul (July 11, 1988)

16-49 Hangang-ro 3-ga, Yongsan-gu, Seoul (November 19, 1991)

267 Namdaemun-ro 5-ga, Jung-gu, Seoul (June 14, 1995)

99 Seorin-dong, Jongro-gu, Seoul (December 20, 1999)

65 Euljiro, Jung-gu, Seoul (December 13, 2004)

B. Significant Changes in Management

At the 30th General Meeting of Shareholders held on March 21, 2014, Jae Hoon Lee was elected as an independent director and Jae Hyeon Ahn was elected as an independent director and member of the audit committee of the Company's board of directors. At the 31st General Meeting of Shareholders held on March 20, 2015, Dong Hyun Jang was elected as an inside director. At the 32nd General Meeting of Shareholders held on March 18, 2016, Dae Sik Cho was re-elected as an inside director and Dae Shick Oh was re-elected as an independent director and member of the audit committee of the Company's board of directors. At the 33rd General Meeting of Shareholders held on March 24, 2017, Jung Ho Park was elected as an inside director and Dae Sik Cho was elected as a non-executive director. Jae Hoon Lee and Jae Hyeon Ahn were re-elected as independent directors and members of the audit committee and Jung Ho Ahn was elected as an independent director. At the 34th General Meeting of Shareholders held on March 21, 2018, Young Sang Ryu was elected as an inside director and Youngmin Yoon was elected as an independent director and member of the audit committee of the Company's board of directors.

C. Change in Company Name

On March 23, 2012, SK hynix Inc., which became a subsidiary in February 2012, changed its name to SK hynix Inc. from Hynix Semiconductor Inc. in accordance with a resolution at its annual general meeting of shareholders.

On January 2, 2017, SK M&Service Co., Ltd., one of the Company's subsidiaries, changed its name to SK M&Service Co., Ltd. from M&Service Co., Ltd. in accordance with a resolution at its general meeting of shareholders on December 26, 2016.

On March 23, 2017, Neosnetworks Co., Ltd., one of the Company's subsidiaries, changed its name to NSOK Co., Ltd., from Neosnetworks Co., Ltd., in accordance with a resolution at its general meeting of shareholders.

D. Mergers, Acquisitions and Restructuring

(1) Merger of SK Planet and SK Marketing & Company Co., Ltd.

On January 11, 2013, the Company acquired the remaining 50% equity stake in SK Marketing & Company Co., Ltd. (SK Marketing & Company), a company providing e-commerce and advertising services, from SK Innovation Co., Ltd. and gained control of both SK Marketing & Company and its subsidiary, M&Service Co., Ltd. The Company thereafter contributed the 100% equity stake in SK Marketing & Company to SK Planet and merged SK Marketing & Company into SK Planet as of February 1, 2013.

(2) Acquisition of shares of PS&Marketing

On February 20, 2014, the board of directors of the Company resolved to invest an additional Won 100 billion (20 million common shares) into PS&Marketing, an affiliated company, in order to increase its mid- to long-term competitiveness in distribution. The date of investment was April 2, 2014, and the cumulative investment amount totaled Won 330 billion.

(3) Disposition of shares of iHQ Inc.

On March 10, 2014, the Company disposed of 3,790,000 shares (its 9.4% equity share) of iHQ Inc. to rebalance its investment portfolio.

(4) Acquisition of shares of NSOK Co., Ltd. (NSOK) (formerly, Neosnetworks Co., Ltd.)

In order to acquire a new growth engine, the Company acquired a controlling stake in NSOK, a building security company, with the purchase of 31,310 shares (a 66.7% equity interest) of NSOK on April 2, 2014. The Company acquired an additional 50,377 shares in NSOK in April 2015 through a rights offering, resulting in an increase of its ownership to 83.9%.

(5) Acquisition of shares of Iriver

On August 13, 2014, the Company purchased 10,241,722 shares (a 39.3% equity interest) of Iriver Ltd. (Iriver) from Vogo-Rio Investment Holdings Co., Ltd. and KGF-Rio Limited in order to foster application development and smartphone accessories as part of the Company's growth engines. The Company holds a 48.9% equity interest of Iriver by acquiring additional shares in its rights offering. The Company does not hold a majority of the voting rights of Iriver but the Company has concluded that it has effective control, as it holds significantly more voting rights than any other shareholder or any organized group of shareholders.

(6) Acquisition of shares of Shopkick, Inc. (Shopkick)

On October 10 2014, SK Planet America LLC, a subsidiary of the Company, acquired (through its 95.2%-owned subsidiary Shopkick Management Company, Inc.) a 100.0% ownership interest in Shopkick, a developer of a shopping app for mobile devices that provides benefits to customers for visiting stores, in order to penetrate the mobile commerce market in the United States. In the first half of 2016, SK Planet America LLC acquired all remaining shares of Shopkick Management Company, Inc.

(7) Disposition of Shenzhen E-Eye shares

In 2014, the Company entered into an agreement to dispose of its equity interest in Shenzhen E-eye in order to focus its business portfolio on high-growth business areas in the Chinese ICT market. The sale was completed on March 23, 2015.

(8) Disposition of a portion of KEB Hana Card shares

On April 3, 2015, the Company sold 27,725,264 shares (10.4% out of the 25.4% equity interest the Company held prior to the sale) of KEB Hana Card Co., Ltd. to Hana Financial Group in cash. With the proceeds of such sale (Won 180 billion), the Company acquired equity interests in Hana Financial Group on April 17, 2015 through participation in a rights offering by Hana Financial Group. The Company plans to maintain its strategic alliance and pursue opportunities to create synergies with, Hana Financial Group.

(9) SK Broadband Comprehensive Share Exchange

On March 20, 2015, the Company's board of directors resolved to approve the Share Exchange.

Share Exchange ratio: Shareholders of one common share of SK Broadband were allotted 0.0168936 common shares of SK Telecom

Shares exchanged: 2,471,883 registered common shares of SK Telecom

Date of Share Exchange agreement: March 23, 2015

Record date: April 6, 2015

Announcement date for the proceeding of the Share Exchange as a small-scale share swap: April 6, 2015

Meeting of board of directors for approval of the Share Exchange: May 6, 2015

Date of the Share Exchange: June 9, 2015

(10) Establishment of Entrix Co., Ltd.

In July 2015, SK Planet spun off its cloud streaming division and established Entrix Co., Ltd. The Company exchanged 1,300,000 shares of SK Planet for 1,300,000 shares of Entrix at the time of the spin-off and later acquired an additional 2,857,000 shares by participating in the recapitalization.

(11) Additional capital raise by NanoEnTek Inc.

In 2015, the Company acquired 1,090,155 shares through the additional capital raise by NanoEnTek.

(12) Reclassification of Packet One Networks' accounts

In 2015, the Company reclassified its investments in Packet One from investments in associates and joint ventures to assets classified as held for sale as the Company no longer had significant control over Packet One. The difference between the book value and the fair value of Won 37.4 billion at the time of reclassification was recognized as impairment loss.

(13) Acquisition of shares of SK Communications Co., Ltd. (SK Communications)

On October 1, 2015, the Company became the largest shareholder of SK Communications with a 64.54% equity interest through dividends in kind from SK Planet of 26,523,815 shares and the purchase of 1,506,130 shares

over-the-counter.

(14) Acquisition of shares of CJ HelloVision Co., Ltd. (CJ HelloVision)

On November 2, 2015, the Company's board of directors resolved to approve the acquisition of CJ HelloVision's shares from CJ O Shopping Co., Ltd. (CJ O Shopping) and on the same day, entered into a share purchase agreement with CJ O Shopping. In addition, on November 2, 2015, SK Broadband's board of directors resolved to approve the merger of SK Broadband with CJ HelloVision and on the same day, entered into a merger agreement with CJ HelloVision and the closing of the merger was conditioned upon receipt of regulatory approval from relevant authorities. On July 25, 2016, the Company notified CJ O Shopping of the termination of the share purchase agreement and SK Broadband notified CJ HelloVision of the termination of the merger agreement, as the Korea Fair Trade Commission on July 18, 2016 denied approval of the proposed merger, which was a closing condition to the consummation of the merger.

(15) Tender offer of shares of CJ HelloVision

From November 2, 2015 to November 23, 2015, the Company purchased 6,671,933 shares of CJ Hellovision in a tender offer for up to 10,000,000 shares, paying Won 12,000 per share. Through this tender offer, the Company acquired an 8.61% equity interest in CJ HelloVision.

(16) Establishment of SK TechX Co., Ltd. and Onestore

In March 2016, SK Planet spun off its platform business and T Store business and established SK TechX and Onestore. The Company exchanged 12,323,905 shares of SK Planet for 6,323,905 shares of SK TechX and 6,000,000 shares of Onestore at the time of the spin-off. The Company later acquired an additional 4,409,600 shares of Onestore at a purchase price of Won 22 billion by participating in the follow-on rights offering. The Company did not participate in the subsequent follow-on rights offering and as of December 31, 2017, the Company has a 65.5% interest in Onestore.

(17) Spin-off and merger of SK Planet's location-based services business and mobile phone verification services business

Through the merger of SK Planet's location-based services business and mobile phone verification services business into SK Telecom, the Company seeks to provide a solid base for continued growth, especially in the next generation platform business, and SK Planet plans to further concentrate its resources on its commerce business. The spin-off and merger was effective as of April 5, 2016 and was registered as of April 7, 2016. SK Planet is a wholly-owned subsidiary of the Company, and as the Company did not issue any new shares in connection with the merger, there was no change in the share ownership of the Company.

(18) Establishment of Hana-SK Fintech Corporation

In order to provide an everyday finance platform, the Company entered into a joint venture agreement with Hana Financial Group, in accordance with the resolution of the Company's board of directors on July 28, 2016. Combining the Company's leading mobile technology and big data analysis capabilities with Hana Financial Group's financial service, Hana-SK Fintech Corporation plans to provide innovative mobile financial services such as mobile asset management, easy payment and overseas wire transfer services. SK Telecom holds a 49% equity stake in the joint venture, and Hana Financial Group holds the remaining 51%. Service of the everyday finance platform Finqq officially launched in the third quarter of 2017.

(19) Capital contribution of shares of NSOK for new shares of SK Telink Co., Ltd. (SK Telink)

On October 25, 2016, the Company made a capital contribution of all shares of NSOK owned by the Company to SK Telink in exchange for 219,967 newly issued shares of SK Telink, which resulted in an increase of the Company's equity interest in SK Telink to 85.86%.

(20) Acquisition of shares of SM Mobile Communications

In October 2016, the Company transferred the media platform businesses Hotzil and 5Ducks to SM Mobile Communications in exchange for 1,200,000 shares of SM Mobile Communications. As a result, the Company owned a 46.2% equity interest in SM Mobile Communications as of December 31, 2017.

(21) Exchange of shares of SK Communications

On November 24, 2016, the Company's board of directors resolved to approve the payment of cash consideration in lieu of the issuance of shares of the Company in a comprehensive exchange of shares of SK Communications. The amount of cash consideration was based on a share exchange ratio of one common share of the Company to

0.0125970 common share of SK Communications. In February 2017, SK Communications became a wholly-owned subsidiary of the Company.

(22) Acquisition of shares of Iriver Ltd.

The Company acquired 4,699,248 shares of its subsidiary Iriver Ltd. at a purchase price of Won 5,320 in connection with a capital contribution. The Company's equity interest in Iriver Ltd. following the acquisition is 45.9%. See Report on Important Business Matters (Decision on Capital Increase) filed on July 17, 2017 by Iriver Ltd. for more information.

(23) Acquisition of newly issued shares of SK China Company Limited (SK China)

On July 28, 2017, the Company acquired newly issued shares of SK China to find investment opportunities in ICT and other promising areas of growth in China. In exchange for newly issued shares of SK China, the Company contributed its full equity interest in each of SKY Property Management Limited (SKY) and SK Industrial Development China Co., Ltd. (SK IDC) as well as cash, equal to the following amounts: 1) SKY stock: USD 276,443,440.64, 2) SK IDC stock: USD 108,072,007.67 and 3) Cash: USD 100,000,000.00. As a result of the acquisition, the Company holds 10,928,921 shares and a 27.27% of equity interest in SK China. See Report on Decision on Acquisition of SK China Shares filed by the Company on July 28, 2017 for more information about this transaction.

(24) Exchange of shares of SK Telink

On September 28, 2017, the Company disclosed a resolution approving the payment of cash consideration in lieu of the issuance of shares of SK Telecom in an exchange of shares of SK Telink. The amount of cash consideration was based on a share exchange ratio of 1:1.0687714. The exchange was completed on December 14, 2017, upon which exchange SK Telink became a wholly-owned subsidiary of the Company.

[SK Broadband]

(1) Share Exchange

On March 20, 2015, the board of directors of SK Broadband resolved to approve the comprehensive exchange of shares of SK Broadband for shares of the Company. The share exchange was approved at the extraordinary meeting of shareholders held on May 6, 2015. Subsequent to the share exchange, the Company became the parent company of SK Broadband with 100% ownership and remained a listed corporation on the KRX KOSPI Market, and SK Broadband became a wholly-owned subsidiary of the Company and was delisted from the KRX KOSDAQ Market. There was no change in the share ownership interest of the Company's existing shareholders or the Company's management in connection with the Share Exchange.

(2) Merger among Subsidiaries and Affiliates

On July 29, 2015, the board of directors of SK Broadband approved the acquisition of SK Planet's Hoppin business through a spin-off and subsequent merger transaction pursuant to Article 530-2 of the Korean Commercial Code, with both SK Broadband and SK Planet remaining as existing companies. The spin-off and subsequent merger were effective as of September 1, 2015, and on the same day, SK Broadband issued 2,501,125 new common shares resulting from the merger, allotting 0.0349186 common shares of SK Broadband per one common share of SK Planet to SK Telecom, SK Planet's sole shareholder.

(3) Merger with CJ HelloVision

On November 2, 2015, SK Broadband's board of directors resolved to approve the merger of SK Broadband with CJ HelloVision such that CJ HelloVision would be the surviving entity and SK Broadband would be the non-surviving entity. The largest shareholder of the merged entity would be SK Telecom with an equity interest of 78.35%. On February 26, 2016, the entry into the merger agreement was resolved as proposed by SK Broadband's shareholders.

On July 25, 2016, SK Broadband notified CJ HelloVision of the termination of the merger agreement, as the Korea Fair Trade Commission on July 18, 2016 denied approval of the proposed merger, which was a closing condition to

the consummation of the merger. On July 27, 2016, SK Broadband's board of directors resolved to terminate the merger agreement as proposed. Subsequently, the merger agreement is no longer effective and all procedures related to the merger, including the issuance of new shares, were terminated.

(4) Establishment of a subsidiary

On May 23, 2017, SK Broadband's board of directors resolved to approve the establishment of a subsidiary. On June 5, 2017, SK Broadband established Home&Service Co., Ltd. (Home&Service), a subsidiary responsible for the management of customer service operations, in order to enhance SK Broadband's competitiveness by strengthening its customer service and strategically developing its home Value Delivery channel and to create quality jobs.

Home&Service was incorporated by SK Broadband under the Korean Commercial Code. The subsidiary was capitalized at Won 46 billion (9,200,000 shares with par value of Won 5,000 per share), and SK Broadband holds a 100% equity interest. The Korea Fair Trade Commission approved the subsidiary's incorporation as an SK affiliate on July 1, 2017, from which arises a duty to report to the Fair Trade Commission.

(5) Spin-off

On August 16, 2017, SK Broadband's board of directors resolved to approve the spin-off of its T-commerce subsidiary to enhance the competitiveness and managerial efficiency of its T-commerce business (data broadcasting and commercial retail platform service through TV home shopping channels) through a spin-off and subsequent establishment of a subsidiary pursuant to Article 530-2 and 530-12 of the Korean Commercial Code, with both companies from the simple vertical spin-off remaining as existing companies. The spin-off was effective as of December 1, 2017, and the subsidiary was capitalized at Won 15 billion (3,000,000 shares with par value of Won 5,000 per share), with SK Broadband holding a 100% equity interest. The Korea Fair Trade Commission approved the subsidiary's incorporation as an SK affiliate on January 1, 2018, from which arises a duty to report to the Fair Trade Commission.

[SK Planet]

On January 11, 2013, the Company acquired the remaining 50% equity stake in SK Marketing & Company, a company providing e-commerce and advertising services, from SK Innovation Co., Ltd. and gained control of both SK Marketing & Company and its subsidiary, M&Service Co., Ltd. The Company thereafter contributed the 100% equity stake in SK Marketing & Company to SK Planet and merged SK Marketing & Company into SK Planet as of February 1, 2013. In connection with the capital contribution and merger, SK Planet issued 12,927,317 of its common stock to SK Telecom.

On April 22, 2013, the board of directors of SK Planet resolved to merge Madsmart, Inc., its wholly-owned subsidiary, into SK Planet to enhance the competitiveness of its platform business and provide faster service to customers by merging the ICT capabilities of the two companies. The merger was effective as of June 1, 2013 and SK Planet did not issue any new shares in connection with the merger.

On May 29, 2015, the board of directors of SK Planet resolved to spin off its cloud streaming division on July 1, 2015 in order to strengthen its business capabilities and expand overseas. The spin-off ratio was 0.9821740 for the surviving company to 0.0178260 for the newly-established company, and the capital reduction ratio was 1.7825968%.

On July 29, 2015, the board of directors of SK Planet resolved to spin off its Hoppin business, which was merged into SK Broadband on September 1, 2015, in order to unify capabilities within the business and maximize synergies to improve its competitive power in the Korean and international mobile media market. SK Planet issued 2,501,125 new common shares in connection with this transaction, and the merger ratio between SK Planet and SK Broadband was 0.0349186:1.

On December 29, 2015, the board of directors of SK Planet resolved to merge Commerce Planet Co., Ltd., its wholly-owned subsidiary, into SK Planet to generate synergies by uniting capabilities to promote its commerce business. The merger was effective as of February 1, 2016, and SK Planet did not issue any new shares in connection with the merger.

Effective as of March 1, 2016, SK Planet spun off its platform business and T Store business in order to enhance the competitiveness of each business for future growth.

Effective as of April 5, 2016, SK Planet spun off its location-based services business and mobile phone verification services business and merged them into the Company in order to further concentrate its resources on its commerce business.

On May 29, 2017, the board of directors of SK Planet resolved to transfer the operations and assets related to its BENEPIA business for Won 7.5 billion to SK M&Service Co., Ltd. as of July 1, 2017.

Effective as of October 1, 2017, SK Planet spun off its advertising agency business in order to strengthen the competitiveness of the business for future growth.

On July 17, 2017, the board of directors of SK Planet resolved to sell 100% of its shares of SM Contents & Communications, a newly established company resulting from the spin off of SK Planet's advertising agency business, to SM Culture & Contents Co., Ltd. to further concentrate business capabilities and efficiently allocate management resources. The closing date of this transaction was October 24, 2017.

[SK Telink]

(1) Acquisition of shares of NSOK

In accordance with the resolution of its board of directors on September 22, 2016, SK Telink received a capital contribution of 408,435 shares (an 83.9% equity interest) of NSOK owned by SK Telecom. On October 25, 2016, SK Telink acquired the remaining 78,200 outstanding shares (a 16.1% equity interest) of NSOK, pursuant to which NSOK became a wholly-owned subsidiary of SK Telink.

In accordance with the resolution of its board of directors on April 12, 2017, SK Telink acquired 525,824 additional shares of NSOK pursuant to a rights offering for an aggregate amount of Won 40.0 billion (or Won 76,071 per share), resulting in SK Telink's ownership of 1,012,459 shares (a 100% equity interest) of NSOK.

(2) Comprehensive exchange of shares

On September 28, 2017, SK Telink's board of directors approved a comprehensive exchange of shares with SK Telecom, pursuant to which SK Telecom would acquire SK Telink's remaining outstanding shares for cash consideration in lieu of issuance of shares of SK Telecom. The share exchange agreement was subsequently approved at the extraordinary general meeting of shareholders held on November 9, 2017.

Following the exchange, there were no changes to SK Telecom's share ownership interest level or to management structure, and SK Telecom and SK Telink will remain as corporate entities. SK Telink became a wholly-owned subsidiary of SK Telecom and remains as an unlisted corporation, while SK Telecom remains as a listed corporation.

See Report on Cash Consideration for Shares of SK Telink Co., Ltd. filed on September 29, 2017 for more information about this transaction.

[SK Communications]

(1) Disposition of the Cyworld service

Pursuant to the resolution of its board of directors on March 6, 2014, SK Communications sold its Cyworld service and certain related assets to Cyworld Co., Ltd. for Won 2.8 billion on April 8, 2014.

(2) Change in the largest shareholder

On September 24, 2015, SK Telecom and SK Planet entered into a share transfer agreement to transfer all of the shares of SK Communications held by SK Planet to SK Telecom. The agreement became effective on October 1, 2015, making SK Telecom the largest shareholder of SK Communications.

(3) Comprehensive share exchange

Pursuant to the resolution of its board of directors on November 24, 2016, SK Communications entered into a comprehensive share exchange agreement with SK Telecom on November 25, 2016. Upon the consummation of the share exchange on February 7, 2017, SK Communications became a wholly-owned subsidiary of SK Telecom.

[PS&Marketing]

On February 20, 2014, the board of directors of PS&Marketing resolved to acquire the retail distribution business, including related assets, liabilities, contracts and human capital of the information technology and mobile wing of SK Networks. On the same day, the board of directors of PS&Marketing also resolved to acquire retail stores, including their assets and liabilities, of LCNC Co., Ltd (LCNC). The acquisitions were completed on April 30, 2014 at a purchase price of Won 124.5 billion for the assets acquired from SK Networks and a purchase price of Won 10 billion for the assets acquired from LCNC.

[NSOK]

On March 31, 2015, NSOK acquired the unmanned electronic security business of Joeun Safe to expand its unmanned security business. The acquisition cost, which had been reported on January 5, 2015 as Won 19.4 billion, was subject to adjustment depending on the customer transfer rate. The final acquisition cost was determined to be Won 16.9 billion.

[Iriver]

(1) Merger of Iriver CS Co., Ltd. (Iriver CS)

Pursuant to the resolution of its board of directors on November 18, 2014, Iriver decided to merge with Iriver CS, its wholly-owned subsidiary, with Iriver as the surviving entity. The merger was completed based on the merger ratio of 1:0 with no capital increase. The merger and merger registration were completed on January 31, 2015 and February 2, 2015, respectively.

(2) Acquisition of shares of S.M. Life Design Company Japan Inc.

Pursuant to the resolution of its board of directors on July 17, 2017, Iriver approved a contract to acquire a total of 1,000,000 shares of S.M. Life Design Company Japan Inc. (a 100% equity interest) from S.M. Entertainment Japan Co., Ltd. with the purposes of entering foreign markets and maximizing business synergy. Iriver acquired control of S.M. Life Design Company Japan Inc. upon its completion of payment for the shares on September 1, 2017.

(3) Merger of S.M. Mobile Communications JAPAN Inc.

Pursuant to the resolution of its board of directors on July 17, 2017, Iriver decided to merge with S.M. Mobile Communications JAPAN Inc., a contents and information distribution company, with the purpose of reinforcing its contents based device business and enhancing managerial efficiency. As of October 1, 2017, Iriver merged S.M. Mobile Communications JAPAN Inc. into it with a merger ratio of 1:1.6041745, based on which Iriver issued 4,170,852 new common shares.

[SK M&Service]

(1) Acquisition of SK Planet's BENEPIA business

Pursuant to the resolutions of its board of directors and its extraordinary shareholders meeting held on May 29, 2017, SK M&Service decided to acquire SK Planet's BENEPIA business (including agency service for the Flexible Benefit Plan and related tangible and intangible assets, goodwill, systems, etc.) for Won 7.5 billion on July 1, 2017.

E. Other Important Matters related to Management Activities

[SK Telecom]

(1) Issuance of bonds

On May 14, 2014, the Company issued four tranches of fixed-rate unsecured bonds in the principal amounts of Won 50 billion (with an annual interest rate of 3.301% and a maturity date of May 14, 2019), Won 150 billion (with an annual interest rate of 3.637% and a maturity date of May 14, 2024), Won 50 billion (with embedded options, an annual interest rate of 4.725% and a maturity date of May 14, 2029), and Won 50 billion (with embedded options, an annual interest rate of 4.72% and a maturity date of May 14, 2029).

On October 28, 2014, the Company issued three tranches of fixed-rate unsecured bonds in the principal amounts of Won 160 billion (with an annual interest rate of 2.53% and a maturity date of October 28, 2019), Won 150 billion (with an annual interest rate of 2.66% and a maturity date of October 28, 2021), and Won 190 billion (with an annual interest rate of 2.82% and a maturity date of October 28, 2024).

On February 26, 2015, the Company issued three tranches of fixed-rate unsecured bonds in the principal amounts of Won 100 billion (with an annual interest rate of 2.40% and a maturity date of February 26, 2022), Won 150 billion (with an annual interest rate of 2.49% and a maturity date of February 26, 2025), and Won 50 billion (with an annual interest rate of 2.61% and a maturity date of February 26, 2030).

On July 17, 2015, the Company issued four tranches of fixed-rate unsecured bonds in the principal amounts of Won 90 billion (with an annual interest rate of 1.89% and a maturity date of July 17, 2018), Won 70 billion (with an annual interest rate of 2.66% and a maturity date of July 17, 2025), Won 90 billion (with an annual interest rate of 2.82% and a maturity date of July 17, 2030), and Won 50 billion (with an annual interest rate of 3.40% and a maturity date of July 17, 2030).

On November 30, 2015, the Company issued four tranches of fixed-rate unsecured bonds in the principal amounts of Won 80 billion (with an annual interest rate of 2.073% and a maturity date of November 30, 2018), Won 100 billion (with an annual interest rate of 2.550% and a maturity date of November 30, 2025), Won 70 billion (with an annual interest rate of 2.749% and a maturity date of November 30, 2035), and Won 50 billion (with embedded options, an annual interest rate of 3.100% and a maturity date of November 30, 2030).

On March 4, 2016, the Company issued four tranches of fixed-rate unsecured bonds in the principal amounts of Won 70 billion (with an annual interest rate of 1.651% and a maturity date of March 4, 2019), Won 100 billion (with an annual interest rate of 1.802% and a maturity date of March 4, 2021), Won 90 billion (with an annual interest rate of 2.077% and a maturity date of March 4, 2026), and Won 80 billion (with an annual interest rate of 2.243% and a maturity date of March 4, 2036).

On June 3, 2016, the Company issued four tranches of fixed-rate unsecured bonds in the principal amounts of Won 50 billion (with an annual interest rate of 1.621% and a maturity date of June 3, 2019), Won 50 billion (with an annual interest rate of 1.709% and a maturity date of June 3, 2021), Won 120 billion (with an annual interest rate of 1.973% and a maturity date of June 3, 2026), and Won 50 billion (with an annual interest rate of 2.172% and a maturity date of June 3, 2031).

On April 25, 2017, the Company issued four tranches of fixed-rate unsecured bonds in the principal amounts of Won 60 billion (with an annual interest rate of 1.925% and a maturity date of April 25, 2020), Won 120 billion (with an annual interest rate of 2.168% and a maturity date of April 25, 2022), Won 100 billion (with an annual interest rate of 2.552% and a maturity date of April 25, 2027), and Won 90 billion (with an annual interest rate of 2.649% and a maturity date of April 25, 2032).

On November 10, 2017, the Company issued three tranches of fixed-rate unsecured bonds in the principal amounts of Won 100 billion (with an annual interest rate of 2.388% and a maturity date of November 10, 2020), Won 80 billion (with an annual interest rate of 2.634% and a maturity date of November 10, 2022), and Won 100 billion (with an annual interest rate of 2.840% and a maturity date of November 10, 2027).

(2) Issuance of hybrid securities

In June 2013, the Company issued Won 400 billion principal amount of hybrid securities in the form of unguaranteed subordinated bonds with an annual interest rate of 4.21%, which is based on the five-year Korean government bond

yield plus a spread. An additional spread of 0.25% is payable beginning ten years from the date of issuance and an additional spread of 0.75% is payable after 25 years from the date of issuance. The Company classified the hybrid securities as equity, as there is no contractual obligation to deliver financial assets to the bondholders. The maturity date of the hybrid securities is June 7, 2073, which can be extended by the Company without any notice or announcement.

[SK Broadband]

SK Broadband acquired subscribership of regional cable and other service providers on several different occasions. Such acquisitions were intended to secure a stable subscriber base for its broadband Internet service and, at the same time, increase the service coverage area. Because such acquisitions were conducted on a relatively small scale and involved the purchase of subscribership, SK Broadband did not believe that such acquisitions rose to the level of purchasing an entire business line from another company or were likely to have a material impact on its business, and therefore decided that such acquisitions did not require resolutions of its shareholders.

3. Total Number of Shares**A. Total Number of Shares**

(As of December 31, 2017)

(Unit: in shares)

| Classification | Share type | | Total | Remarks |
|--|---------------|------------------|-------------|---------|
| | Common shares | Preferred shares | | |
| I. Total number of authorized shares | 220,000,000 | | 220,000,000 | |
| II. Total number of shares issued to date | 89,278,946 | | 89,278,946 | |
| III. Total number of shares retired to date | 8,533,235 | | 8,533,235 | |
| a. reduction of capital | | | | |
| b. retirement with profit | 8,533,235 | | 8,533,235 | |
| c. redemption of redeemable shares | | | | |
| d. others | | | | |
| IV. Total number of shares (II-III) | 80,745,711 | | 80,745,711 | |
| V. Number of treasury shares | 10,136,551 | | 10,136,551 | |
| VI. Number of shares outstanding (IV-V) | 70,609,160 | | 70,609,160 | |

B. Treasury Shares

(1) Acquisitions and dispositions of treasury shares

(As of December 31, 2017) (Unit: in shares)

| Acquisition methods | Type of shares | At the beginning of period | Changes | | | At the end of period | |
|--|--|-------------------------------------|-----------------------------------|--------------|-------------|----------------------|------------|
| | | | Acquired (+) | Disposed (-) | Retired (-) | | |
| Acquisition pursuant to the Financial Investment Services and Capital Markets Act of Korea (FSCMA) | Direct acquisition from market | Common shares Preferred shares | 10,136,551 | | | 10,136,551 | |
| | Direct acquisition | Direct over-the-counter acquisition | Common shares Preferred shares | | | | |
| | | Tender offer | Common shares Preferred shares | | | | |
| | | Sub-total | Common shares Preferred shares | 10,136,551 | | | 10,136,551 |
| | Acquisition through trust and other agreements | Held by trustee | Common shares Preferred shares | | | | |
| | | Held in actual stock | Common shares Preferred shares | | | | |
| | | Sub-total | Common shares Preferred shares | | | | |
| | Other acquisition | Common shares Preferred shares | | | | | |
| | Total | Common shares Preferred shares | 10,136,551 | | | | 10,136,551 |

4. Status of Voting Rights

(As of December 31, 2017)

(Unit: in shares)

| Classification | | Number of shares | Remarks |
|---|-----------------|-------------------------|-----------------|
| Total shares (A) | Common share | 80,745,711 | |
| | Preferred share | | |
| Number of shares without voting rights (B) | Common share | 10,136,551 | Treasury shares |
| | Preferred share | | |
| Shares without voting rights pursuant to the Company's articles of incorporation (the Articles of Incorporation) (C) | Common share | | |
| | Preferred share | | |
| Shares with restricted voting rights pursuant to Korean law (D) | Common share | | |
| | Preferred share | | |
| Shares with reestablished voting rights (E) | Common share | | |
| | Preferred share | | |
| The number of shares with exercisable voting rights (F = A - B - C - D + E) | Common share | 70,609,160 | |
| | Preferred share | | |

5. Dividends and Others

A. Dividends

- (1) Distribution of cash dividends was approved during the 31st General Meeting of Shareholders held on March 20, 2015.

Distribution of cash dividends per share of Won 8,400 (exclusive of an interim dividend of Won 1,000) was approved.

- (2) Distribution of interim dividends of Won 1,000 was approved during the 378th Board of Directors Meeting on July 23, 2015.

- (3) Distribution of cash dividends was approved during the 32nd General Meeting of Shareholders held on March 18, 2016.

Distribution of cash dividends per share of Won 9,000 (exclusive of an interim dividend of Won 1,000) was approved.

- (4) Distribution of interim dividends of Won 1,000 was approved during the 393rd Board of Directors Meeting on July 28, 2016.

- (5) Distribution of cash dividends was approved during the 33rd General Meeting of Shareholders held on March 24, 2017.

Distribution of cash dividends per share of Won 9,000 (exclusive of an interim dividend of Won 1,000) was approved.

- (6) Distribution of interim dividends of Won 1,000 was approved during the 404th Board of Directors Meeting on July 28, 2017.

- (7) Distribution of cash dividends was approved during the 34th General Meeting of Shareholders held on March 21, 2018.

Distribution of cash dividends per share of Won 9,000 (exclusive of an interim dividend of Won 1,000) was approved.

B. Dividends for the Last Three Fiscal Years

(Unit: in millions of Won, except per share values and percentages)

| Classification | As of and for the year ended December 31, 2017 | As of and for the year ended December 31, 2016 | As of and for the year ended December 31, 2015 |
|---|---|---|---|
| Par value per share (Won) | 500 | 500 | 500 |
| (Consolidated) Net income | 2,599,829 | 1,675,967 | 1,518,604 |
| Net income per share (Won) | 36,582 | 23,497 | 20,988 |
| Total cash dividend | 706,091 | 706,091 | 708,111 |
| Total stock dividends (Consolidated) | | | |
| Percentage of cash dividend to available income (%) | 27.2 | 42.1 | 46.6 |
| Cash dividend yield ratio (%) | 3.6 | 4.3 | 4.6 |
| Stock dividend yield ratio (%) | | | |
| Cash dividend per share (Won) | 10,000 | 10,000 | 10,000 |
| Stock dividend per share (share) | | | |

* Net income per share means basic net income per share. The cash dividend per share amounts include the respective interim cash dividend per share amounts.

II. BUSINESS**1. Business Overview**

Each company in the consolidated entity is a separate legal entity providing independent services and products. The business is primarily separated into (1) the wireless business consisting of cellular voice, wireless data and wireless Internet services, (2) the fixed-line business consisting of fixed-line telephone, high speed Internet, data and network lease services, among others, and (3) other businesses consisting of platform services and Internet portal services, among others.

Set forth below is a summary business description of material consolidated subsidiaries.

| Classification | Company name | Description of business |
|-----------------------|--------------------------|---|
| Wireless | SK Telecom Co., Ltd. | Wireless voice and data telecommunications services via digital wireless networks |
| | PS&Marketing Co., Ltd. | Sale of fixed-line and wireless telecommunications products through wholesale, retail and online distribution channels |
| | Network O&S Co., Ltd. | Maintenance of switching stations |
| | Service Ace Co., Ltd | Management and operation of customer centers High-speed Internet, TV, telephone, commercial data and other fixed-line services and management of the transmission system for online digital contents |
| Fixed-line | SK Broadband Co., Ltd. | Various media-related services, such as channel management, including video on demand, and mobile IPTV services |
| | SK Telink Co., Ltd. | International wireless direct-dial 00700 services, voice services using Internet protocol, Mobile Virtual Network Operator (MVNO) business and automated security services |
| | Home & Service Co., Ltd. | System maintenance of high-speed Internet, IPTV and fixed-line services |
| | SK Planet Co., Ltd. | Various platform services such as 11st, Syrup, OK Cashbag in the commerce area |
| | SK TechX Co., Ltd. | Develop and supply system software for SK Telecom |

| | |
|-----------------------------------|--|
| Onestore Co., Ltd. | Operate app store |
| SK Communications Co., Ltd. | Integrated portal services through NATE and instant messaging services through NATE-ON |
| SK M&Service Co., Ltd. | System software development, distribution and technical support services and other online information services |
| Iriver Ltd. | Audio and video device manufacturing |
| NSOK Co., Ltd. | Security system services |
| SK Planet America LLC | System software development, distribution and investments |
| Shopkick Management Company, Inc. | System software development, distribution and investments |
| Atlas Investment | Investments |

[Wireless Business]**A. Industry Characteristics**

The telecommunications services market can be categorized into telecommunications services (such as fixed-line, wireless, leased line and value-added services) and broadcasting and telecommunications convergence services. Pursuant to the Telecommunications Business Act, the telecommunications services market can be further classified into basic telecommunications (fixed-line and wireless telecommunications), special category telecommunications (resale of telecommunications equipment, facilities and services) and value-added telecommunications (internet connection and management, media contents and others). The size of the domestic telecommunications services market is determined based on various factors specific to Korea, including size of population that uses telecommunication services and telecommunications expenditures per capita. While it is possible for Korean telecommunication service providers to provide services abroad through acquisitions or otherwise, foreign telecommunication services markets have their own characteristics depending, among others, on the regulatory environment and demand for telecommunication services.

The Korean mobile communication market is considered to have reached its maturation stage with more than a 100% penetration rate. However, the Korean mobile communications market continues to improve in the quality of services with the help of advances in network-related technology and the development of highly advanced LTE-A, LTE and 3G smartphones which enable the provision of convergence services for multimedia contents, mobile commerce, telematics, new media and other related services. In addition, through the commercialization of LTE network in July 2011 and LTE-A network in June 2013, B2B businesses, such as the corporate connected workforce business which can directly contribute to an enhancement in productivity, are expected to grow rapidly.

In the first half of 2014, wideband LTE-A service was commercialized and on December 29, 2014, tri-band LTE-A service with a maximum speed of 300 Mbps was also commercialized. Since June 2017, through the commercialization of 5band CA technology, which is considered the final stage of LTE development, we have provided 4.5G service at the speed of 700Mbps to 900Mbps. Such achievements were the building blocks towards the Company's LTE penetration reaching 75.7% as of December 31, 2017.

B. Growth Potential

| | | (Unit: in 1,000 persons) | | |
|------------------------------|--------------------------|---------------------------|-------------|-------------|
| | | As of December 31, | | |
| Classification | | 2017 | 2016 | 2015 |
| Number of subscribers | SK Telecom | 26,753 | 26,428 | 25,928 |
| | Others (KT, LGU+) | 28,375 | 27,018 | 26,088 |
| | MVNO | 7,523 | 6,841 | 5,921 |
| | Total | 62,651 | 60,287 | 57,937 |

* Source: Wireless subscriber data from the Ministry of Science and ICT (MSIT) as of December 31, 2017.

C. Domestic and Overseas Market Conditions

The Korean mobile communication market includes the entire population of Korea with mobile communication service needs, and almost every Korean is considered a potential user. Sales revenue related to data services is expected to increase due to the increasing popularity of smartphones and high-speed wireless networks. There is also a growing importance to the business-to-business segment, which creates added value by selling and developing various solutions. Seasonal and economic fluctuations have much less impact on the Korean mobile communication market compared to other industries.

Set forth below is the historical market share of the Company.

| | (Unit: in percentages) | | | |
|--------------------------------------|---------------------------|-------------|-------------|-------------|
| | As of December 31, | | | |
| Classification | 2017 | 2016 | 2015 | 2014 |
| Mobile communication services | 48.20 | 49.09 | 49.41 | 50.22 |

* Source: MSIT website and each Korean telecommunications company's respective earnings releases (including MVNOs).

D. Business Overview and Competitive Strengths

The Company is seeking to transform itself from a telecommunications service provider into a comprehensive ICT service provider. It has continued to innovate the scope of its services and achieved strong growth in subscribers amid fierce competition and rate cuts. As a result, in 2017, the Company recorded Won 17,520 billion in revenue and Won 1,537 billion in operating income on a consolidated basis and Won 12,468 billion in revenue and Won 1,698 billion in operating income on a separate basis. In particular, the number of subscribers subscribing to Band Data plans, which was launched in the second quarter of 2015, has continued to steadily increase in 2017, which in turn led to an increase in data usage. The success of Luna, a smartphone launched in September 2015 that was designed to run exclusively on the Company's networks, led to the launch of various other relatively low-priced devices and became an example of successfully targeting a niche market.

By continuing to be innovative in developing core competencies, the Company has more firmly established its position as the market leader in wireless telecommunications. The competitive environment of the wireless telecommunications industry has become more focused on retention. In 2017, the average monthly churn rate was 1.4%. The number of subscribers (including MVNO subscribers) as of December 31, 2017 was 30.2 million, an increase of approximately 600,000 since December 31, 2016. In particular, the number of smartphone subscribers as of December 31, 2017, was 23.0 million, an increase of approximately 1.1 million since December 31, 2016, propelled by 22.9 million LTE subscribers, solidifying the Company's market leadership. In addition, the Company continued to sell products targeted towards second devices such as the T Kids phone Joon and T Outdoor, which the Company believes shows a level of demand that can potentially lead to growth of the lifestyle enhancement platform.

Following the launch of commercial LTE services in July 2011, the Company became the first telecommunications service provider in the world to launch commercial wideband LTE-A services in June 2014. The Company launched tri-band LTE-A services in December 2014 and 5band 4.5G services in June 2017. By launching various high quality services utilizing the LTE-A and wideband LTE networks such as group video conference call services and full high definition mobile IPTV streaming services, the Company plans to provide an innovative user experience, enhance customer satisfaction and increase profitability.

The Company has proved that it has superior network quality compared to its competitors according to the Korea Communications Commission quality evaluations. The Company has also proved to be the leader in Korea's top three customer satisfaction indices: according to the National Customer Satisfaction Index, Korean Customer Satisfaction Index and Korean Standard Service Quality Index, the Company has continued to hold the leading position for 21 years, 20 years and 18 years, respectively. The Company received the highest level of evaluation in 2016 by the Korea Commission for Corporate Partnership for the fifth consecutive year and was selected for the commission's Honored Corporation Award, demonstrating the Company's efforts to be fair and law-abiding in its path towards creating a New ICT ecosystem.

SK Telink, a consolidated subsidiary of the Company, expanded its operations to the MVNO business based on its technical expertise and know-how obtained in its international telecommunications business and launched its MVNO service, SK 7Mobile, which is offered at reasonable rates and provides excellent quality. SK Telink is increasing its efforts to develop low-cost distribution channels and create niche markets through targeted marketing towards customers including foreign workers, middle-aged adults and students. An MVNO leases the networks of an MNO and provides wireless telecommunication services under its own brand and fee structure, without owning telecommunication networks or frequencies.

Network O&S, a subsidiary of the Company responsible for the operation of the Company's base stations and related transmission and power facilities, offers quality fixed-line and wireless network services to customers, including mobile office products to business customers.

PS&Marketing, a subsidiary of the Company, provides a sales platform for products of the Company and SK Broadband including fixed-line and wireless telecommunication products that address customers' needs for various convergence products. PS&Marketing provides differentiated service to clients through the establishment of new sales channels and product development.

[Fixed-line Business]**A. Industry Characteristics**

The Korean fixed-line services industry is marked by a relatively low level of economic sensitivity and high level of market concentration, as the government is highly selective in granting telecommunications business licenses. The competitive landscape of the fixed-line and wireless services markets is dominated by its three leading operators, the Company (including SK Broadband), KT and LG U+. Growing competition within the industry has promoted rapid technological evolution, including the convergence of fixed-line and wireless services, as well as broadcasting and telecommunications. In general, the fixed-line and wireless services markets have been characterized by relatively high profitability, cash flows and financial stability.

In the backdrop of increasing regulation in the fixed-line industry, competition to provide Giga services has intensified and the growth of high-speed internet subscribers has slowed. It is currently expected that the rate of increase of IPTV subscribers will decrease, among others, due to the conversion to digital broadcasting. In order to differentiate itself from its competitors, the Company believes that it will need to provide customers with high quality media content on its IPTV platform. Additionally, the Company expects increased demand for ultra-high definition broadcasting. Such changing trends of broadcasting consumption present opportunities to incorporate the Company's IoT, cloud and big data technologies into the Company's home platform business to achieve new growth. The Company plans to increase its subscriber base by providing differentiated services and focusing on marketing strategies centered around high value services such as Giga services and ultra-high definition broadcasting services.

B. Growth Potential

(Unit: in 1,000 persons for high-speed Internet and fixed-line telephone, in 1,000 terminals for IPTV)

| Classification | | As of December 31, | | |
|------------------------|----------------------|--------------------|--------|--------|
| | | 2017 | 2016 | 2015 |
| Fixed-line Subscribers | High-speed Internet | 21,196 | 20,556 | 20,025 |
| | Fixed-line telephone | 15,039 | 15,746 | 16,341 |
| | IPTV (real-time) | 13,314 | 11,850 | 10,992 |

* Source: MSIT website.

* Number of IPTV subscribers as of December 31, 2017 is the average number of IPTV subscribers in the first six months of 2017 based on MSIT announcements on November 9, 2017.

C. Cyclical Nature and Seasonality

High-speed Internet, fixed-line telephone and IPTV services are mature markets that are comparatively less sensitive to cyclical economic changes as such services have become more of a necessity and the market has matured. The telecommunications services market overall is not expected to be particularly affected by economic downturns due to the low income elasticity of demand for telecommunication services.

D. Market Shares

Set forth below is the historical market share of the Company.

| Classification | (Unit: in percentages) | | |
|---|-------------------------------|-------------|-------------|
| | As of December 31, | | |
| | 2017 | 2016 | 2015 |
| High-speed Internet (including resales) | 25.7 | 25.3 | 25.1 |
| Fixed-line telephone (including Voice over Internet Protocol (VoIP) | 16.9 | 16.9 | 17.1 |
| IPTV | 30.6 | 30.7 | 30.5 |

* Source: MSIT website.

* With respect to Internet telephone, the market share was calculated based on market shares among the Company, KT and LG U+ and is based on the number of IP phone subscribers.

* The number of IPTV subscribers was taken from data announced by the MSIT on November 9, 2017, and the number of IPTV subscribers as of December 31, 2017, was calculated using the average number of subscribers for the first six months of 2017.

E. Business Overview and Competitive Strengths

For the year ended December 31, 2017, we recorded Won 3,526 billion in revenue, Won 127 billion in operating income and Won 30 billion in profit for the period for our fixed-line business. Revenue increased primarily due to an increase in revenue from IPTV and we achieved stable growth in profitability despite investments made for the improvement of our network infrastructure and the strengthening of our media platform. As of December 31, 2017, the number of subscribers to each of our high-speed internet, fixed-line telephones (including VoIP) and IPTV services was 5.44 million, 4.11 million and 4.37 million, respectively. In addition, our domestic and international credit ratings for SK Broadband remain unchanged from last year, and we maintained a stable financial position throughout 2017 by improving profitability.

The high-speed internet business is a relatively mature market and the number of our new subscribers decreased in 2017. However, we continued to expand growth in premium services, mainly our Giga internet service. By enhancing the efficiency of our distribution channel and upgrading our customer retention system, we solidified our market position and continued to reduce churn rates.

While the number of new IPTV subscribers has decreased due to the increased proportion of pay TV subscribers and high-speed internet users that have converted to digital broadcasting, we achieved high revenue growth with an increase in the number of subscribers of premium services including our ultra-high definition broadcasting service, the increase in sales of paid content and expansion of our platform businesses such as media advertisement. In addition, in the face of diversified customer needs and the growing trend of convergence services, we expanded efforts to differentiate content, adopt big data analysis technologies and reinforce competitiveness in business areas such as artificial intelligence. We believe that such competition in services present growth opportunities for our home platform business, particularly in connection with the fourth industrial revolution. By upgrading our user interface, strengthening content competitiveness and customer satisfaction, we expanded our market position and shifted toward a subscriber base with higher average revenue per subscriber in areas such as ultra-high definition services. In addition, we increased the platform value of Oksusu by focusing on original content competitiveness while launching a PC web version and restructuring its user interface.

In our corporate business, we employed customer-centered marketing strategies to target differentiated markets to expand our platform business and will continue efforts to maximize platform potential. In addition, we increased profitability by focusing on our core line-based business and also expanded our growth businesses.

SK Telink, a provider of international telecommunications service, has been able to establish itself as a market leader as a result of its affordable pricing, proactive marketing and the quality of its services. It launched a mobile phone-based international calling service under the brand name 00700 in 1998, creating a new niche market within the long-distance telephony market that was otherwise dominated by existing service providers. In 2003, SK Telink was designated a common carrier for international calling services, which allowed the Company to expand its international calling services to fixed-line international calling services. In 2005, SK Telink obtained a license to operate VoIP services and local calling value-added services to develop into a versatile fixed-line telecommunications service provider. SK Telink plans to strategically target the convergence of wireless and fixed-line telecommunications and strengthen its existing business, including international and long-distance calling services, value-added services for local calling and B2B services, and video conference call services while aiming to satisfy the diverse needs of customers by providing quality solutions at reasonable prices.

[Other Business]

A. Industry Characteristics

As the number of smartphones distributed in Korea exceeds 40 million, the growth in various mobile devices has spurred the rise of the service provider with a strong platform business as the leader in the ICT market. It is becoming increasingly important to enhance competitiveness by building a platform with large data capacity to handle the increase in data transmission.

A platform business acts as an intermediary by promoting interactions among various customer groups, thereby generating new values. It is important for a platform business to continually attract subscribers and users and to create an ecosystem with certain lock-in effects. A platform can exist in various forms, including as a technological standard (iOS, Android OS), a subscriber-based service platform (Facebook, Twitter) or a marketplace (Amazon, Onestore). Platform businesses are evolving and expanding globally.

A platform business has strong growth potential due to its connectivity with related services and ease of global expansion. Apple became a world-leading smartphone producer based on its innovative design and the competitive strength of its App Store platform. Google has created a new ecosystem of long-tail advertising by attracting millions of third parties to its advertising platform, as well as showing strong growth in mobile markets with its competitive platform based on Android OS. It is becoming increasingly important to enhance competitiveness through a database that can register and analyze purchase patterns of customers across all areas and a platform with large data capacity with which to utilize this database and provide differentiated services to customers.

B. Growth Potential

The scope and value generated by the platform business, including application and content marketplaces and N-screen services, continue to increase as smartphones and tablet computers become more popular and the bandwidth and speed of network infrastructure improve. As the wireless network evolves to LTE, business opportunities for the platform business exist, including multimedia streaming, N-screen service based on cloud technology and high-definition location-based services. Since the platform business realizes profit by connecting with advertisements or commerce sites after building a critical mass of subscribers and traffic, the recent growth in the advertising and commerce markets is expected to present an opportunity for platform businesses. The importance of building a platform with large data capacity that is connected to various digital contents and commerce is expected to increase in the future.

C. Domestic and Overseas Market Conditions

(1) Commerce markets

The Company expects that online/mobile commerce markets will continue to grow due to the growth potential of the Internet shopping population, the strengthening of online business models by off-line operators, and the rapid rise of mobile commerce. Recently, due to the widespread use of smartphones and social media, the commercialization of location-based services and the development of big data technology, online to offline (or, O2O) business, which is a concept of attracting customers to offline stores using online and mobile environments, is being highlighted as a new field in the online commerce market industry as new business models continue to emerge.

(2) Digital contents

The growth of application marketplaces, which started with Apple's App Store, provides the platform business with new opportunities for revenue generation. The competitive paradigm is shifting from a competition among platform operators toward a competition among eco-systems that include application developers as well as platform operators.

D. Business Overview and Competitive Strengths

The Company plans to expand its platform ecosystem in operating its commerce business which includes marketplace and O2O businesses, such as 11st, Syrup and OK Cashbag, thereby ultimately increasing its enterprise value.

(1) Commerce business

11st, an online marketplace, has continued its growth through effective marketing and customer satisfaction. Despite its later entry into the online commerce market (launched in 2008) which was already divided between Auction and G-Market, it is leading the domestic e-commerce market. Furthermore, 11st has established itself as the domestic market leader in mobile commerce, following its successful entry into and rapid growth in this market. Growth plans involving overseas joint ventures based on 11st's business expertise have resulted in the successful launch of an open online commerce market in Turkey in partnership with Doğuş Group in March 2013. In October 2014, SK Planet and Celcom Axiata Berhad, which is a leading telecommunications service provider in Malaysia, established a joint venture, Celcom Planet, and launched online commerce services tailored to the Malaysian market in April 2015. 11st is not only actively engaged in operating such business in Malaysia, but has also launched its service in Thailand in February 2017.

Syrup is a consumer-oriented commerce service with the goal of minimizing its customers' time and efforts while maximizing the economic benefits by providing information about coupons and events based on time, place and occasion. To achieve this goal, Syrup combines location-based services, such as geo-fencing, a virtual perimeter technology using a global positioning system (or, GPS) and Bluetooth Low Energy (or, BLE), with big data analysis of consumption patterns. Syrup's business partners can benefit from cost-effective marketing through Syrup by utilizing statistics and analysis regarding consumers' frequency of visits, preferred products, and consumption patterns.

OK Cashbag is a point-based loyalty marketing program which has grown to become a global top-tier loyalty marketing program since its inception in 1999. Customers have access to increased benefits through accumulation of loyalty reward points and partner companies use OK Cashbag as a marketing resource. As Korea's largest loyalty mileage program, OK Cashbag maintains a leading position in the industry. The Company is continuing to develop its service in light of market conditions and customers' needs to enhance its customers' perception of point value and is reviewing and pursuing various plans to develop OK Cashbag into a service that goes beyond a mileage program that leverages the key competitiveness of OK Cashbag such as its platform and partnership network.

(2) Location-based services

T-Map Navigation provides map, local information, real-time traffic information and navigation services. T-Map Navigation is one of the leading location-based service platforms in Korea. By entering the Online to Offline service area with T map Taxi, T map Public Transportation and others, the Company is expanding its mobile platform foundation that connects day to day life. In September 2016, the Company launched T-Map x NUGU, which provides a new form of intelligent car infotainment service in collaboration with the Company's artificial intelligence (AI) service, NUGU. The Company has continued to secure subscribers by differentiating its product T-map x NUGU as a unique artificial intelligence driving assistant. The Company has also focused on providing effective info-tainment platforms to commercial vehicle businesses as well as providing localized content, including region-specific information and advertisements. The Company plans to further develop the T-Map Navigation platform by initiating open application programming interface-based services, providing services to more diverse types of devices and providing local area-based services.

(3) Digital contents

Onestore, an application platform launched in 2016 through a joint venture between SK Telecom, KT, LG U+ and Naver's app store, launched Onestore 2.0, which showcases the particular benefits of the application platform. The Company intends to further develop Onestore into a personalized gateway and mobile playground through enhanced product and brand competitiveness, expansion of the scope of serviceable devices, reinforcement of digital content offerings and enhancement of search services, among other things.

(4) Social networking services (SNS) and Internet portal services

The Company's instant messenger service, Nate-On, had a market share of 13.1% in the instant messenger market in Korea with 2.2 million net users during the month of December 2017. Nate, the Company's Internet search portal service, realized a page-view market share of 3.7% as of December 31, 2017. (Source: Korean Click, based on fixed-line access)

2. Updates on Major Products and Services

(Unit: in millions of Won and percentages)

Consolidated

| Business | Major Companies | Item | Major Trademarks | Sales Amount (ratio) |
|--------------------------|------------------------------|--------------------------------|-------------------------|-----------------------------|
| Wireless | SK Telecom Co., Ltd., | Mobile communication service, | T, Band Data and | 13,262,135 (76%) |
| | PS&Marketing Co., Ltd., | wireless data service, | others | |
| | Network O&S Co., Ltd. | ICT service | | |
| Fixed-line | SK Broadband Co., Ltd., | Fixed-line phone, | B tv , 00700 | 2,724,151 (16%) |
| | SK Telink Co., Ltd. | high speed Internet, | international call, | |
| Other | | data and network lease service | 7Mobile and others | 1,533,727 (8%) |
| | SK Planet Co., Ltd., | Internet portal service and | 11st, OK Cashbag, | |
| | SK TechX Co., Ltd., | e-commerce | NATE, Onestore | |
| | Onestore Co., Ltd., | | and others | |
| | SK Communications Co., Ltd., | | | |
| | M&Service Co., Ltd., | | | |
| | SKP America, LLC, | | | |
| Shopkick Mgmt. Co., Ltd. | | | | |
| Total | | | | 17,520,013 (100%) |

[Wireless Business]

As of December 31, 2017, based on the Company's standard monthly subscription plan, the basic service fee was Won 12,100 and the usage fee was Won 1.98 per second.

[Fixed-line Business]

SK Broadband provides broadband Internet access service, telephony, TV, corporate data services and other services for both individual and corporate customers. As of December 31, 2017, SK Broadband's revenue comprised of 27.7% broadband Internet, 33.6% TV services, 2.6% telephony services, 32.4% corporate data services and 3.7% other telecommunications services. Price fluctuations in the different services provided by SK Broadband are due to discounts provided for long term contracts, changes in equipment costs and competition between companies.

[Other Business]

Set forth below are major products and services of the Company's material consolidated subsidiaries.

| Business Platform | Item | Major Trademarks |
|--|---|---|
| | ICT services, new media services, advertisement services, telecommunications sales, e-commerce and others | Syrup, Onestore, 11st, OK Cashbag and others |
| Advertisement (Display, Search) Contents and others | Online advertisement services Pay content sales and other services | Nate, Nate-On Nate, Nate-On |

3. Investment Status**[Wireless Business]****A. Investment in Progress**

| | | | | | (Unit: in 100 millions of Won) | | |
|-----------------|------------------------------|------------------------------------|-----------------------------------|--|-----------------------------------|--------------------------------|--------------------------|
| Business | Classification | Investment period | Subject of investment | Investment effect | Expected investment amount | Amount already invested | Future investment |
| Network/Common | Upgrade/ New installation | Year ended December 31, 2017 | Network, systems and others | Capacity increase and quality improvement; systems improvement | 20,000 | 19,839 | |
| Total | | | | | 20,000* | 19,839 | |

* On February 3, 2017, the Company disclosed its 2017 capital expenditure budget.

B. Future Investment Plan

(Unit: in 100 millions of Won)

| Business | Expected investment amount Asset type | Amount | Expected investment for each year | | | Investment effect |
|----------------|--|--------|--------------------------------------|---------------------|---------------------|---|
| | | | 2018 | 2019 | 2020 | |
| Network/Common | Network, systems and others | 21,000 | 21,000 | To be determined | To be determined | Upgrades to the existing services and expanded provision of services including wideband LTE-A |
| Total | | 21,000 | 21,000 | To be determined | To be determined | |

[Fixed-line Business]**A. Investment in Progress**

For the year ended December 31, 2017, the Company spent Won 790.0 billion for capital expenditures as set out below. In 2018, the Company plans to make a similar level of capital expenditures to expand network coverage and upgrade its media platform, but does not expect such expenditures to have a material adverse effect on the Company's financial structure through improvements in investment efficiency.

(Unit: in 100 millions of Won)

| Business | Classification | Investment period | Subject of investment | Investment effect | Amount already invested | Future investment |
|--|---------------------------------|------------------------------------|---|---|-------------------------------|----------------------|
| High-speed Internet | | | | | 3,083 | |
| Residential fixed-line telephone | Upgrade/ New installation | Year ended December 31, 2017 | Backbone and subscriber network/ others | Expand subscriber networks and facilities | 79 | To be determined |
| Television | | | | Increase leased-line and integrated information system | 1,178 | |
| Corporate | | | | Expand networks and required space | 1,441 | |
| Data | | | | | 1,579 | |
| Others | | | | | | |
| Total | | | | | 7,900 | |

4. Revenues

(Unit: in millions of Won)

| Business | Sales type | Item | For the year ended December 31, | | | |
|-----------------|---------------|---------------|------------------------------------|------------|------------|------------|
| | | | 2017 | 2016 | 2015 | |
| Wireless | Services | Mobile | Export | 20,507 | 17,393 | 15,035 |
| | | communication | Domestic | 13,241,628 | 12,987,516 | 13,254,243 |
| | | Subtotal | | 13,262,135 | 13,004,909 | 13,269,278 |

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| | | | | | | |
|-------------------|----------|----------------------------|----------|------------|------------|------------|
| Fixed-line | Services | Fixed-line, | Export | 84,395 | 92,630 | 94,387 |
| | | B2B data, | Domestic | 2,639,756 | 2,558,563 | 2,400,186 |
| | | High-speed Internet, TV | Subtotal | 2,724,151 | 2,651,193 | 2,494,573 |
| Other | Services | Display and | Export | 41,233 | 42,205 | 53,622 |
| | | Search ad., | Domestic | 1,492,494 | 1,393,509 | 1,319,261 |
| | | Content | Subtotal | 1,533,727 | 1,435,714 | 1,372,883 |
| Total | | | Export | 146,135 | 152,228 | 163,044 |
| | | | Domestic | 17,373,878 | 16,939,588 | 16,973,690 |
| | | | Total | 17,520,013 | 17,091,816 | 17,136,734 |

| For the year ended December 31, 2017 | Wireless | Fixed | Other | Sub total | (Unit: in millions of Won) | |
|--------------------------------------|------------|-----------|-----------|------------|----------------------------|---------------------|
| | | | | | Internal transaction | After consolidation |
| Total sales | 14,873,543 | 3,586,887 | 1,880,739 | 20,341,169 | (2,821,156) | 17,520,013 |
| Internal sales | 1,611,408 | 862,736 | 347,012 | 2,821,156 | (2,821,156) | |
| External sales | 13,262,135 | 2,724,151 | 1,533,727 | 17,520,013 | | 17,520,013 |
| Operating income (loss) | 1,714,078 | 167,515 | (344,967) | 1,536,626 | | 1,536,626 |
| Profit (loss) for the period | | | | | | 3,403,249 |
| Total assets | 26,285,065 | 4,383,116 | 2,668,463 | 33,336,644 | 92,025 | 33,428,669 |
| Total liabilities | 10,962,194 | 2,779,686 | 1,217,179 | 14,959,059 | 440,416 | 15,399,474 |

5. Derivative Transactions

A. Current Swap Contract Applying Cash Flow Risk Hedge Accounting

Currency swap contracts under cash flow hedge accounting as of December 31, 2017 are as follows:

| Terminating date | Hedged item | Hedged risk | Contract type | Financial institution | Duration of contract | |
|-------------------|---|--|-----------------------------------|---|---------------------------------------|------|
| Jul. 20, 2007 | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of US\$400,000,000) | Foreign currency risk | Cross currency swap | Morgan Stanley and five other banks | Jul. 20, 2007 2027 | Jul. |
| Nov. 1, 2012 | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of US\$700,000,000) | Foreign currency risk | Cross currency swap | Standard Chartered and nine other banks | Nov. 1, 2012 2018 | May |
| Mar. 7, 2013 | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of US\$300,000,000) | Foreign currency risk and interest rate risk | Cross currency interest rate swap | DBS Bank | Mar. 7, 2013 2020 | Mar |
| Oct. 29, 2013 | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of US\$300,000,000) | Foreign currency risk | Cross currency swap | Korea Development Bank and others | Oct. 29, 2013 2018 | Oct. |
| Dec. 16, 2013 | Fixed-to-fixed cross currency swap (U.S. dollar denominated loan face value of US\$57,535,000) | Foreign currency risk | Cross currency swap | Deutsche Bank | Dec. 16, 2013 2022 | Apr |
| Dec. 20, 2016 | Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 49,000 million) | Interest rate risk | Interest rate swap | Korea Development Bank | Dec. 20, 2016 2021 | Dec |
| January 30, 2017 | Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 32,667 million) | Interest rate risk | Interest rate swap | Korea Development Bank | Nov. 10, 2016 2019 | Jul |
| March 31, 2017 | Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 30,000 million) | Interest rate risk | Interest rate swap | Korea Development Bank | March 31, 2017 March 31, 2020 | |
| December 21, 2017 | Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 50,000 million) | Interest rate risk | Interest rate swap | Korea Development Bank | December 5, 2017 December 21, 2020 | |

B. Treatment of Derivative Instruments on the Balance Sheet

As of December 31, 2017, fair values of the above derivatives recorded in assets or liabilities and details of derivative instruments are as follows:

(Unit: in millions of Won; in thousands of foreign currencies)

| Hedged item | Fair value | | | Total |
|--|------------------------|-------------------------|-----------------------------|--------------|
| | Cash flow hedge | Trading purposes | Embedded derivatives | |
| Bluehole Inc. convertible preferred stock | | | 222,257 | 222,257 |
| Non-current assets: | | | | |
| Structured bond (face value of Won 50,000 million) | | 9,054 | | 9,054 |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of US\$400,000,000) | 21,554 | | | 21,554 |
| Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 49,000 million) | 307 | | | 307 |
| Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 28,553 million) | 43 | | | 43 |
| Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 50,000 million) | (2) | | | (2) |
| Total assets: | | | | 253,213 |
| Current liabilities: | | | | |
| Floating-to-fixed interest rate swap (U.S. dollar denominated bonds face value of US\$ 700,000,000) | (27,791) | | | (27,791) |
| Floating-to-fixed interest rate swap (U.S. dollar denominated bonds face value of US\$ 300,000,000) | (615) | | | (615) |
| Non-current liabilities: | | | | |
| Floating-to-fixed interest rate swap (U.S. dollar denominated bonds face value of US\$ 300,000,000) | (7,613) | | | (7,613) |
| Fixed-to-fixed interest rate swap (U.S. dollar denominated bonds face value of US\$ 51,775,000) | (3,106) | | | (3,106) |
| Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 30,000 million) | (345) | | | (345) |
| Total liabilities: | | | | (39,470) |

6. Major Contracts

[SK Telecom]

(Unit: in 100 millions of Won)

| Category | Vendor | Start Date | Completion Date | Contract Title | Contract Amount |
|-----------------|------------------------|-------------------|------------------------|---|------------------------|
| Real Estate | SK Broadband Co., Ltd. | February 1, 2017 | January 31, 2020 | Namsan Office Building Lease Contract | 63 |
| Real Estate | Kyowon Kumon Corp. | August 22, 2017 | September 20, 2017 | Disposal Contract of idle lots in Euljiro 2, 18-9 | 18 |
| Real Estate | Multiple | March 15, 2017 | December 28, 2017 | Contracts relating to land acquisitions (7) | 82 |
| Subtotal | | | | | 163 |

[SK Broadband]

Below are SK Broadband's contracts related to its telecommunications equipment. In addition to the below, SK Broadband also has entered into various real estate rental agreements.

| Counterparty | Contract Contents | Contract Period | Note |
|-------------------------------------|---|--|--|
| Telecommunication service providers | Interconnection among telecommunication service providers | | Automatically renewed for two years at a time unless specific amendments are requested |
| KEPCO | Provision of electric facilities | From Nov. 2016 to Nov. 2018 (Unless special reasons arise, the usage period will be renewed annually) | Use of electricity poles |
| Seoul City Railway | Use of telecommunication line conduits | From Jan. 2015 to Dec. 2017 | Use of railway telecommunication conduit (Serviced areas to expand) |
| Busan Transportation Corporation | Use of telecommunication line conduits | From August 1, 2017 to July 31, 2019 (Renewed two year contract upon completing evaluation of usage unit price) | Use of railway telecommunication conduit |
| Seoul Metro | Use of telecommunication line conduits | From May 2010 to May 2013 (Renewal in progress, currently in discussion to decide usage unit price, future plans to enter into a contract) | Use of railway telecommunication conduit (Serviced areas to expand) |
| Gwangju City Railway | Use of telecommunication line conduits | From Sept. 2010 to Dec. 2012 (Renewal in progress, in the completion stage of transitioning to private network system, currently reviewing whether to renew contract at the end of 2016) | Use of railway telecommunication conduit (Service lease) |

* Renewal is in progress after negotiation of lower usage fees.

[SK Communications]

| Counterparty | Purpose | Contract Period | Contract Amount |
|---------------------|--|------------------------|---|
| Kakao Corp. | Cost-per-click Internet search advertisement | | Amount determined based on the number of clicks |

* SK Communications and Kakao Corp. have agreed not to publicly disclose the contract period with respect to the contract with Kakao Corp.

7. R&D Investments

Set forth below are the Company's R&D expenditures.

(Unit: in millions of Won except percentages)

| Category | For the year ended | | | Remarks |
|--|----------------------|----------------------|----------------------|---------|
| | December 31, 2017 | December 31, 2016 | December 31, 2015 | |
| Raw material | 1,261 | 659 | 1,267 | |
| Labor | 139,845 | 116,108 | 68,969 | |
| Depreciation | 144,301 | 125,827 | 147,577 | |
| Commissioned service | 76,042 | 54,714 | 37,001 | |
| Others | 53,112 | 53,785 | 67,888 | |
| Total R&D costs | 414,562 | 351,093 | 322,702 | |
| Accounting | | | | |
| Sales and administrative expenses | 395,276 | 344,787 | 315,790 | |
| Development expenses (Intangible assets) | 19,285 | 6,306 | 6,912 | |
| R&D cost / sales amount ratio (Total R&D costs / Current sales amount×100) | 2.37% | 2.05% | 1.88% | |

8. Other information relating to investment decisions

A. Trademark Policies

The Company manages its corporate brand and other product brands in a comprehensive way to protect and increase their value. The Company's Brand Management Council in charge of overseeing its systematic corporate branding operates full-time to execute decisions involving major brands and operates Comm.ON, an intranet system to manage the development, registration and licensing of brands.

B. Business-related Intellectual Property [SK Telecom]

As of December 31, 2017, the Company holds 5,364 Korean-registered patents and 1,417 foreign-registered patents. The Company holds 762 Korean-registered trademarks and owns intellectual property rights to the design of the alphabet T. The designed alphabet T is registered in all business categories for trademarks (total of 45). The number of registered patents and trademarks is subject to constant change due to the acquisition of new rights, expiration of terms, abandonments and dispositions.

[SK Broadband]

As of December 31, 2017, SK Broadband holds 362 Korean-registered patents relating to high-speed Internet, telephone and IPTV service. In addition, SK Broadband has applied for a patent relating to two-way broadcasting system. SK Broadband also holds a number of trademarks and service marks relating to its service and brand.

[SK Planet]

As of December 31, 2017, SK Planet held 2,484 registered patents, 129 registered design marks, 1,306 registered trademarks and 9 copyrights (including those held jointly with other companies) in Korea. It also holds 162 U.S.-registered patents, 104 Chinese-registered patents, 74 Japanese-registered patents, 52 E.U.-registered patents (all including patents held jointly with other companies) and 410 registered trademarks, along with a number of other intellectual property rights, in other countries.

[SK Communications]

As of December 31, 2017, SK Communications held 93 registered patents, 26 registered design rights and 506 registered trademarks in Korea.

C. Business-related Pollutants and Environmental Protection

The Company does not engage in any manufacturing and therefore does not undertake any industrial processes that emit pollutants into the air or industrial processes in which hazardous materials are used.

III. FINANCIAL INFORMATION

1. Summary Financial Information (Consolidated and Separate)

A. Summary Financial Information (Consolidated)

Below is the summary consolidated financial information of the Company as of and for the years ended December 31, 2017, 2016 and 2015. The Company's audited consolidated financial statements as of and for the years ended December 31, 2017 and 2016, which are prepared in accordance with K-IFRS, are attached hereto.

(Unit: in millions of Won except number of companies)

| | As of December 31, 2017 | As of December 31, 2016 | As of December 31, 2015 |
|---|-------------------------------|-------------------------------|-------------------------------|
| Assets | | | |
| Current Assets | 6,201,799 | 5,996,628 | 5,160,242 |
| Cash and Cash Equivalents | 1,457,735 | 1,505,242 | 768,922 |
| Accounts Receivable Trade, net | 2,126,007 | 2,240,926 | 2,344,867 |
| Accounts Receivable Other, net | 1,260,835 | 1,121,444 | 673,739 |
| Others | 1,357,222 | 1,129,016 | 1,372,714 |
| Non-Current Assets | 27,226,870 | 25,301,035 | 23,421,145 |
| Long-Term Investment Securities | 887,007 | 828,521 | 1,207,226 |
| Investments in Associates and Joint Ventures | 9,538,438 | 7,404,323 | 6,896,293 |
| Property and Equipment, net | 10,144,882 | 10,374,212 | 10,371,256 |
| Intangible Assets, net | 3,586,965 | 3,776,354 | 2,304,784 |
| Goodwill | 1,915,017 | 1,932,452 | 1,908,590 |
| Others | 1,154,561 | 985,173 | 732,996 |
| Total Assets | 33,428,669 | 31,297,663 | 28,581,387 |
| Liabilities | | | |
| Current Liabilities | 7,109,123 | 6,444,099 | 5,256,493 |
| Non-Current Liabilities | 8,290,351 | 8,737,134 | 7,950,798 |
| Total Liabilities | 15,399,474 | 15,181,233 | 13,207,291 |
| Equity | | | |
| Equity Attributable to Owners of the Parent Company | 17,842,139 | 15,971,399 | 15,251,079 |
| Share Capital | 44,639 | 44,639 | 44,639 |
| Capital Surplus (Deficit) and Other Capital Adjustments | 196,281 | 199,779 | 189,510 |
| Retained Earnings | 17,835,946 | 15,953,164 | 15,007,627 |
| Reserves | (234,727) | (226,183) | 9,303 |
| Non-controlling Interests | 187,056 | 145,031 | 123,017 |
| Total Equity | 18,029,195 | 16,116,430 | 15,374,096 |
| Total Liabilities and Equity | 33,428,669 | 31,297,663 | 28,581,387 |
| Number of Companies Consolidated | 39 | 38 | 37 |

(Unit: in millions of Won except number of companies)

| | For the year ended December 31, 2017 | For the year ended December 31, 2016 | For the year ended December 31, 2015 |
|---|---|---|---|
| Operating Revenue | 17,520,013 | 17,091,816 | 17,136,734 |
| Operating Income | 1,536,626 | 1,535,744 | 1,708,006 |
| Profit Before Income Tax | 3,403,249 | 2,096,139 | 2,035,365 |
| Profit for the Period | 2,657,595 | 1,660,101 | 1,515,885 |
| Profit for the Period Attributable to Owners of the Parent Company | 2,599,829 | 1,675,967 | 1,518,604 |
| Profit for the Period Attributable to Non-controlling Interests | 57,766 | (15,866) | (2,719) |
| Basic and Diluted Earnings Per Share (Won) | 36,582 | 23,497 | 20,988 |

B. Summary Financial Information (Separate)

Below is the summary separate financial information of the Company as of and for the years ended December 31, 2017, 2016 and 2015. The Company's audited consolidated financial statements as of and for the years ended December 31, 2017 and 2016, which are prepared in accordance with K-IFRS, are attached hereto.

| | (Unit: in millions of Won) | | |
|--|-------------------------------|-------------------------------|-------------------------------|
| | As of December 31, 2017 | As of December 31, 2016 | As of December 31, 2015 |
| Assets | | | |
| Current Assets | 3,768,098 | 3,661,115 | 2,713,529 |
| Cash and Cash Equivalents | 880,583 | 874,350 | 431,666 |
| Accounts Receivable Trade, net | 1,520,209 | 1,594,504 | 1,528,751 |
| Accounts Receivable Other, net | 1,003,509 | 772,570 | 264,741 |
| Others | 363,797 | 419,691 | 488,371 |
| Non-Current Assets | 21,789,424 | 21,787,459 | 20,433,411 |
| Long-Term Investment Securities | 724,603 | 560,966 | 726,505 |
| Investments in Subsidiaries and Associates | 9,152,321 | 8,726,538 | 8,810,548 |
| Property and Equipment, net | 6,923,133 | 7,298,539 | 7,442,280 |
| Intangible Assets, net | 3,089,545 | 3,275,663 | 1,766,069 |
| Goodwill | 1,306,236 | 1,306,236 | 1,306,236 |
| Others | 593,586 | 619,517 | 381,773 |
| Total Assets | 25,557,522 | 25,448,574 | 23,146,940 |
| Liabilities | | | |
| Current Liabilities | 4,767,401 | 4,464,160 | 3,491,306 |
| Non-Current Liabilities | 5,782,730 | 6,727,460 | 5,876,174 |
| Total Liabilities | 10,550,131 | 11,191,620 | 9,367,480 |
| Equity | | | |
| Share Capital | 44,639 | 44,639 | 44,639 |
| Capital Surplus and Other Capital | | | |
| Adjustments | 371,895 | 371,481 | 369,446 |
| Retained Earnings | 14,512,556 | 13,902,627 | 13,418,603 |
| Reserves | 78,301 | (61,793) | (53,228) |
| Total Equity | 15,007,391 | 14,256,954 | 13,779,460 |
| Total Liabilities and Equity | 25,557,522 | 25,448,574 | 23,146,940 |

| | (Unit: in millions of Won except share data) | | |
|---|---|---|---|
| | For the year ended December 31, 2017 | For the year ended December 31, 2016 | For the year ended December 31, 2015 |
| Operating Revenue | 12,468,035 | 12,350,479 | 12,556,979 |
| Operating Income | 1,697,709 | 1,782,172 | 1,658,776 |
| Profit Before Income Tax | 1,603,808 | 1,562,782 | 1,469,444 |
| Profit for the Period | 1,331,114 | 1,217,274 | 1,106,761 |
| Basic and Diluted Earnings Per Share (Won) | 18,613 | 17,001 | 15,233 |

2. Other Matters Related to Financial Information

A. Restatement of the Financial Statements

Not applicable.

B. Allowance for Doubtful Accounts

(1) Allowance for Doubtful Accounts of Trade and Other Receivables

(Unit: in millions of Won)

For the year ended December 31, 2017

Allowance for Doubtful

| | Gross amount | Accounts | Percentage |
|---------------------------|---------------------|-----------------|-------------------|
| Accounts receivable trade | 2,378,203 | 239,448 | 10% |
| Loans | 161,015 | 47,311 | 29% |
| Accounts receivable other | 1,623,295 | 75,412 | 5% |
| Accrued income | 3,979 | | 0% |
| Guarantee deposits | 296,517 | | 0% |
| Total | 4,463,009 | 362,171 | 8% |

(Unit: in millions of Won)

For the year ended December 31, 2016

Allowance for

| | Gross amount | Doubtful Accounts | Percentage |
|---------------------------|---------------------|--------------------------|-------------------|
| Accounts receivable trade | 2,503,139 | 241,828 | 10% |
| Loans | 172,982 | 48,527 | 28% |
| Accounts receivable other | 1,350,090 | 78,977 | 6% |
| Accrued income | 2,780 | | 0% |
| Guarantee deposits | 302,901 | | 0% |
| Total | 4,331,892 | 369,332 | 9% |

(Unit: in millions of Won)

For the year ended December 31, 2015

Allowance for

| | Gross amount | Doubtful Accounts | Percentage |
|---------------------------|---------------------|--------------------------|-------------------|
| Accounts receivable trade | 2,629,605 | 239,495 | 9% |
| Loans | 141,878 | 25,529 | 18% |
| Accounts receivable other | 755,151 | 78,992 | 10% |
| Accrued income | 10,753 | | 0% |
| Guarantee deposits | 299,142 | | 0% |
| Total | 3,836,529 | 344,016 | 9% |

(2) Movements in Allowance for Doubtful Accounts of Trade and Other Receivables

(Unit: in millions of Won)

| | For the year ended December 31, 2017 | For the year ended December 31, 2016 | For the year ended December 31, 2015 |
|---|---|---|---|
| Beginning balance | 369,332 | 344,016 | 328,191 |
| Increase of allowance for doubtful accounts | 40,377 | 78,132 | 75,773 |

| | | | |
|--|----------------|----------------|----------------|
| Reversal of allowance for doubtful accounts | | | |
| Write-offs | (70,802) | (79,891) | (87,798) |
| Other | 23,264 | 27,075 | 27,850 |
| Ending balance | 362,171 | 369,332 | 344,016 |

(3) Policies for Allowance for Doubtful Accounts

The Company establishes allowances for doubtful accounts based on the likelihood of recoverability of trade and other receivables based on their aging at the end of the period and past customer default experience for the past two years. With respect to trade receivables relating to wireless telecommunications services, the Company considers the likelihood of recovery based on past customer default experience and the length of default in connection with the type of default (e.g., whether the customer's service has been terminated or is continued). For such trade receivables that have been overdue for more than two years after the customer's service has been terminated, the Company records an allowance of 100% of such receivables. For such trade receivables that have been overdue for less than two years after the customer's service has been terminated or relates to a customer that is continuing his service, the Company records an allowance of a certain percentage of such receivable. Consistent with customary practice, the Company writes off trade and other receivables for which the prescription period has passed or that are determined to be impossible or economically too costly to collect, including receivables that are less than Won 200,000 and more than six months overdue and receivables that have been determined to be the subject of identity theft.

(4) Aging of Accounts Receivable

(Unit: in millions of Won)

| | | As of December 31, 2017 | | | | Total |
|---------------------|---------|-------------------------|-----------------------------------|------------------------------------|-----------------------------|-----------|
| | | Six months or less | From six months to one year | From one year to three years | More than three years | |
| Accounts receivable | general | 2,062,580 | 72,170 | 156,497 | 86,955 | 2,378,203 |
| Percentage | | 87% | 3% | 6% | 4% | 100% |

C. Inventories

(1) Detailed Categories of Inventories

(Unit: in millions of Won)

| Account Category | For the year ended December 31, 2017 | For the year ended December 31, 2016 | For the year ended December 31, 2015 |
|--|---|--|--|
| Merchandise | 243,975 | 225,958 | 242,230 |
| Goods in transit | | | |
| Other inventories | 28,428 | 33,888 | 31,326 |
| Total | 272,403 | 259,846 | 273,556 |
| Percentage of inventories to total assets [Inventories / Total assets] | 0.81% | 0.83% | 0.96% |
| Inventory turnover [Cost of sales / { (Beginning balance of inventories + Ending balance of inventories) / 2}] | 7.09 | 6.89 | 7.23 |

(2) Reporting of Inventories

The Company holds handsets, ICT equipment for offline sales, etc. in inventory. The Company conducts physical due diligence of its inventories with its auditors at the end of each year.

D. Fair Value Measurement

See note 4 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2017 and 2016 for more information.

**E. Key Terms of Debt Securities
[SK Telecom]**

The following are key terms and conditions of bonds issued by the Company.

(As of December 31, 2017)

(Unit: in millions of Won except percentages)

| Name | Issue Date | Maturity Date | Principal Amount | Date of Fiscal Agency Agreement | Fiscal Agent |
|----------------------------|---------------|---------------|------------------|---------------------------------|--------------------------|
| Unsecured Bond Series 57-2 | March 3, 2008 | March 3, 2018 | 200,000 | Feb. 22, 2008 | Shinhan Investment Corp. |

| | | |
|--------------------------------------|-------------------|---|
| Maintenance of Financial Ratio | Key Term | Debt ratio no greater than 400% |
| Restriction on Liens | Compliance Status | Compliant |
| | Key Term | The total amount of secured debt not to exceed 50% of share capital as of the end of the previous fiscal year |
| | Compliance Status | Compliant |
| Restriction on Disposition of Assets | Key Term | Disposal of assets per fiscal year not to exceed 5 trillion won |
| | Compliance Status | Compliant |
| Submission of Compliance Certificate | Compliance Status | Submitted on September 8, 2017 |

| Name | Issue Date | Maturity Date | Principal Amount | Date of Fiscal Agency Agreement | Fiscal Agent |
|----------------------------|---------------|---------------|------------------|---------------------------------|-------------------------------------|
| Unsecured Bond Series 61-2 | Dec. 27, 2011 | Dec. 27, 2021 | 190,000 | Dec. 19, 2011 | Hana Financial Investment Co., Ltd. |

| | | |
|--------------------------------------|-------------------|---|
| Maintenance of Financial Ratio | Key Term | Debt ratio no greater than 300% |
| | Compliance Status | Compliant |
| Restriction on Liens | Key Term | The total amount of secured debt not to exceed 50% of share capital as of the end of the previous fiscal year |
| | Compliance Status | Compliant |
| Restriction on Disposition of Assets | Key Term | Disposal of assets per fiscal year not to exceed 2 trillion won |
| | Compliance Status | Compliant |
| Submission of Compliance Certificate | Compliance Status | Submitted on September 8, 2017 |

| Name | Issue Date | Maturity Date | Principal Amount | Date of Fiscal Agency Agreement | Fiscal Agent |
|----------------------------|---------------|---------------|------------------|---------------------------------|-----------------------------|
| Unsecured Bond Series 62-1 | Aug. 28, 2012 | Aug. 28, 2019 | 170,000 | Aug. 22, 2012 | Meritz Securities Co., Ltd. |
| Unsecured Bond Series 62-2 | Aug. 28, 2012 | Aug. 28, 2022 | 140,000 | Aug. 22, 2012 | Meritz Securities Co., Ltd. |
| Unsecured Bond Series 62-3 | Aug. 28, 2012 | Aug. 28, 2032 | 90,000 | Aug. 22, 2012 | Meritz Securities Co., Ltd. |

| | | |
|--------------------------------------|-------------------|--|
| Maintenance of Financial Ratio | Key Term | Debt ratio no greater than 300% |
| | Compliance Status | Compliant |
| Restriction on Liens | Key Term | The total amount of secured debt not to exceed 100% of share capital as of the end of the previous fiscal year |
| | Compliance Status | Compliant |
| Restriction on Disposition of Assets | Key Term | Disposal of assets per fiscal year not to exceed 2 trillion won |
| | Compliance Status | Compliant |
| Submission of Compliance Certificate | Compliance Status | Submitted on September 8, 2017 |

| Name | Issue Date | Maturity Date | Principal Amount | Date of Fiscal Agency Agreement | Fiscal Agent | |
|----------------|-------------|----------------|------------------|---------------------------------|----------------|--------------------------------|
| Unsecured Bond | Series 63-1 | April 23, 2013 | April 23, 2023 | 230,000 | April 17, 2013 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 63-2 | April 23, 2013 | April 23, 2033 | 130,000 | April 17, 2013 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 64-1 | May 14, 2014 | May 14, 2019 | 50,000 | April 29, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 64-2 | May 14, 2014 | May 14, 2024 | 150,000 | April 29, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 64-4 | May 14, 2014 | May 14, 2029 | 50,000 | April 29, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 65-1 | Oct. 28, 2014 | Oct. 28, 2019 | 160,000 | Oct. 16, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 65-2 | Oct. 28, 2014 | Oct. 28, 2021 | 150,000 | Oct. 16, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 65-3 | Oct. 28, 2014 | Oct. 28, 2024 | 190,000 | Oct. 16, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 66-1 | Feb. 26, 2015 | Feb. 26, 2022 | 100,000 | Feb. 11, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 66-2 | Feb. 26, 2015 | Feb. 26, 2025 | 150,000 | Feb. 11, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 66-3 | Feb. 26, 2015 | Feb. 26, 2030 | 50,000 | Feb. 11, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 67-1 | July 17, 2015 | July 17, 2018 | 90,000 | July 9, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 67-2 | July 17, 2015 | July 17, 2025 | 70,000 | July 9, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 67-3 | July 17, 2015 | July 17, 2030 | 90,000 | July 9, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 68-1 | Nov. 30, 2015 | Nov. 30, 2018 | 80,000 | Nov. 18, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 68-2 | Nov. 30, 2015 | Nov. 30, 2025 | 100,000 | Nov. 18, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 68-3 | Nov. 30, 2015 | Nov. 30, 2035 | 70,000 | Nov. 18, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 69-1 | March 4, 2016 | March 4, 2019 | 70,000 | Feb. 22, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 69-2 | March 4, 2016 | March 4, 2021 | 100,000 | Feb. 22, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 69-3 | March 4, 2016 | March 4, 2026 | 90,000 | Feb. 22, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond | Series 69-4 | March 4, 2016 | March 4, 2036 | 80,000 | Feb. 22, 2016 | Korea Securities Finance Corp. |

Maintenance of Financial Ratio
Restriction on Liens

Key Term
Compliance Status
Key Term

Debt ratio no greater than 300%
Compliant

The total amount of secured debt not to exceed 100% of

share capital as of the end of the previous fiscal year

| | | |
|--------------------------------------|-------------------|---|
| Restriction on Disposition of Assets | Compliance Status | Compliant |
| | Key Term | Disposal of assets per fiscal year not to exceed 2 trillion won |
| Submission of Compliance Certificate | Compliance Status | Compliant |
| | Compliance Status | Submitted on September 8, 2017 |

| Name | Issue Date | Maturity Date | Principal Amount | Date of Fiscal Agency Agreement | Fiscal Agent |
|----------------------------|----------------|----------------|------------------|---------------------------------|--------------------------------|
| Unsecured Bond Series 70-1 | June 3, 2016 | June 3, 2019 | 50,000 | May 24, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond Series 70-2 | June 3, 2016 | June 3, 2021 | 50,000 | May 24, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond Series 70-3 | June 3, 2016 | June 3, 2026 | 120,000 | May 24, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond Series 70-4 | June 3, 2016 | June 3, 2031 | 50,000 | May 24, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond Series 71-1 | April 25, 2017 | April 25, 2020 | 60,000 | April 13, 2017 | Korea Securities Finance Corp. |
| Unsecured Bond Series 71-2 | April 25, 2017 | April 25, 2022 | 120,000 | April 13, 2017 | Korea Securities Finance Corp. |
| Unsecured Bond Series 71-3 | April 25, 2017 | April 25, 2027 | 100,000 | April 13, 2017 | Korea Securities Finance Corp. |
| Unsecured Bond Series 71-4 | April 25, 2017 | April 25, 2032 | 90,000 | April 13, 2017 | Korea Securities Finance Corp. |

| | | |
|--------------------------------------|----------------------------|--|
| Maintenance of Financial Ratio | Key Term Compliance Status | Debt ratio no greater than 300% Compliant |
| Restriction on Liens | Key Term Compliance Status | The total amount of secured debt not to exceed 150% of share capital as of the end of the previous fiscal year Compliant |
| Restriction on Disposition of Assets | Key Term Compliance Status | Disposal of assets per fiscal year not to exceed 5 trillion won Compliant |
| Submission of Compliance Certificate | Compliance Status | Submitted on September 8, 2017 |

| Name | Issue Date | Maturity Date | Principal Amount | Date of Fiscal Agency Agreement | Fiscal Agent |
|----------------------------|---------------|---------------|------------------|---------------------------------|--------------------------------|
| Unsecured Bond Series 72-1 | Nov. 10, 2017 | Nov. 10, 2020 | 100,000 | Oct. 31, 2017 | Korea Securities Finance Corp. |
| Unsecured Bond Series 72-2 | Nov. 10, 2017 | Nov. 10, 2022 | 80,000 | Oct. 31, 2017 | Korea Securities Finance Corp. |
| Unsecured Bond Series 72-3 | Nov. 10, 2017 | Nov. 10, 2027 | 100,000 | Oct. 31, 2017 | Korea Securities Finance Corp. |

| | | |
|--------------------------------------|----------------------------|--|
| Maintenance of Financial Ratio | Key Term Compliance Status | Debt ratio no greater than 300% Compliant |
| Restriction on Liens | Key Term Compliance Status | The total amount of secured debt not to exceed 150% of share capital as of the end of the previous fiscal year Compliant |
| Restriction on Disposition of Assets | Key Term Compliance Status | Disposal of assets per fiscal year not to exceed 50% of total assets Compliant |
| | Key Term | Restriction of cross-shareholding |

Restriction on Changes of
Management Structure
Submission of Compliance
Certificate

Compliance Status
Compliance Status

Exclusion from corporate group
Compliant
Submitted on April 25, 2018

[SK Broadband]

The following are key terms and conditions of bonds issued by SK Broadband.

| Name | Issue Date | Maturity Date | Principal Amount | Date of Fiscal Agency Agreement | Fiscal Agent |
|----------------------------|----------------|----------------|------------------|---------------------------------|--------------------------------|
| Unsecured Bond Series 38-2 | April 2, 2014 | April 2, 2019 | 210,000 | March 21, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond Series 39 | Sept. 29, 2014 | Sept. 29, 2019 | 130,000 | Sept. 17, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond Series 40-1 | Jan. 14, 2015 | Jan. 14, 2018 | 50,000 | Jan. 2, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond Series 40-2 | Jan. 14, 2015 | Jan. 14, 2020 | 160,000 | Jan. 2, 2014 | Korea Securities Finance Corp. |
| Unsecured Bond Series 41 | July 15, 2015 | July 15, 2020 | 140,000 | July 3, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond Series 42 | Oct. 6, 2015 | Oct. 6, 2020 | 130,000 | Sept. 22, 2015 | Korea Securities Finance Corp. |
| Unsecured Bond Series 43-1 | Oct. 5, 2016 | Oct. 5, 2019 | 50,000 | Sept. 22, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond Series 43-2 | Oct. 5, 2016 | Oct. 5, 2021 | 120,000 | Sept. 22, 2016 | Korea Securities Finance Corp. |
| Unsecured Bond Series 44 | Feb. 3, 2017 | Feb. 3, 2022 | 150,000 | Jan. 20, 2017 | Korea Securities Finance Corp. |

| | | |
|--------------------------------------|-------------------|--|
| Maintenance of Financial Ratio | Key Term | Debt ratio no greater than 400% |
| Restriction on Liens | Compliance Status | Compliant |
| | Key Term | The total amount of secured debt not to exceed 200% of share capital as of the end of the previous fiscal year |
| | Compliance Status | Compliant |
| Restriction on Disposition of Assets | Key Term | Disposal of assets per fiscal year not to exceed 2 trillion won |
| | Compliance Status | Compliant |
| Submission of Compliance Certificate | Compliance Status | Submitted on August 24, 2017 |

| Name | Issue Date | Maturity Date | Principal Amount | Date of Fiscal Agency Agreement | Fiscal Agent |
|----------------------------|---------------|---------------|------------------|---------------------------------|--------------------------------|
| Unsecured Bond Series 45-1 | Oct. 11, 2017 | Oct. 11, 2020 | 30,000 | Sept. 20, 2017 | Korea Securities Finance Corp. |
| Unsecured Bond Series 45-2 | Oct. 11, 2017 | Oct. 11, 2022 | 140,000 | Sept. 20, 2017 | Korea Securities Finance Corp. |

| | | |
|--------------------------------|-------------------|---------------------------------|
| Maintenance of Financial Ratio | Key Term | Debt ratio no greater than 400% |
| | Compliance Status | Compliant |

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| | | |
|--------------------------------------|-------------------|--|
| Restriction on Liens | Key Term | The total amount of secured debt not to exceed 200% of share capital as of the end of the previous fiscal year |
| | Compliance Status | Compliant |
| Restriction on Disposition of Assets | Key Term | Disposal of assets per fiscal year not to exceed 70% of total assets |
| | Compliance Status | Compliant |
| Submission of Compliance Certificate | Compliance Status | Submitted on April 23, 2018 |

IV. AUDITOR S OPINION**1. Auditor (Consolidated)**

Year ended December 31, 2017
KPMG Samjong Accounting Corp.

Year ended December 31, 2016
KPMG Samjong Accounting Corp.

Year ended December 31, 2015
KPMG Samjong Accounting Corp.

2. Audit Opinion (Consolidated)

| Period | Auditor s opinion | Issues noted |
|------------------------------|--------------------------|---------------------|
| Year ended December 31, 2017 | Unqualified | N/A |
| Year ended December 31, 2016 | Unqualified | N/A |
| Year ended December 31, 2015 | Unqualified | N/A |

3. Remuneration for Independent Auditors for the Past Three Fiscal Years**A. Audit Contracts**

(Unit: in millions of Won except number of hours)

| Period | Auditors | Contents | Fee | Total number of hours accumulated for the fiscal year |
|------------------------------|-------------------------------|--|------------|--|
| Year ended December 31, 2017 | KPMG Samjong Accounting Corp. | Quarterly review Separate financial statements audit Consolidated financial statements audit English financial statements review and other audit task | 1,470 | 21,098 |
| Year ended December 31, 2016 | KPMG Samjong Accounting Corp. | Semi-annual review Quarterly review Separate financial statements audit Consolidated financial statements audit English financial statements review and other audit task | 1,350 | 19,412 |
| Year ended December 31, 2015 | KPMG Samjong Accounting Corp. | Semi-annual review Quarterly review Separate financial statements audit Consolidated financial statements audit English financial statements review and other audit task | 1,320 | 18,127 |

B. Non-Audit Services Contract with External Auditors

(Unit: in millions of Won)

| Period | Contract date | Service provided | Service duration | | Fee |
|------------------------------|----------------------|---------------------------------------|-------------------------|----------------|------------|
| Year ended December 31, 2017 | March 10, 2017 | Issuance of comfort letters | March 10, 2017 | March 30, 2017 | 30 |
| | April 28, 2017 | Consulting services | April 28, 2017 | May 12, 2017 | 300 |
| Year ended December 31, 2016 | May 10, 2016 | Confirmation of financial information | May 10 | May 12, 2016 | 2 |
| Year ended December 31, 2015 | January 9, 2015 | Audit of public WiFi | Jan. 9 | Jan. 23, 2015 | 9 |
| | September 30, 2015 | Confirmation of debt ratio | Sept. 30, 2015 | Oct. 5, 2015 | 3 |
| | November 9, 2015 | Audit of public WiFi | Nov. 9 | Nov. 30, 2015 | 10 |

4. Change of Independent Auditors

Not applicable.

V. MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Forward-Looking Statements

This section contains forward-looking statements with respect to the financial condition, results of operations and business of the Company and plans and objectives of the management of the Company. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements.

The Company does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this section, and nothing contained herein is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Such forward-looking statements were based on current plans, estimates and projections of the Company and the political and economic environment in which the Company will operate in the future, and therefore you should not place undue reliance on them.

Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events.

2. Overview

In 2017, the Company built a solid foundation for its successful growth as Korea's representative new ICT company. Despite rapid changes in the domestic and overseas environment, the MNO business achieved both stability and growth, recording a turnaround revenue growth in three years and broadening its portfolio to new areas such as media, IoT, commerce and artificial intelligence.

In particular, the wireless telecommunications business recorded a 0.5% growth in revenue compared to the previous year, primarily through reinforcing its handset subscription base with systematic segment marketing and providing differentiated products and services that target the increasing data needs of customers and demand for other benefits. In addition, the Company maintained its annual churn rate at 1.4% through effective marketing that prioritizes retaining existing subscribers and avoiding unnecessary competition over market share.

With respect to its digital network technology, the Company continues research and development activities with the aim of pioneering the world's first commercialization of 5G technology, which is expected to become the fundamental basis of the fourth industrial revolution. The Company has been awarded multiple Global 5G Awards for its contribution to the global standardization of key technologies such as 5G fronthaul and network slicing. The Company successfully demonstrated the world's first 5G communication technology toward the end of 2017 and has since been at the forefront of the global standardization process of 5G technology.

In addition to its wireless telecommunications business, the Company has continued growth in terms of its IPTV subscription volume and ARPU, while Oksusu's market position has solidified as the number one mobile OTT (over-the-top) service in Korea. The Company expanded its IoT business and LoRa-based operations by entering into a comprehensive IoT cooperation agreement with the city of Seoul. The e-commerce business continued to remain profitable and recorded revenue growth driven by its mobile platform, while the Company's AI business broadened its platform and customer base and upgraded user value with the launch of T-map x NUGU.

In 2018, the ICT industry is expected to face new competition due to full-scale digitalization and accelerated convergence of other industries. The Company plans to utilize such growth opportunities with proactive development

of key areas in new ICT such as AI and infrastructure, based on which it expects to innovate its wireless telecommunications business and achieve important breakthroughs in its media, IoT and platform service businesses.

The Company's operating revenue, on a consolidated basis, was Won 17,520.0 billion for the year ended December 31, 2017, a 2.5% increase from 2016 due to an increase in revenue from its wireless business and growth in its subsidiaries, among other reasons. The Company's operating income, on a consolidated basis, was Won 1,536.6 billion for the year ended December 31, 2017, a 0.1% increase from 2016 due to improved performance of its subsidiaries. For the year ended December 31, 2017, the Company's EBITDA (as further explained below) and profit for the year were Won 4,783.6 billion and Won 2,657.6 billion, respectively.

In 2017, the Company's capital expenditures, on a separate basis, were Won 1.98 trillion, which is consistent with the capital expenditure budget set at the beginning of the year. The Company expects to reduce and stabilize network capital expenditure, while expanding investment for the development of improved technologies in growth areas. Cash dividends for 2017 were Won 10,000 per common share, which include interim dividends of Won 1,000 per common share paid during the year.

3. Analysis of Consolidated Financial Position

(Unit: in billions of Won, except percentages)

| | As of December 31, 2017 | As of December 31, 2016 | Change from 2016 to 2017 | Percentage Change from 2016 to 2017 |
|---|-------------------------------|-------------------------------|--------------------------------|--|
| Total Assets | 33,428 | 31,297 | 2,131 | 6.8% |
| Current Assets | 6,201 | 5,997 | 204 | 3.4% |
| Cash and Marketable Securities | 2,172 | 2,034 | 138 | 6.8% |
| Non-Current Assets | 27,227 | 25,301 | 1,926 | 7.6% |
| Property and Equipment and Investment Property | 10,145 | 10,374 | (229) | (2.2%) |
| Intangible Assets and Goodwill | 5,502 | 5,709 | (207) | (3.6)% |
| Long-term Financial Instruments, Long-term Investment Securities and Investment in Associates | 10,427 | 8,234 | 2,193 | 26.6% |
| Total Liabilities | 15,399 | 15,181 | 218 | 1.4% |
| Current Liabilities | 7,109 | 6,444 | 665 | 10.3% |
| Short-term Borrowings | 130 | 3 | 127 | 4,233.3% |
| Current Portion of Long-term Debt | 1,834 | 1,191 | 643 | 54.0% |
| Non-Current Liabilities | 8,290 | 8,737 | (447) | (5.1)% |
| Debentures and Long-term Borrowings, Excluding Current Portion | 5,808 | 6,479 | (671) | (10.4%) |
| Total Equity | 18,029 | 16,116 | 1,913 | 11.9% |
| Interest-bearing Financial Debt ⁽²⁾ | 7,467 | 7,370 | 97 | 1.3% |
| Debt-to-Equity Ratio ⁽³⁾ | 41.4% | 45.7% | (4.3%p) | |

- (1) Cash & marketable securities includes cash & cash equivalents, marketable securities and short-term financial instruments.
- (2) Interest-bearing financial debt: Total of short-term borrowings, current portion of long-term debt and debentures and long-term borrowings
- (3) Debt-to-equity ratio: Interest-bearing financial debt / Total Equity

A. Assets

As of December 31, 2017, SK Telecom's assets comprised 76% of the Company's assets, on a consolidated basis.

The Company's current assets as of December 31, 2017 increased from the end of the previous year, primarily due to an increase in cash and cash equivalents. Non-current assets as of December 31, 2017 increased 8% from the end of

the previous year, primarily due to investments in tangible and intangible assets by SK Telecom and SK Broadband, and increase in the value of SK Hynix shares.

B. Liabilities

As of December 31, 2017, SK Telecom's liabilities comprised 69% of the Company's liabilities, on a consolidated basis.

The Company's current liabilities as of December 31, 2017 increased 10% from the end of the previous year primarily due to the increase of current portion of long-term debt. Non-current liabilities as of December 31, 2017 decreased 5.1% from the end of the previous year mainly due to decreased borrowings of SK Telecom and its subsidiaries and a decrease in long-term payables related to the acquisition of frequency licenses.

4. Analysis of Consolidated Financial Information

(Unit: in billions of Won, except percentages)

| | For the year ended December 31, 2017 | For the year ended December 31, 2016 | Change from 2016 to 2017 | Percentage Change from 2016 to 2017 |
|---|--|--|--------------------------------|--|
| Operating Revenue | 17,520 | 17,092 | 428 | 2.5% |
| Operating Expense | 15,983 | 15,556 | 427 | 2.7% |
| Operating Income | 1,537 | 1,536 | 1 | 0.1% |
| Operating Margin | 8.77% | 8.99% | | (0.22%p) |
| Net Other Income (Loss) | 1,867 | 560 | 1,307 | 233.4% |
| Profit Before Income Tax | 3,403 | 2,096 | 1,307 | 62.4% |
| Profit for the Year | 2,658 | 1,660 | 998 | 60.1% |
| Net Margin | 15.17% | 9.70% | | 5.47%p |
| Profit for the Year Attributable to Owners of the Parent Company | 2,600 | 1,676 | 924 | 55.1% |
| Profit for the Year Attributable to Non-controlling Interests | 58 | (16) | 74 | (462.5)% |
| EBITDA ⁽¹⁾ | 4,784 | 4,603 | 181 | 3.9% |
| EBITDA Margin | 27.30% | 26.90% | | 0.40%p |

(1) EBITDA: Sum of operating income and depreciation and amortization expenses (including depreciation and amortization expenses related to research and development)

A. Operating Revenue

SK Telecom's operating revenue for the year ended December 31, 2017 increased 1.0% from the previous year, despite a decrease in interconnection revenue, primarily due to efforts to increase the number of subscribers and an increase in data usage by customers. SK Broadband's operating revenue for the year ended December 31, 2017 increased 3.6% from the previous year, primarily due to an increase in IPTV subscribers and sales of paid video-on-demand content, while SK Planet's operating income decreased 4.3% from the previous year despite revenue growth in e-commerce, primarily due to the effect of business restructuring.

B. Operating Profit

Despite the increase in operating expenses due to the 5.8% increase in depreciation and amortization costs related to the amortization of new frequency licenses acquired or re-licensed in 2016, the Company's operating income for the year ended December 31, 2017 increased 0.1% from the previous year, primarily due to improved performance of subsidiaries including SK Broadband and SK Planet.

C. Operating Expense

(Unit: in billions of Won, except percentages)

| | For the year ended December 31, 2017 | For the year ended December 31, 2016 | Change from 2016 to 2017 | Percentage Change from 2016 to 2017 |
|--|---|---|---|--|
| Labor Cost | 1,966 | 1,870 | 96 | 5.1% |
| Commissions Paid | 5,486 | 5,377 | 109 | 2.0% |
| Advertising | 523 | 438 | 85 | 19.4% |
| Depreciation and Amortization ⁽¹⁾ | 3,247 | 3,068 | 179 | 5.8% |
| Network Interconnection | 875 | 954 | (79) | (8.3%) |
| Leased Line Fees | 192 | 208 | (16) | (7.7%) |
| Frequency License Fees | 150 | 187 | (37) | (19.8%) |
| Cost of Products that have been | | | | |
| Resold | 1,887 | 1,838 | 49 | 2.7% |
| Others | 1,657 | 1,616 | 41 | 2.5% |
| Total Operating Expense | 15,983 | 15,556 | 427 | 2.7% |

(1) Includes depreciation and amortization expenses related to research and development.

Labor cost for the year ended December 31, 2017 increased 5.1% from the previous year primarily due to an increase in the number of employees hired in connection with the expansion of the Company's new businesses.

Commissions paid for the year ended December 31, 2017 increased 2.0% from the previous year primarily due to an increase in marketing expenses of the Company and SK Broadband relating to the expansion of new businesses and adaptation to changes in the market environment.

Depreciation and amortization expenses increased 5.8% from the previous year mainly due to the full year of amortization in 2017 of new frequency licenses acquired or re-licensed in 2016 compared to only partial year amortization in 2016.

5. Analysis of SK Telecom's Separate Operating Information

A. Number of Subscribers

(Unit: in 1,000 persons, except percentages)

| | For the year ended December 31, 2017 | For the year ended December 31, 2016 | Change from 2016 to 2017 | Percentage Change from 2016 to 2017 |
|------------------------|--|--|--------------------------------|--|
| Subscribers | 30,195 | 29,595 | 600 | 2.0% |
| Net Increase | 600 | 969 | (369) | (38.1%) |
| Activations | 5,821 | 6,095 | (274) | (4.5%) |
| Deactivations | 5,221 | 5,127 | 94 | 1.8% |
| Monthly Churn Rate (%) | 1.5% | 1.5% | | |
| Average Subscribers | 29,975 | 29,153 | 822 | 2.8% |
| Smartphone Subscribers | 22,985 | 21,877 | 1,108 | 5.1% |
| LTE Subscribers | 22,865 | 21,078 | 1,787 | 8.5% |

The number of LTE subscribers as of December 31, 2017 was 22.87 million. The growth in LTE subscribers is expected to be the basis for long-term future growth. The number of smartphone subscribers as of December 31, 2017 was 22.99 million and constituted 76% of all SK Telecom subscribers.

B. Average Monthly Revenue per Subscriber

| | For the year ended December 31, 2017 | For the year ended December 31, 2016 | Change from 2016 to 2017 | Percentage Change from 2016 to 2017 |
|--|--|--|--------------------------------|--|
| Billing Average Monthly Revenue per Subscriber (Won) | 35,209 | 35,355 | 146 | (0.4%) |

* The billing average monthly revenue per subscriber (ARPU) is derived by dividing total SK Telecom revenues from voice service and data service (but excluding revenue from MVNO subscribers) for the period by the monthly average number of subscribers that are not MVNO subscribers for the period, then dividing that number by the number of months in the period. Although the definition of ARPU may vary by company, it is a measure that is widely used in the telecommunications industry for revenue comparison purposes.

In 2017, despite the continued increase in average customer data usage, average revenue per subscriber decreased to Won 35,209, a 0.4% decrease compared to the previous year, primarily due to increases in the number of subscribers who elected to receive discounted rates in lieu of handset subsidies.

C. Capital Expenditures

| | (Unit: in billions of Won, except percentages) | | | |
|---------------------------------------|--|-----------------------------------|-------------------------|----------------------|
| | For the year ended | For the year ended | Change from | Method of |
| | December 31, 2017 | December 31, 2016 | 2016 to 2017 | financing |
| New investments and expansions | | | | |
| Network investment | 1,597.0 | 1,508.1 | 88.9 | Self- procurement |
| Other investment | 386.9 | 455.6 | (68.7) | |
| Total | 1,983.9 | 1,963.7 | 20.2 | |

[SK Broadband]

Total annual revenue, on a consolidated basis, for the year ended December 31, 2017 was Won 3,052.6 billion, primarily driven by an increase in revenue from its IPTV business. As of December 31, 2017, SK Broadband had 5.44 million high-speed internet, 4.11 million fixed-line and 4.37 million IPTV subscribers.

(Unit: in billions of Won, except percentages)

| | For the year ended December 31, 2017 | For the year ended December 31, 2016 | Percentage Change from 2016 to 2017 |
|----------------------------------|--|--|---|
| Operating revenue | | | |
| High-speed Internet | 845.3 | 852.3 | (0.8%) |
| Residential fixed-line telephone | 78.5 | 95.9 | (18.1%) |
| Corporate business | 989.2 | 1,048.9 | (5.7%) |
| Television | 1,025.8 | 844.0 | 21.5% |
| Others | 113.8 | 101.9 | 11.7% |
| Total | 3,052.6 | 2,943.0 | 3.7% |

* (1) Operating revenue determined in accordance with K-IFRS.

* (2) The business category is based on the nature of the goods or services that account for operating revenue or the characteristics of the network assets to provide telecommunications service, considering the consolidated entity as a single reporting entity.

Evaluation of performance, major management indicators and status

(Unit: percentages, except cash provided by operating activities in billions of Won)

| Type | Category | For the year ended December 31, 2017 (consolidated) | For the year ended December 31, 2017 (separate) |
|----------------------------|--|--|--|
| Profitability indicators | Operating margin | 4.2 | 2.8 |
| | Net margin | 1.0 | 0.7 |
| | EBITDA margin | 23.2 | 21.1 |
| Cash flow indicators | Cash provided by operating activities | 615.8 | 620.6 |
| | Cash provided by operating activities / total assets | 16.1 | 17.6 |
| Major financial indicators | Debt ratio | 222.1 | 207.2 |
| | Current ratio | 57.3 | 66.0 |
| | Borrowings ratio | 156.7 | 145.2 |
| | Net debt to equity ratio | 143.3 | 136.5 |

* (1) Numbers in accordance with K-IFRS.

* (2) Based on consolidated financial statements of major competitors in the industry, our competitors' operating margin (including sales of digital handsets) ranges from 5.9% to 6.7% and EBITDA Margin is approximately 20.5%.

6. Guidance for Fiscal Year 2018

The Company announced the following guidance for fiscal year 2018 during its earnings release conference call on February 5, 2018.

1. Operating revenue (consolidated): Won 17.5 trillion

The Company expects operating revenue to be approximately Won 17.5 trillion in 2018. While there are factors that may lead to a decrease in revenue such as reduction in our rates, we expect revenue growth to continue in the new ICT area, including media and IoT businesses. On a separate basis, the Company's revenue is expected to decline compared to the previous year, primarily due to the decrease in wireless services revenue as a result of reduced rates, offset in part by growth in the IoT and data businesses. With respect to the Company's subsidiaries, SK Broadband is expected to continue revenue growth driven by the growth in IPTV, while SK Planet is expected to maintain a stable trajectory of growth driven by its 11st business, despite the existence of factors that may lead to a decrease in revenue such as the sale and streamlining of its non-core advertising business in October 2017.

2. SK Telecom's capital expenditures (separate): Won 2.1 trillion

The Company expects a slight increase in capital expenditures in 2018. It plans to reduce network capital expenditure while expanding investments for technology development in growth areas such as AI and IoT.

3. Cash dividends: The Company will decide on the level of cash dividends taking into consideration various factors such as the overall business environment and the Company's financial condition.

7. Corporate Reorganization

On December 7, 2017, SK Telecom undertook a corporate reorganization in order to innovate and grow as a leading new ICT company. SK Telecom organized its businesses into four business divisions: MNO, media, IoT/data and platform services, so that each business division can independently focus on growing its respective business and innovating and meeting its business goals. Within the MNO business division, SK Telecom established a new department in charge of joint sales and logistics of the four business divisions to create synergies for its B2B and B2C sales channels. A new AI research center was also established to increase its core technological competencies in AI and research and development of other growth areas. A new technology insight group that reports directly to the CEO has been established so SK Telecom can continue to pursue growth in new business areas. SK Telecom's main research center was renamed the ICT Research and Technology Center and it plans to increase the level of technological support to the core products of each of the four business divisions. In order to change its corporate image to be more innovative, SK Telecom established a new Creativity Center and plans for its renamed Open Collaboration Center to be more proactive in utilizing innovative ideas from start-ups and universities as well as creating social value.

8. Liquidity

As of December 31, 2017, the Company's debt-to-equity ratio (as calculated based on the interest-bearing financial debt) was 41.4%, compared to 45.7% as of December 31, 2016 and 49.2% as of December 31, 2015. The net debt-to-equity ratio (as calculated based on the interest-bearing financial debt minus cash and marketable securities) was 29.4%, 33.1% and 39.4% at the end of 2017, 2016 and 2015, respectively. Interest coverage ratio (EBITDA / interest expense) was 16.0, 15.8 and 15.8 at the end of each of 2017, 2016 and 2015. The Company continues to have sufficient liquidity.

9. Financing

As of December 31, 2017, the Company's aggregate interest bearing debt amounted to Won 7,469 billion, comprising long-term and short-term borrowings, debentures and current portion of long-term borrowings, which increased by 1.3% from Won 7,370 billion as of December 31, 2016.

10. Investments

The Company did not make any significant investments in 2017.

VI. CORPORATE ORGANIZATION INCLUDING BOARD OF DIRECTORS

1. Board of Directors

A. Overview of the Composition of the Board of Directors

The Company's board of directors (the Board of Directors) is composed of six members: four independent directors, one inside director and one non-executive director. Within the Board, there are five committees: Independent Director Nomination Committee, Audit Committee, Compensation Committee, CapEx Review Committee and Corporate Citizenship Committee.

(As of December 31, 2017)

| Total number of persons | Inside director | Non-executive director | Independent directors |
|-------------------------|-----------------|------------------------|--|
| 6 | Jung Ho Park | Dae Sik Cho | Jae Hoon Lee, Dae Shick Oh, Jae Hyeon Ahn, Jung Ho Ahn |

At the 33rd General Meeting of Shareholders held on March 24, 2017, Jung Ho Park was elected as an inside director and Dae Sik Cho was elected as a non-executive director. Jae Hoon Lee and Jae Hyeon Ahn were re-elected as independent directors and members of the audit committee and Jung Ho Ahn was elected as an independent director.

At the 33rd General Meeting of Shareholders held on March 24, 2017, in accordance with our articles of incorporation, Jung Ho Park was granted options to purchase shares of our common stock. See VIII-4. Stock Options Granted and Exercised for more information.

B. Significant Activities of the Board of Directors

| Meeting | Date | Agenda | Approval |
|------------------------------------|-------------------|---|----------------------|
| 397th (the 1st meeting of 2017) | January 4, 2017 | - Approval of share exchange agreement with SK Communications | Approved as proposed |
| | | - Financial statements as of and for the year ended December 31, 2016 | Approved as proposed |
| | | - Annual business report as of and for the year ended December 31, 2016 | Approved as proposed |
| 398th (the 2nd meeting of 2017) | February 2, 2017 | - Delegation of funding through long-term borrowings in 2017 | Approved as proposed |
| | | - Lease contract with SK Broadband | Approved as proposed |
| | | - Approval of IT SM transactions in 2017 | Approved as proposed |
| | | - Report of internal accounting management | |
| | | - Report for the period after the fourth quarter of 2016 | |
| 399th | February 23, 2017 | - Plan for the 33rd General Meeting of Shareholders | Approved as proposed |
| | | - Amendment to the regulations of the Board of Directors | Approved as proposed |
| | | - Report of internal accounting management | |

(the 3rd meeting
of 2017)

- Election of the chief executive officer Approved as proposed
- Election of the chairman of the Board of Directors Approved as proposed
- Election of committee members Approved as proposed
- Transactions with SK Holdings in the second quarter of 2017 Approved as proposed

400th

March 24,
2017

(the 4th meeting
of 2017)

- Amendment to the regulations of the Board of Directors Approved as proposed
- Transactions related to corporate bonds with SK Securities Approved as proposed
- Transactions related to fund management with SK Securities Approved as proposed

| Meeting | Date | Agenda | Approval |
|-------------------------------------|--------------------|---|--|
| 401st (the 5th meeting of 2017) | April 27, 2017 | <ul style="list-style-type: none"> - Payment for Employees Benefit Fund in 2017 - Payment of operating costs in 2017 for SUPEX Council - Report for the period after the first quarter of 2017 | <ul style="list-style-type: none"> Approved as proposed Approved as proposed |
| 402nd (the 6th meeting of 2017) | June 30, 2017 | <ul style="list-style-type: none"> - Transactions with SK Holdings in the third quarter of 2017 - Transactions related to corporate bonds with SK Securities - Transactions related to fund management with SK Securities - Acquisition of shares of Happynarae Co., Ltd. - Transfer of Public Cloud business - Donation to Korea Foundation For Advanced Studies in 2017 - Settlement of expenses between related parties in connection with contemplated joint R&D | <ul style="list-style-type: none"> Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed |
| 403rd (the 7th meeting of 2017) | July 17, 2017 | <ul style="list-style-type: none"> - Investment in investment company | <ul style="list-style-type: none"> Approved as proposed |
| A404th (the 8th meeting of 2017) | July 28, 2017 | <ul style="list-style-type: none"> - Investment in SK China - Transfer of SSD technology related to SK hynix - Amendment to the regulations of the Audit Committee - Payment of interim dividend - Report on the statement of accounts for the first half year - Report for the period after the second quarter of 2017 | <ul style="list-style-type: none"> Approved as proposed Approved as proposed Approved as proposed Approved as proposed |
| 405th (the 9th meeting of 2017) | September 28, 2017 | <ul style="list-style-type: none"> - Subcontract with SK Holdings relating to the supply of AI network solutions to Indian company Bharti Airtel - Transactions with SK Holdings in the fourth quarter of 2017 - Comprehensive share exchange with SK Telink - Changes to 2017 wired/wireless network construction - Transactions related to corporate bonds with SK Securities - Transactions related to fund management with SK Securities | <ul style="list-style-type: none"> Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed |
| 406th (the 10th meeting of 2017) | October 26, 2017 | <ul style="list-style-type: none"> - Donation for Public Silver Housing project - SK Telecom-Hyundai Motor Company-Hanhwa Group co-investment fund for AI/Autonomous driving - Report for the period after the third quarter of 2017 | <ul style="list-style-type: none"> Approved as proposed |
| 407th (the 11th meeting of 2017) | November 9, 2017 | <ul style="list-style-type: none"> - Approval of share exchange agreement with SK Telink | <ul style="list-style-type: none"> Approved as proposed |

| Meeting | Date | Agenda | Approval |
|---|----------------------|--|----------------------|
| 408th (the 12th meeting of 2017) | December 15, 2017 | - Business management plan for 2018 | Approved as proposed |
| | | - Transactions with SK Holdings in the first quarter of 2018 | Approved as proposed |
| | | - Provision of funds for management of the 2017 SUPEX meeting | Approved as proposed |
| | | - Transactions with SK Infosec for 2018 | Approved as proposed |
| | | - Construction of fixed-line and wireless networks for 2018 | Approved as proposed |
| | | - Resale of fixed-line products with SK Broadband for 2018 | Approved as proposed |
| | | - Approval of the issuance limit for short-term bonds | Approved as proposed |
| | | - Transactions related to corporate bonds with SK Securities | Approved as proposed |
| | | - Transactions related to fund management with SK Securities | Approved as proposed |
| | | - Purchase of PS&M handset installment receivables for 2018 | Approved as proposed |
| | | - Extension of usage contract for SK brand | Approved as proposed |
| | | - Business aircraft maintenance contract for 2018 | Approved as proposed |
| | | - Donation for the 2017 construction of SK Future Center at Korea University | Approved as proposed |
| | | - Customer contact channel operation for 2018 | Approved as proposed |
| | | - Base station maintenance contract for 2018 | Approved as proposed |
| | | - Report on the quantum cryptographic business through the IDQ acquisition | Approved as proposed |
| - Report on compliance and effectiveness evaluation | Approved as proposed | | |

* The line items that do not show approval are for reporting purposes only.

C. Committees within Board of Directors

(1) Committee structure (as of December 31, 2017)

(a) Compensation Review Committee

| Total number | Members | | Task |
|--------------|------------------|---|---|
| of persons | Inside Directors | Independent Directors | |
| 3 | | Jae Hoon Lee, Dae Shick Oh, Jung Ho Ahn | Review CEO remuneration system and amount |

* The Compensation Review Committee is a committee established by the resolution of the Board of Directors.

(b) Capex Review Committee

| Total number | Members | | |
|---------------------|-------------------------|--|---|
| of persons | Inside Directors | Independent Directors | Task |
| 4 | | Jae Hoon Lee, Dae Shick Oh, Jae Hyeon Ahn, Jung Ho Ahn | Review major investment plans and changes thereto |

* The Capex Review Committee is a committee established by the resolution of the Board of Directors.

(c) Corporate Citizenship Committee

| Total number | Members | | |
|---------------------|-------------------------|--|---|
| of persons | Inside Directors | Independent Directors | Task |
| 3 | | Jae Hoon Lee, Jae Hyeon Ahn, Jung Ho Ahn | Review guidelines on corporate social responsibility (CSR) programs, etc. |

* The Corporate Citizenship Committee is a committee established by the resolution of the Board of Directors.

(d) Independent Director Nomination Committee

| Total number | Members | | |
|---------------------|-------------------------|------------------------------|-------------------------------------|
| of persons | Inside Directors | Independent Directors | Task |
| 3 | Jung Ho Park | Dae Shick Oh, Jae Hyeon Ahn | Nomination of independent directors |

* Under the Korean Commercial Code, a majority of the members of the Independent Director Nomination Committee should be independent directors.

(e) Audit Committee

| Total number of persons | Members | | Task |
|----------------------------|------------------|---|---|
| | Inside Directors | Independent Directors | |
| 3 | | Jae Hoon Lee, Dae Shick Oh, Jae Hyeon Ahn | Review financial statements and supervise independent audit process, etc. |

* The Audit Committee is a committee established under the provisions of the Articles of Incorporation and the Korean Commercial Code.

2. Audit System

The Company's Audit Committee consists of three independent directors, Dae Shick Oh, Jae Hoon Lee and Jae Hyeon Ahn.

Major activities of the Audit Committee as of December 31, 2017 are set forth below.

| Meeting | Date | Agenda | Approval |
|---|----------------------|--|----------------------|
| The 1st meeting of 2017 | February 1, 2017 | - Evaluation of internal accounting management system operation | Approved as proposed |
| | | - Review of business and audit results for the second half of 2016 and business and audit plans for 2017 | |
| | | - Evaluation of internal monitoring controls based on the opinion of the members of the Audit Committee | |
| The 2nd meeting of 2017 | February 22, 2017 | - Contract for payment of customer appreciation gifts in 2017 | Approved as proposed |
| | | - Purchase of supplies from Happynarae Co., Ltd. | Approved as proposed |
| | | - Report on the IFRS audit of fiscal year 2016 | Approved as proposed |
| | | - Report on review of 2016 internal accounting management system | |
| | | - Evaluation of internal accounting management system operation | Approved as proposed |
| - Agenda and document review for the 33rd General Meeting of Shareholders | Approved as proposed | | |
| The 3rd meeting of 2017 | March 23, 2017 | - Auditor's report for fiscal year 2016 | Approved as proposed |
| | | - Contract for maintenance services of optical cables in 2017 | Approved as proposed |
| | | - Contract for maintenance services of transmission equipment in 2017 | Approved as proposed |

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| | | | |
|-------------------------|-------------------|--|--|
| | | - Consulting for innovation in corporate social responsibility | |
| The 4th meeting of 2017 | April 26, 2017 | - Election of the chairman of the Audit Committee - Remuneration for outside auditor for fiscal year 2017 - Outside auditor service plan for fiscal year 2017 - Audit plan for fiscal year 2017 | Approved as proposed Approved as proposed Approved as proposed |
| The 5th meeting of 2017 | June 29, 2017 | - Plan for wired/wireless network construction for fiscal year 2017 | Approved as proposed |
| The 6th meeting of 2017 | July 27, 2017 | - Report on the external audit for the first half of fiscal year 2017 - Review of business and audit results for the first half of 2017 and plans for the second half of 2017 | |
| The 7th meeting of 2017 | November 22, 2017 | - Purchase of NU200 (NUGU mini) with Iriver in 2017 - Contract for maintenance services of transmission equipment in 2018 - Telecommunications equipment lease contract for 2018 | Approved as proposed |
| The 8th meeting of 2017 | December 14, 2017 | - Commission to recollect accounts receivable for 2018 - Transactions with SK Planet for 2018 - Transactions with SK TechX for 2018 - Transactions with SK Wyverns for 2018 - Contract with Onestore for 2018 - Purchase of supplies from Happynarae Co., Ltd. for 2018 | Approved as proposed |

* The line items that do not show approval are for reporting purposes only.

3. Shareholders Exercise of Voting Rights

A. Voting System and Exercise of Minority Shareholders Rights

Pursuant to the Articles of Incorporation as shown below, the cumulative voting system was first introduced in the general meeting of shareholders held in 2003.

| Articles of Incorporation | Description |
|--|--|
| Article 32(3) (Election of Directors) | Cumulative voting under Article 382-2 of the Korean Commercial Code will not be applied for the election of directors. |
| Article 4 of the 12 th Supplement to the Articles of Incorporation (Interim Regulation) | Article 32(3) of the Articles of Incorporation shall remain effective until the day immediately preceding the date of the general meeting of shareholders held in 2003. |
| | During the 34th general meeting of shareholders held on March 21, 2018, the Company adopted the electronic voting method. Pursuant to Article 368-4 of the Korean Commercial Code, the Company entrusted the Korea Securities Depository with the role of administering the electronic voting system, allowing shareholders to exercise their voting rights through electronic voting without attending the general meeting of shareholders. |

Written voting system is not applicable. Minority shareholder rights were not exercised during the relevant period.

VII. SHAREHOLDERS**1. Shareholdings of the Largest Shareholder and Related Persons****A. Shareholdings of the Largest Shareholder and Related Persons**

(As of December 31, 2017) (Unit: in shares and percentages)

| Name | Relationship | Type of share | Number of shares owned and ownership ratio | | | |
|-----------------------|-------------------------------|---------------|--|-------|--|-------|
| | | | Beginning of Period Number of Ownership shares | ratio | End of Period Number of Ownership shares | ratio |
| SK Holdings Co., Ltd. | Largest Shareholder | Common share | 20,363,452 | 25.22 | 20,363,452 | 25.22 |
| Tae Won Chey | Officer of affiliated company | Common share | 100 | 0.00 | 100 | 0.00 |
| Shin Won Chey | Officer of affiliated company | Common share | 1,067 | 0.00 | 0 | 0.00 |
| Dong Hyun Jang | Officer of affiliated company | Common share | 251 | 0.00 | 251 | 0.00 |
| Jung Ho Park | Officer of the Company | Common share | 0 | 0.00 | 1,000 | 0.00 |
| Myung Hyun Cho | Officer of affiliated company | Common share | 60 | 0.00 | 0 | 0.00 |
| Total | | Common share | 20,364,930 | 25.22 | 20,364,803 | 25.22 |

B. Overview of the Largest Shareholder

As of December 31, 2017, the Company's largest shareholder was SK Holdings Co., Ltd. (SK Holdings) with 20,363,452 shares (25.22%) of the Company. SK Holdings was established on April 13, 1991 and was made public on the securities market for the first time under the name SK C&C Co., Ltd. on November 11, 2009. On August 3, 2015, SK Holdings merged with and into SK C&C and the merged entity was renamed SK Holdings. The main business of SK Holdings includes managing its subsidiaries as a holding company, IT services, security services and logistics services, among others.

C. Changes in Shareholdings of the Largest Shareholder

Changes in shareholdings of the largest shareholder are as follows:

(As of December 31, 2017) (Unit: in shares and percentages)

| Largest Shareholder | Date of the change in the largest shareholder/ Date of change in shareholding | Shares Held | Holding Ratio | Remarks |
|---------------------|--|-------------|---------------|---|
| | January 2, 2014 | 20,367,290 | 25.22 | Shin Won Chey, SKC's Chairman, purchased 1,000 shares |
| | March 24, 2014 | 20,368,290 | 25.23 | Shin Won Chey, SKC's Chairman, purchased 1,000 shares |
| | January 2, 2015 | 20,364,290 | 25.22 | |

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| | | | |
|----------------|------------|-------|--|
| | | | Shin Won Chey, SKC's Chairman, disposed of 4,000 shares |
| March 20, 2015 | 20,363,803 | 25.22 | Appointment of CEO Dong Hyun Jang (ownership of 251 shares of the Company), Retirement of Sung Min Ha |
| June 9, 2015 | 20,365,006 | 25.22 | Purchase through the Share Exchange between SK Broadband and SK Telecom (Shin Won Chey, SKC's Chairman, purchased 1,067 shares, and Myung Hyun Cho, SK Broadband's independent director, purchased 136 shares) |
| August 3, 2015 | 20,364,930 | 25.22 | Myung Hyun Cho, SK Broadband's independent director, disposed of 76 shares |
| March 24, 2017 | 20,364,870 | 25.22 | Retirement of Myung Hyun Cho, SK Broadband's independent director (ownership of 60 shares of the Company) |
| March 28, 2017 | 20,365,370 | 25.22 | Jung Ho Park, CEO of the Company, purchased 500 shares. |
| March 30, 2017 | 20,365,870 | 25.22 | Jung Ho Park, CEO of the Company, purchased 500 additional shares. |
| July 7, 2017 | 20,364,803 | 25.22 | Shin Won Chey, SKC's Chairman, disposed of 1,067 shares. |

* Shares held are the sum of shares held by SK Holdings and its related parties.

2. Distribution of Shares

A. Shareholders with ownership of 5% or more and others

(As of December 31, 2017)

(Unit: in shares and percentages)

| Rank | Name (title) | Number of shares | Common share Ownership | | Remarks |
|--|--------------------------|------------------|------------------------|--|-----------------|
| | | | ratio | | |
| 1 | Citibank ADR | 8,899,423 | 11.02% | | |
| 2 | SK Holdings | 20,363,452 | 25.22% | | |
| 3 | SK Telecom | 10,136,551 | 12.55% | | Treasury shares |
| 4 | National Pension Service | 7,392,350 | 9.16% | | |
| Shareholdings under the Employee Stock Ownership Program | | | 0.00% | | |

B. Shareholder Distribution

(As of December 31, 2017)

(Unit: in shares and percentages)

| Classification | Number of shareholders | Ratio (%) | Number of shares | Ratio (%) | Remarks |
|------------------------------|------------------------|-----------|------------------|-----------|---------|
| Total minority shareholders* | 55,348 | 99.9% | 33,953,935 | 42.05% | |

* Defined as shareholders whose shareholding is less than a hundredth of the total issued and outstanding shares.

3. Share Price and Trading Volume in the Last Six Months

A. Domestic Securities Market

| Types | | December 2017 | November 2017 | October 2017 | September 2017 | August 2017 | July 2017 |
|----------------------------|---------|---------------|---------------|--------------|----------------|-------------|-----------|
| Common stock | Highest | 278,000 | 266,000 | 271,500 | 257,500 | 283,500 | 279,000 |
| | Lowest | 265,000 | 250,500 | 257,500 | 242,000 | 253,500 | 255,500 |
| | Average | 272,789 | 257,429 | 265,281 | 249,810 | 267,568 | 266,262 |
| Daily transaction volume | Highest | 311,676 | 360,444 | 385,055 | 307,053 | 240,410 | 272,229 |
| | Lowest | 103,005 | 77,429 | 106,643 | 86,092 | 53,846 | 93,703 |
| Monthly transaction volume | | 3,367,783 | 3,210,365 | 3,455,291 | 2,581,925 | 3,214,025 | 3,576,523 |

B. Foreign Securities Market

New York Stock Exchange

| Types | | December 2017 | November 2017 | October 2017 | September 2017 | August 2017 | July 2017 |
|----------------------------|---------|---------------|---------------|--------------|----------------|-------------|-----------|
| Depository receipt | Highest | 28.65 | 27.44 | 26.61 | 24.85 | 27.88 | 27.51 |
| | Lowest | 27.31 | 25.06 | 24.64 | 23.57 | 25.27 | 24.82 |
| | Average | 27.92 | 26.00 | 25.63 | 24.27 | 26.33 | 26.19 |
| Daily transaction volume | Highest | 925,415 | 1,147,063 | 770,068 | 1,382,212 | 1,000,082 | 843,482 |
| | Lowest | 149,153 | 143,245 | 224,851 | 413,226 | 166,593 | 189,054 |
| Monthly transaction volume | | 8,743,541 | 9,815,224 | 10,629,949 | 15,995,848 | 12,056,548 | 8,708,213 |

VIII. EMPLOYEES AND DIRECTORS**1. Employees**

(As of December 31, 2017)

(Unit: in persons and millions of Won)

| Business segment | Gender | Number of employees | | | Aggregate wage for | | |
|------------------|--------|--|---|-----------|----------------------|--------------------------------|-------------------------|
| | | Employees without a fixed term of employment | Employees with a fixed term of employment | Employees | Average service year | the first three months of 2017 | Average wage per person |
| | Male | 3,789 | 65 | 3,854 | 12.6 | 424,509 | 110 |
| | Female | 582 | 62 | 644 | 9.8 | 50,978 | 80 |
| Total | | 4,371 | 127 | 4,498 | 12.2 | 475,487 | 106 |

* Based on Section 9-1-2 (Employee Status) of the Corporate Disclosure Guidelines (amended as of January 2018).

2. Compensation of Directors**A. Amount Approved at the Shareholders Meeting**

| Classification | Number of Directors | Aggregate Amount Approved |
|----------------|---------------------|----------------------------|
| | | (Unit: in millions of Won) |
| Directors | 6 | 12,000 |

B. Amount Paid**B-1. Total Amount**

| Number of Directors | Aggregate Amount Paid | Average Amount Paid Per Director | Remarks |
|---------------------|-----------------------|----------------------------------|----------------------------|
| | | | (Unit: in millions of Won) |
| 7 | 2,110 | 301 | |

B-2. Amount by Classification

| Classification | Number of Directors | Aggregate Amount Paid | Average Amount Paid Per Director | Remarks |
|-------------------------|---------------------|-----------------------|----------------------------------|----------------------------|
| | | | | (Unit: in millions of Won) |
| Inside Directors | 3 | 1,847 | 616 | |
| Independent Directors | 1 | 83 | 83 | |
| Audit Committee Members | 3 | 180 | 60 | |
| Auditor | | | | |

3. Individual Compensation of Directors

A. Amount Paid

| (As of December 31, 2017) | | (Unit: in millions of Won) |
|---------------------------|-----------------|------------------------------|
| Name | Title | Aggregate Amount Paid |
| Dong Hyun Jang | Inside Director | 1,066 |
| Jung Ho Park | Inside Director | 781 |

B. Method of Calculation

| | |
|----------------|---------------------------|
| Name | Method of calculation |
| Dong Hyun Jang | <u>Total remuneration</u> |

Won 1,066 million (consisting of Won 1,066 million in bonus)

Did not receive any other income or retirement income.

Bonus

Bonus is awarded based on performance in the previous year and is composed of target incentive payments and profit sharing payments.

Bonus in the range of 0% to 200% of annual salary may be awarded by evaluating the previous year's performance through certain financial indicators, including revenue and operating profit, and non-financial indicators, including leadership, meeting the Company's strategy plans, expertise and other contributions.

Financial indicators: For the year ended December 31, 2016, the Company met its financial targets with revenue of Won 17.9 trillion and operating profit of Won 1.5 trillion.

Non-financial indicators: Mr. Jang contributed to the Company's market leadership position despite intensified competition in the industry (maintaining number one position in the industry by National Customer Satisfaction Index for the previous 19 years and number one quality of network according to top three agencies, including KS-SQI and KCSI, and launching customer-oriented rate plans. Mr. Jang further contributed to increasing the Company's corporate value through the mobile navigation service, T map, and phone calling platform, T phone, the launch of the mobile IPTV service, Oksusu, and achievements in innovative new fields of business, including pioneering the commercialization of AI through the first launch of a Korean voice recognition device, NUGU.

| | |
|--------------|---------------------------|
| Jung Ho Park | <u>Total remuneration</u> |
|--------------|---------------------------|

Won 781 million (consisting of Won 772 million in salary and Won 9 million in other income).

Did not receive any other income or retirement income.

Salary

Annual salary is set within the executive compensation limit established by the board of directors and reflects the relevant position of the director.

Annual salary is equally divided and paid on a monthly basis.

Other income

Other income consists of payment of medical expenses and education expenses.

4. Stock Options Granted and Exercised

A. Stock Options Granted to Directors and Auditors

(As of December 31, 2017)

(Unit: in millions of Won)

| Classification | Number of Directors | Fair Value of Stock Option | Remarks |
|-------------------------|----------------------------|-----------------------------------|----------------|
| Inside Directors | 3 | 414 | |
| Independent Directors | 1 | | |
| Audit Committee Members | 3 | | |
| Total | 7 | 414 | |

* See note 24 of the notes to the Company's consolidated financial statements attached hereto for more information regarding the calculation method for the fair value of stock options.

The fair value of stock options is based on the cost associated with stock options as set forth in the Company's statement of comprehensive income for the relevant period.

B. Stock Options Granted and Exercised

(As of December 31, 2017)

(Unit: in Won and shares)

| Grantee | Relationship with the Company | Date of Grant | Method of Grant | Changes | | | Unexercised Number of Shares | Exercise Period | Exercise Price |
|--------------|-------------------------------|----------------|-----------------|---------|-----------|----------|------------------------------|----------------------------------|----------------|
| | | | | Granted | Exercised | Canceled | | | |
| Jung Ho Park | Inside Director | March 24, 2017 | Treasury stock | 22,168 | | | 22,168 | March 25, 2019 March 24, 2022 | 246,750 |
| Jung Ho Park | Inside Director | March 24, 2017 | Treasury stock | 22,168 | | | 22,168 | March 25, 2020 March 24, 2023 | 266,490 |
| Jung Ho Park | Inside Director | March 24, 2017 | Treasury stock | 22,168 | | | 22,168 | March 25, 2021 March 24, 2024 | 287,810 |

* As of December 31, 2017, the closing price is Won 267,000.

IX. RELATED PARTY TRANSACTIONS**1. Line of Credit Extended to the Largest Shareholder and Related Parties**

(Unit: in millions of Won)

| Name (Corporate name) | Relationship | Account category | Beginning | Change details | | Ending | Accrued interest | Remarks |
|-----------------------|--------------|--------------------------------|-----------|----------------|----------|--------|------------------|---------|
| | | | | Increase | Decrease | | | |
| SK Wyverns | Affiliate | Long-term and short-term loans | 814 | | 203 | 611 | | |

2. Transfer of Assets to/from the Largest Shareholder and Related Parties and Other Transactions**Purchase and Dispositions of Investments**

(As of December 31, 2017)

(Unit: in millions of Won)

| Name (Corporate name) | Relationship | Type of investment | Beginning | Details Change | | Ending | Remarks |
|---|--------------------|--------------------|-----------|----------------|-----------|---------|---|
| | | | | Increase | Decrease | | |
| SK Communications | Affiliate | Equity | 82,857 | 43,329 | 56,157 | 69,668 | Increase: Share exchange Decrease: Valuation loss |
| Iriver | Affiliate | Equity | 54,503 | 37,139 | | 91,642 | |
| SK China Company Ltd. | Overseas Affiliate | Equity | 47,830 | 553,362 | | 601,192 | |
| SK Property Mgmt. Ltd. | Overseas Affiliate | Equity | 145,656 | | (145,656) | | |
| SK Industrial Development China Co., Ltd. | Overseas Affiliate | Equity | 83,691 | | (83,691) | | |

Purchase and Disposition of Securities

(As of December 31, 2017)

(Unit: in millions of Won)

| Corporate name) | Relationship | Type of Transaction | Transaction Date | Object of Transaction | Transaction Amount | Valuation Method |
|-----------------|--------------|-----------------------------|------------------|---|--------------------|-----------------------|
| SK Holdings | Affiliate | Purchase of equity interest | July 21, 2017 | Equity interest in Happynarae Co., Ltd. | 688 | Third party appraisal |

Transfer of Assets

(As of December 31, 2017) (Unit: in millions of Won)

| Name (Corporate name) | Relationship | Transferred Assets | Purpose of Transfer | Details | | Remarks |
|-----------------------|--------------|--|---------------------|--------------------|----------------|---------|
| | | | | Date of Transfer | Purchase Price | |
| SK TechX | Affiliate | Computer software | Sale of assets | January 31, 2017 | 552 | |
| SK Holdings | Affiliate | Equipment / Computer software | Sale of assets | July 25, 2017 | 544 | |
| SK hynix | Affiliate | Machines / Equipment / Computer software | Sale of assets | August 16, 2017 | 320 | |
| PS&Marketing | Affiliate | Equipment | Sale of assets | September 29, 2017 | 105 | |
| PS&Marketing | Affiliate | Equipment | Sale of assets | October 26, 2017 | 261 | |
| Total | | | | | 1,782 | |

3. Transactions with the Largest Shareholder and Related Parties

(As of December 31, 2017) (Unit: in millions of Won)

| Name (Corporate name) | Relationship | Type of Transaction | Transaction Period | Object of Transaction | Transaction Amount |
|-----------------------|--------------|---------------------|-------------------------------|-----------------------|--------------------|
| PS&Marketing | Affiliate | Purchase and Sale | Jan. 1, 2017 to Dec. 31, 2017 | Marketing commissions | 1,628,802 |

4. Related Party Transactions

See note 35 of the notes to the Company's consolidated financial statements attached hereto for more information regarding related party transactions.

5. Other Related Party Transactions (excluding Transactions with the Largest Shareholder and Related Parties listed above)**A. Provisional Payment and Loans (including loans on marketable securities)**

(Unit: in millions of Won)

| Name (Corporate name) | Relationship | Account category | Beginning | Change details | | Ending | Accrued interest | Remarks |
|-------------------------|--------------|--------------------------------|-----------|----------------|-----------|--------|------------------|---------|
| | | | | Increase | Decrease | | | |
| Baekmajang and others | Agency | Long-term and short-term loans | 65,148 | 203,511 | (206,729) | 61,930 | | |
| Daehan Kanggun BCN Inc. | Investee | Long-term loans | 22,147 | | | 22,147 | | |

X. OTHER INFORMATION RELATING TO THE PROTECTION OF INVESTORS**1. Developments in the Items Mentioned in Prior Reports on Important Business Matters****A. Summary Minutes of the General Meeting of Shareholders**

| Date | Agenda | Resolution |
|--|--|---|
| 32nd Fiscal Year Meeting of Shareholders (March 18, 2016) | 1. Approval of the financial statements for the year ended December 31, 2015 | Approved (Cash dividend, Won 9,000 per share) |
| | 2. Amendments to Articles of Incorporation | Approved |
| | 3. Election of directors | |
| | Election of an inside director | Approved (Dae Sik Cho) |
| | Election of an independent director | Approved (Dae Shick Oh) |
| | 4. Election of an independent director as Audit Committee member | Approved (Dae Shick Oh) |
| 33rd Fiscal Year Meeting of Shareholders (March 24, 2017) | 5. Approval of remuneration limit for directors | Approved (Won 12 billion) |
| | 6. Amendments to executive payroll regulations | Approved |
| | 1. Approval of the financial statements for the year ended December 31, 2016 | Approved (Cash dividend, Won 9,000 per share) |
| | 2. Amendments to Articles of Incorporation | Approved |
| | 3. Election of directors | |
| | Election of an inside director | Approved (Jung Ho Park) |
| 34th Fiscal Year Meeting of Shareholders (March 21, 2018) | Election of a non-executive director | Approved (Dae Sik Cho) |
| | Election of an independent director | Approved (Jae Hoon Lee) |
| | Election of an independent director | Approved (Jae Hyeon Ahn) |
| | Election of an independent director | Approved (Jung Ho Ahn) |
| | 4. Election of an independent director as Audit Committee member | |
| | Election of an independent director as Audit Committee member | Approved (Jae Hoon Lee) |
| 34th Fiscal Year Meeting of Shareholders (March 21, 2018) | Election of an independent director as Audit Committee member | Approved (Jae Hyeon Ahn) |
| | 5. Approval of remuneration limit for directors | Approved (Won 12 billion) |
| | 6. Award of stock options | Approved |
| | 1. Approval of the financial statements for the year ended December 31, 2017 | Approved (Cash dividend, Won 9,000 per share) |
| | 2. Award of stock options | Approved |
| | 3. Election of directors | |
| Election of an inside director | Approved (Young Sang Ryu) | |

- Election of an independent director Approved (Youngmin Yoon)
4. Election of an independent director as Audit Committee member Approved (Youngmin Yoon)
5. Approval of remuneration limit for directors Approved (Won 12 billion)

2. Contingent Liabilities

[SK Telecom]

A. Material Legal Proceedings

(1) Claim for copyright license fees regarding Coloring services

On May 7, 2010, Korea Music Copyright Association (KOMCA) filed a lawsuit with the court demanding that the Company pay KOMCA license fees for the Company s Coloring services. The court rendered a judgment against the Company ordering the Company to pay Won 570 million to KOMCA, which was affirmed by the appellate court on October 26, 2011. The Company filed an appeal at the Supreme Court of Korea and the judgment was overturned on July 11, 2013. The case was remanded down to the appellate court which ruled in favor of the Company on September 4, 2014. KOMCA filed an appeal at the Supreme Court of Korea, and on January 15, 2015, the Supreme Court of Korea affirmed the Seoul High Court s decision. There is no impact on the Company s business or results of operation as the final outcome of this litigation has been rendered in favor of the Company.

B. Other Contingent Liabilities

None.

[SK Broadband]**A. Material Legal Proceedings**

(1) SK Broadband as the plaintiff

(Unit: in thousands of Won)

| Description of Proceedings | Date of Commencement of Proceedings | Amount of Claim | Status |
|-----------------------------------|--|------------------------|-------------------------------|
| Damages claim | July 2017 | 426,142 | Pending before district court |
| Others | | 139,000 | |
| Total | | 565,142 | |

(2) SK Broadband as the defendant

(Unit: in thousands of Won)

| Description of Proceedings | Date of Commencement of Proceedings | Amount of Claim | Status |
|-----------------------------------|--|------------------------|-------------------------------|
| Damages claim | July 2017 | 3,236,252 | Pending before district court |
| Others | | 211,899 | |
| Total | | 3,448,151 | |

The Company does not believe that the outcome of any of the proceedings in which SK Broadband is named as a defendant will have a material effect on the Company's financial statements.

B. Other Contingent Liabilities

(1) Pledged assets and covenants

SK Broadband has entered into revolving credit facilities with a limit of Won 80 billion with two financial institutions including Shinhan Bank in relation to its loans.

In connection with public offerings of notes, SK Broadband is subject to certain restrictions with respect to its debt ratio, third party payment guarantees and other limitations on liens.

SK Broadband, upon approval by its board of directors, has provided guarantees for financial instruments amounting to Won 300 million to support employees' funding for the Employee Stock Ownership Program.

Additionally, SK Broadband has provided geun mortgage amounting to Won 4,144 million to others, including Ilsan Guksa, on a part of its buildings in connection with the leasing of the buildings.

SK Broadband has entered into a leased line contract and a resale contract for fixed-line telecommunication services with SK Telecom.

Seoul Guarantee Insurance Company has provided a performance guarantee of Won 24,467 million to SK Broadband in connection with the performance of certain contracts and the repair of any defects.

KB Kookmin Bank has provided a payment guarantee of Won 100 million to SK Broadband in connection with its e-commerce business.

[SK Planet]

A. Material Legal Proceedings

As of December 31, 2017, there were seven pending cases proceeding with SK Planet as the defendant and the aggregate amount of the claims was Won 3,343 million. The management cannot reasonably forecast the outcome of these cases and no amount in connection with these proceedings was recognized on the Company's financial statements.

B. Other Contingent Liabilities

(1) Borrowings

As of December 31, 2017, SK Planet's borrowings from financial institutions are set forth in the table below.

| (Unit: in thousands of Won) | | | |
|-----------------------------|----------------------|--------------|-----------------|
| Financial Institution | Borrowing | Limit Amount | Borrowed Amount |
| KEB Hana Bank | Overdrafts | 10,000,000 | |
| | Standard loan | 40,000,000 | 40,000,000 |
| Shinhan Bank | Overdrafts | 15,000,000 | |
| | Standard loan | 30,000,000 | 30,000,000 |
| Korea Development Bank | Project finance loan | | 30,000,000 |
| Total | | 95,000,000 | 100,000,000 |

(2) Payment guarantees

The material payment guarantees provided by third parties to SK Planet as of December 31, 2017 are set forth in the table below.

| (Unit: in thousands of Won) | | | |
|-----------------------------|-----------------------------------|--|------------|
| Recipient | Financial institution | Guarantee | Amount |
| SK Planet | Seoul Guarantee Insurance Company | Payment guarantee on e-commerce business | 20,213,569 |
| | | Guarantee fulfillment of contractual obligations | 593,000 |
| | KEB Hana Bank | Other guarantees | 707,000 |

The material payment guarantee provided to a third party by SK Planet as of December 31, 2017 is set forth in the table below.

| Recipient | Financial institution | (Unit: in thousands of Won) | |
|-----------------------|-----------------------|---|------------|
| | | Guarantee | Amount |
| Celcom Planet Sdn Bhd | Citibank Berhad | Payment guarantee for overseas business | 12,240,000 |

* Existing Indonesia payment guarantee terminated in August
[SK Telink]

A. Material Legal Proceedings

On October 14, 2016, 12 creditors filed a lawsuit to demand a court injunction against SK Telink regarding its plan to issue new stock (219,967 shares with a face value of Won 5,000) pursuant to the resolution of SK Telink's board of directors on September 22, 2016. The court granted SK Telink's motion to dismiss on October 24, 2016. There is no impact on SK Telink's business or results of operation as the claim has been conclusively dismissed.

B. Other Contingent Liabilities

Seoul Guarantee Insurance Company and KB Insurance have provided performance guarantees of Won 13.9 billion and Won 4.2 billion, respectively, to SK Telink in connection with the performance of and potential losses from certain contracts.

SK Telink has provided a performance guarantee of up to Won 234.4 million to business partners through Seoul Guarantee Insurance Company.

SK Telink has entered into revolving credit facilities with a limit of Won 30.0 billion with KEB Hana Bank in relation to its loans.

[SK Communications]

A. Material Legal Proceedings

As of December 31, 2017, the aggregate amount of pending claims against SK Communications was Won 1,339 million. There were twelve pending cases relating to a leak of personal information of subscribers of NATE at various appellate courts and the Supreme Court in Korea. Subsequent to December 31, 2017, the Supreme Court ruled for SK Communications in five of such cases.

The management cannot reasonably forecast the outcome of these cases and no amount in connection with these proceedings was recognized on the Company's financial statements due to uncertainty of the impact of the outcome.

B. Other Contingent Liabilities

The material payment guarantees provided by third parties to SK Communications as of December 31, 2017 are set forth in the table below.

(Unit: in thousands of Won)

| Financial Institution | Guarantee | Amount |
|-----------------------------------|---|----------------|
| Seoul Guarantee Insurance Company | Prepaid coverage payment guarantee | 700,000 |
| | Provisional deposit guarantee insurance for bonds | 10,000 |
| | Provisional attachment of real estate | 118,000 |
| Total | | 828,000 |

[Iriver]**A. Material Legal Proceedings**

As of December 31, 2017, there was one pending case against Iriver for damages of Won 1 billion. The management does not believe that the outcome of any of such proceedings will have a material effect on the Company's financial position, and as a result, related reserves were not recorded in the Company's financial statements.

B. Other Contingent Liabilities

(1) As of December 31, 2017, Iriver's borrowings from financial institutions are set forth in the table below.

| Financial Institution | Borrowing | (Unit: in thousands of Won) | |
|-----------------------|---------------|-----------------------------|-----------------|
| | | Limit Amount | Borrowed Amount |
| Kookmin Bank | Trade finance | 1,000,000 | |

(2) Seoul Guarantee Insurance Company has provided performance guarantees of Won 134 million to Iriver in connection with the performance of contracts, advance payment guarantee and defective guarantee.

(3) Iriver has entered into design and technology contracts with domestic and foreign companies for the production of products and has made payments for the use of design and technology, which derived from the sale of the products or the use of the patent. The design and technology fees incurred during the year ended December 31, 2017 and December 31, 2016 were Won 612 million and Won 688 million, respectively, and such fees are included in cost of sales.

[NSOK]**A. Material Legal Proceedings**

On June 21, 2016, a lawsuit was filed against NSOK for damages of Won 40 million in connection with the installation of security services. The plaintiff accepted an offer of reconciliation by court without making further complaints, which led to a settlement on April 5, 2017. There is no impact on NSOK's business or results of operation as a result of the settlement.

B. Other Contingent Liabilities

NSOK has entered into revolving credit facilities with a limit of Won 8 billion with Woori Bank in relation to its loans.

3. Status of Sanctions, etc.**[SK Telecom]**

On March 7, 2014, the MSIT imposed a suspension of operations for 45 days for failure to observe the order of the Korea Communications Commission to cease providing discriminatory subsidies to subscribers. The Company

suspended its operations during the period between April 5, 2014 and May 19, 2014, and reported to the MSIT on the implementation of actions pursuant to the suspension order by May 2014.

On March 13, 2014, the Korea Communications Commission imposed on the Company a fine of Won 16.65 billion, imposed a suspension on acquiring new customers for 7 days, and issued a correctional order for providing discriminatory subsidies to subscribers. In April 2014, the Company paid the fine and completed the improvement of the procedures and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order by April 2014. The Company suspended acquisition of new customers during the period beginning September 11, 2014 and ending September 17, 2014, and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order by September 2014.

On January 31, 2013, the Seoul Central District Court acquitted Mr. Jae Won Chey, the Company's former director and vice chairman, on all charges against him. On September 27, 2013, the Seoul High Court reversed the acquittal of the above-mentioned former director, sentencing him to a prison term of three and a half years for violating the Act on the Aggravated Punishment, etc. of Specific Economic Crimes. On February 27, 2014, the Supreme Court of Korea affirmed the Seoul High Court's decision. While the court's final decision on the appealed case is not expected to have a material effect on the Company's financial position, investors should note that it is difficult to predict, among others, the market's assessment of such case.

On August 21, 2014, the Korea Communications Commission imposed on the Company a fine of Won 37.1 billion and issued a correctional order for providing discriminatory subsidies to subscribers. The Company paid the fine and completed the improvement of the procedures and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order by September 2014.

On December 4, 2014, the Korea Communications Commission imposed on the Company a fine of Won 800 million and issued a correctional order for violating the Mobile Device Distribution Improvement Act. The Company paid the fine and completed the improvement of the procedures and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order by January 2015.

On March 12, 2015, the Korea Communications Commission imposed on the Company a fine of Won 934 million and issued a correctional order for violating the Mobile Device Distribution Improvement Act with respect to the Company's compensation programs for used handsets. The Company paid the fine and completed the improvement of the procedures and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order by April 2015.

On March 26, 2015, the Korea Communications Commission imposed on the Company a fine of Won 23.5 billion, imposed a suspension on acquiring new customers for seven days, and issued a correctional order for violating the Mobile Device Distribution Improvement Act. The Company paid the fine and implemented the improvement of the procedures and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order in May 2015. The suspension on acquiring new customers was implemented from October 1, 2015 to October 7, 2015.

On May 13, 2015, the Korea Communications Commission imposed on the Company a fine of Won 3.56 billion and issued a correctional order for violating its obligations to protect personal information (a fine of Won 360 million imposed for violation of its obligations to protect personal information and Won 3.2 billion imposed for damaging users' interests). The Company paid the fine in July 2015 and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order in September 2015. Whether the correctional order on the violation of obligations to protect personal information will be enforced depends on the Court's ruling following the Company's filing of an administrative proceeding to appeal the order on June 24, 2015.

On May 28, 2015, the Korea Communications Commission imposed on the Company a fine of Won 350 million and issued a correctional order for misleading and exaggerated advertisement of bundled media and telecommunications products. The Company paid the fine in August 2015 and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order in October 2015.

On December 10, 2015, the Korea Communications Commission imposed on the Company a fine of Won 560 million and issued a correctional order for misleading and exaggerated advertisement of bundled media and telecommunications products. The Company paid the fine and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order in February 2016.

On January 14, 2016, the Korea Communications Commission imposed on the Company a fine of Won 15 million and issued a correctional order for failure to comply with the retention period for its subscribers' personal information. The Company paid the fine and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order.

On December 6, 2016, the Korea Communications Commission imposed on the Company a fine of Won 1,280 million and issued a correctional order for violating the rights of subscribers in relation to its high-speed internet and bundled services. The Company paid the fine and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order.

On December 21, 2016, the Korea Communications Commission imposed on the Company a fine of Won 30 million and issued a correctional order for violation of its obligations to protect personal location-based information. The Company paid the fine and reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order.

On March 21, 2017, the Korea Communications Commission imposed on the Company a fine of Won 794 million and issued a correctional order for violating the Mobile Device Distribution Improvement Act with respect to the Company's promotions targeting foreigners. The Company paid the fine and reported to the Korea Communications Commission regarding the implementation of actions pursuant to the correctional order.

On December 6, 2017, the Korea Communications Commission issued a correctional order for violating the rights of subscribers in relation to its high-speed internet and bundled services. The Company reported to the Korea Communications Commission on the implementation of actions pursuant to the correctional order.

On January 24, 2018, the Korea Communications Commission imposed on the Company a fine of Won 21.1 billion and issued a correctional order for violating the Mobile Device Distribution Improvement Act with respect to its dealers. The Company paid the fine and reported to the Korea Communications Commission regarding the implementation of actions pursuant to the correctional order.

On January 24, 2018, the Korea Communications Commission imposed on the Company a fine of Won 223 million and issued a correctional order for violating the Mobile Device Distribution Improvement Act with respect to its corporate business. The Company paid the fine and reported to the Korea Communications Commission regarding the implementation of actions pursuant to the correctional order.

On January 24, 2018, the Korea Communications Commission imposed on the Company a fine of Won 27 million and issued a correctional order for violating the Mobile Device Distribution Improvement Act with respect to its large retail dealers. The Company paid the fine and reported to the Korea Communications Commission regarding the implementation of actions pursuant to the correctional order.

[SK Broadband]

(1) Violation of the Telecommunications Business Act

Date: May 28, 2015

Sanction: SK Broadband received a correctional order (corrective measures for damaging users' interests through misleading and exaggerated advertisement of bundled media and telecommunications products).

Reason and the Relevant Law: Violated Article 50-1 Paragraph 5 of the Telecommunications Business Act and Article 42-1 of its Enforcement Decree by inducing subscribers through misleading and exaggerated

advertisements.

Status of Implementation: Established plans to manage distribution network related to the misleading and exaggerated advertisements.

Company's Plan: Make an official announcement about having received the correctional order and improve operational procedures.

(2) Violation of the Telecommunications Business Act

Date: December 10, 2015

Sanction: SK Broadband received a correctional order (corrective measures for damaging users' interests through misleading and exaggerated advertisement of bundled media and telecommunications products).

Reason and the Relevant Law: Violated Article 50-1 Paragraph 5 of the Telecommunications Business Act and Article 42-1 of its Enforcement Decree by inducing subscribers through misleading and exaggerated advertisements.

Status of Implementation: Made an official announcement about having received the correctional order and paid the fine.

Company's Plan: Make an official announcement about having received the correctional order

- (3) Violation of the Act on Promotion of Information and Communications Network Utilization and Information Protection, etc.

Date: August 2, 2016

Sanction: SK Broadband was imposed a fine of Won 3.8 million for breaching of restrictions on transmission of advertising information for profit.

Reason and the Relevant Law: Violated Articles 50-2, 50-4, 50-6 and 76 of the Act on Promotion of Information and Communications Network Utilization and Information Protection, etc. and Article 74 of its Enforcement Decree by transmitting advertising information for profits to users who express their intention to refuse to receive the information.

Status of Implementation: Implemented improvements to spam related activity and paid the fine.

Company's Plan: Implement procedures to prevent recurrence of spam.

- (4) Violation of the Act on Promotion of Information and Communications Network Utilization and Information Protection, etc.

Date: September 2, 2016

Sanction: SK Broadband was imposed a fine of Won 3 million for breaching of restrictions on rendering information transmission services.

Reason and the Relevant Law: Violated Articles 50-4 and 76 of the Act on Promotion of Information and Communications Network Utilization and Information Protection, etc. and Article 74 of its Enforcement Decree by lacking of management and supervision standards in merchants involved in spamming and by not putting any sanctions on them.

Status of Implementation: Implemented improvements to spam related activity and paid the fine.

Company's Plan: Implement procedures to prevent recurrence of spam.

(5) Violation of the Telecommunications Business Act

Date: September 27, 2016

Sanction: SK Broadband was imposed a fine of Won 6.4 million.

Reason and the Relevant Law: Violated Article 84-2 Paragraph 1, 104-2 Paragraph 5 of the Telecommunications Business Act and Article 66 of its Enforcement Decree by not having performed technological measures to prevent caller ID manipulations.

Status of Implementation: Paid the fine (September 27, 2016).

Company's Plan: Implement technological measures to prevent caller ID manipulations through institutional improvement.

(6) Violation of the Telecommunications Business Act

Date: December 6, 2016

Sanction: SK Broadband received a correctional order (corrective measures for damaging users' interests in relation to bundled high-speed internet products).

Reason and the Relevant Law: Violated Article 50-1 Paragraph 5 of the Telecommunications Business Act and Article 42-1 of its Enforcement Decree by providing telecommunications services in a manner different from the terms and conditions of use.

Status of Implementation: Made an official announcement about having received the correctional order and paid the fine.

Company's Plan: Implement the correctional order and pay the fine.

(7) Violation of the Internet Multimedia Broadcast Services Act

Date: December 21, 2016

Sanction: SK Broadband received a correctional order (corrective measures for violating prohibited acts under the Internet Multimedia Broadcast Services Act).

Reason and the Relevant Law: Violated Article 17-1 Paragraph 2 of the Internet Multimedia Broadcast Services Act and Article 15 of its Enforcement Decree by performing prohibited acts which undermine or are likely to undermine the fair competition of service providers or the interests of users.

Status of Implementation: Ceased the prohibited practice and paid the fine (Plan to make an official announcement about having received the correctional order and improve operating procedures).

Company's Plan: Improve operation procedures in relation to the violation of prohibited acts.

(8) Violation of the Act on Promotion of Information and Communications Network Utilization and Information Protection, etc.

Date: July 13, 2017

Sanction: SK Broadband was imposed a fine of Won 12 million for breach of restrictions on transmission of advertising information for profit.

Reason and the Relevant Law: Violated Articles 50-1, 50-4 and 76 of the Act on Promotion of Information and Communications Network Utilization and Information Protection, etc. and Article 74 of its Enforcement Decree for electronic transmission of advertisements without prior consent of the recipient.

Status of Implementation: Implemented improvements to advertisement transmission related activity and paid the fine in July 2017.

Company's Plan: Implement improvements to advertisement transmission related activity.

(9) Violation of the Telecommunications Business Act

Date: December 6, 2017

Sanction: SK Broadband received a correctional order (corrective measures for damaging users' interests in relation to high speed internet products and gifts).

Reason and the Relevant Law: Violated Article 50-1 Paragraph 5 of the Telecommunications Business Act and Article 42-1 of its Enforcement Decree by providing telecommunications services in a manner different from the terms and conditions of use.

Status of Implementation: Made an official announcement about having received the correctional order and paid the fine.

Company's Plan: Implement the correctional order and pay the fine.

Important matters that occurred after December 31, 2017

Pursuant to the resolution of its board of directors on February 28, 2018, SK Broadband approved the real estate sale of IDC Seocho 2 Center. Under Article 11-2 of the Monopoly Regulation and Fair Trade Act, this is a transaction with a specially related party, SK D&D, exceeding Won 5 billion per transaction, resulting in disclosure requirements of any relevant board of directors resolutions and a report on large-scale internal transactions with the Fair Trade Commission. The purpose of the transaction is to sell idle assets to improve SK Broadband's financial structure, and covers two land lots and a building in Seocho-dong, Seoul, sold to SK D&D at Won 40.3 billion. The transaction is currently pending.

[SK Planet]

(1) Violation of the Electronic Financial Transactions Act

Date: May 4, 2016

Sanction: SK Planet received a fine of Won 25 million.

Reason and the Relevant Law: Violated Article 21 (Duty to Ensure Safety) of the Electronic Financial Transactions Act.

Status of Implementation: Paid the fine.

Company's Plan: Implemented procedures to prevent recurrence such as setting up various detailed test scenarios, enhancing quality assurance, organizing real-time notification processes upon detection of abnormal transactions and refining a continuous monitoring and reporting system

(2) Violation of the Act on Consumer Protection in Electronic Commerce

Date: August 19, 2016 (Fined); September 12, 2016 (Warned)

Sanction: SK Planet received a fine of Won 5 million.

Reason and the Relevant Law: Violated Article 21 (Prohibited Acts) of the Act on Consumer Protection in Electronic Commerce.

Status of Implementation: Admitted to the violation in connection with the warning but submitted a statement of objection on August 26, 2016 regarding the fine.

Company's Plan: Executed a seminar regarding the Act on Consumer Protection in Electronic Commerce to prevent recurrence, reviewed the advertisement/display approval process and implemented a continuous monitoring system.

(3) Violation of the Framework Act on Logistics Policies

Date: November 10, 2016

Sanction: SK Planet received a fine of Won 156 thousand for failing to register a modification of the international logistics brokerage business on time (Within 60 days from the date of modification).

Reason and the Relevant Law: Violated Article 43 of the Framework Act on Logistics Policies (Registration of international logistics brokerage business).

Company's Plan: Implemented a continuous monitoring system to prevent its recurrence in registration of a modification.

- (4) Violation of the Act on Promotion of Information and Communications Network Utilization and Information Protection, etc.

Date: April 10, 2017

Sanction: SK Planet received and paid a fine of Won 10 million for breaching of protective measures for personal information rule by not conducting additional measures for security apart from requesting ID and password with a merchant management system under IMPAY service, which was disclosed during a survey on personal information protection carried out by the Korea Communications Commission in August 2016.

Reason and the Relevant Law: Violated Article 28 of the Act on Promotion of Information and Communications Network Utilization and Information Protection, etc. (Protective Measures for Personal Information)

Company's Plan: Implemented an additional authentication procedure (OTP authentication) to the merchant management system / implemented additional internal training and improved management to prevent its recurrence.

[SK Telink]

- (1) Violation of the Telecommunications Business Act

Date: August 21, 2015

Subject: SK Telink

Sanction: SK Telink received a correctional order and a fine of Won 480 million.

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Reason and the Relevant Law: Violated Article 50-1, Paragraph 5 and Article 50-2 of the Telecommunications Business Act and Article 42-1 of the related Enforcement Decree by failing to inform or giving false information about key terms of the contract and failing to deliver usage contract

Status of Implementation: Ceased the prohibited practice, disclosed having received the correctional order in a newspaper (October 2015), improved operating procedures related to recruitment of users through phone solicitation calls and paid the fine (October 2015).

Company's Plan: Accurately inform consumers of key terms of the contract and distribute usage contract by mail after entering into contract.

(2) Violation of the Telecommunications Business Act

Date: February 4, 2016

Sanction: SK Telink received a correctional order and a fine of Won 49 million.

Reason and the Relevant Law: Violated Article 50-1, Paragraph 5 of the Telecommunications Business Act and Article 42-1 of the related Enforcement Decree by transferring account names of cell phone lines without subscribers' consent, changing phone numbers upon such transfer of account names, subscribing users to cell phone lines that exceed the maximum number of cell phone lines determined in the user agreement, opening accounts using a third party's name and transferring ownership of and reselling the account, changing account names with fabricated names of foreigners and changing accounts of cell phone lines owned by foreigners whose residency period in Korea has expired.

Status of Implementation: Ceased the prohibited practice, disclosed having received the correctional order in the press (May 2016) and paid the fine (May 2016).

Company's Plan: Improve operating procedures to prevent its recurrence.

[Iriver]

Important matters that occurred after December 31, 2017

- (1) Pursuant to the Stock Trading Agreement dated February 14, 2018, Iriver acquired an additional 414,000 common shares of groovers Japan Co., Ltd., which is currently classified as an affiliate. Upon the consummation of this transaction, Iriver holds a 100% equity interest and acquired a controlling stake in groovers Japan Co., Ltd.
- (2) Pursuant to the resolution of its board of directors on February 23, 2018, Iriver entered into an asset transfer agreement with SM Entertainment Co., Ltd., pursuant to which SM Entertainment will transfer music and digital content supply and distribution rights to Iriver in exchange for Won 15.6 billion (VAT not included). The management expects non-current assets to increase as a result of the asset transfer.

4. Use of Direct Financing

A. Use of Proceeds from Public Offerings

Not applicable.

B. Use of Proceeds from Private Offerings

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SK Telecom Co., Ltd.

(Registrant)

By: /s/ Jeong Hwan Choi

(Signature)

Name: Jeong Hwan Choi

Title: Senior Vice President

Date: April 30, 2018

SK TELECOM CO., LTD.

Separate Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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Independent Auditors Report

Based on a report originally issued in Korean

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the accompanying separate financial statements of SK Telecom Co., Ltd. (the Company) which comprise the separate statements of financial position as at December 31, 2017 and 2016, the separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management s Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity s preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2017 and 2016 and of its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

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

KPMG Samjong Accounting Corp.

Seoul, Korea

February 23, 2018

This report is effective as of February 23, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK TELECOM CO., LTD.

Separate Statements of Financial Position

As of December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | December 31, 2017 | December 31, 2016 |
|--|---------------|------------------------------|------------------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | 30,31 | ₩880,583 | 874,350 |
| Short-term financial instruments | 5,30,31 | 94,000 | 95,000 |
| Short-term investment securities | 7,30,31 | 47,383 | 97,340 |
| Accounts receivable trade, net | 6,30,31,32 | 1,520,209 | 1,594,504 |
| Short-term loans, net | 6,30,31,32 | 54,403 | 54,143 |
| Accounts receivable other, net | 6,30,31,32,34 | 1,003,509 | 772,570 |
| Prepaid expenses | | 121,121 | 107,989 |
| Inventories, net | | 29,837 | 32,479 |
| Advanced payments and other | 6,7,30,31 | 17,053 | 32,740 |
| Total Current Assets | | 3,768,098 | 3,661,115 |
| Non-Current Assets: | | | |
| Long-term financial instruments | 5,30,31 | 382 | 102 |
| Long-term investment securities | 7,30,31 | 724,603 | 560,966 |
| Investments in subsidiaries, associates and joint ventures | 8 | 9,152,321 | 8,726,538 |
| Property and equipment, net | 9,32 | 6,923,133 | 7,298,539 |
| Goodwill | 10 | 1,306,236 | 1,306,236 |
| Intangible assets, net | 11 | 3,089,545 | 3,275,663 |
| Long-term loans, net | 6,30,31,32 | 7,512 | 11,160 |
| Long-term accounts receivable other | 6,30,31,34 | 285,118 | 147,139 |
| Long-term prepaid expenses | | 25,169 | 27,918 |
| Guarantee deposits | 6,30,31,32 | 173,513 | 173,287 |
| Long-term derivative financial assets | 16,30,31 | 30,608 | 176,465 |
| Deferred tax assets | 27 | 30,953 | 58,410 |
| Defined benefit assets | 15 | 40,082 | 24,787 |
| Other non-current assets | | 249 | 249 |
| Total Non-Current Assets | | 21,789,424 | 21,787,459 |
| Total Assets | | ₩25,557,522 | 25,448,574 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Financial Position, Continued

As of December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | December 31, 2017 | December 31, 2016 |
|---|--------------------|------------------------------|------------------------------|
| Liabilities and Shareholders Equity | | | |
| Current Liabilities: | | | |
| Current installments of long-term debt, net | <i>12,30,31</i> | ₩ 1,131,047 | 628,868 |
| Current installments of long-term payables other | <i>13,30,31</i> | 301,751 | 301,773 |
| Accounts payable other | <i>30,31,32</i> | 1,664,054 | 1,546,252 |
| Withholdings | <i>30,31</i> | 517,991 | 642,582 |
| Accrued expenses | <i>30,31</i> | 790,368 | 663,918 |
| Income tax payable | <i>27</i> | 206,060 | 461,999 |
| Unearned revenue | | 3,705 | 1,360 |
| Derivative financial liabilities | <i>16,30,31</i> | 27,791 | 86,950 |
| Provisions | <i>14</i> | 48,508 | 59,027 |
| Receipts in advance | | 76,126 | 71,431 |
| Total Current Liabilities | | 4,767,401 | 4,464,160 |
| Non-Current Liabilities: | | | |
| Debentures, excluding current installments, net | <i>12,30,31</i> | 4,334,848 | 4,991,067 |
| Long-term borrowings, excluding current installments, net | <i>12,30,31</i> | 42,486 | 61,416 |
| Long-term payables other | <i>13,30,31</i> | 1,328,630 | 1,602,943 |
| Long-term unearned revenue | | 7,033 | 2,389 |
| Long-term derivative financial liabilities | <i>16,30,31</i> | 10,719 | |
| Long-term provisions | <i>14</i> | 16,178 | 21,493 |
| Other non-current liabilities | <i>30,31</i> | 42,836 | 48,152 |
| Total Non-Current Liabilities | | 5,782,730 | 6,727,460 |
| Total Liabilities | | 10,550,131 | 11,191,620 |
| Shareholders Equity | | | |
| Share capital | <i>1,17</i> | 44,639 | 44,639 |
| Capital surplus and others | <i>17,18,19,20</i> | 371,895 | 371,481 |
| Retained earnings | <i>21,22</i> | 14,512,556 | 13,902,627 |
| Reserves | <i>23</i> | 78,301 | (61,793) |
| Total Shareholders Equity | | 15,007,391 | 14,256,954 |
| Total Liabilities and Shareholders Equity | | ₩ 25,557,522 | 25,448,574 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Income

For the years ended December 31, 2017 and 2016

| <i>(In millions of won except for per share data)</i> | <i>Note</i> | 2017 | 2016 |
|--|-------------|--------------------|------------------|
| Operating revenue: | 32 | | |
| Revenue | | ₩ 12,468,035 | 12,350,479 |
| Operating expenses: | 32 | | |
| Labor | | 624,900 | 634,754 |
| Commissions | | 4,864,463 | 4,716,555 |
| Depreciation and amortization | | 2,370,192 | 2,242,546 |
| Network interconnection | | 628,610 | 687,048 |
| Leased line | | 290,324 | 347,741 |
| Advertising | | 150,361 | 174,186 |
| Rent | | 435,170 | 424,929 |
| Cost of products that have been resold | | 515,013 | 502,770 |
| Others | 24 | 891,293 | 837,778 |
| | | 10,770,326 | 10,568,307 |
| Operating profit | | 1,697,709 | 1,782,172 |
| Finance income | 26 | 188,025 | 323,563 |
| Finance costs | 26 | (274,098) | (261,393) |
| Other non-operating income | 25 | 18,471 | 54,288 |
| Other non-operating expenses | 25 | (165,783) | (200,771) |
| Profit (loss) on investments in subsidiaries, associates and joint ventures, net | 8 | 139,484 | (135,077) |
| Profit before income tax | | 1,603,808 | 1,562,782 |
| Income tax expense | 27 | 272,694 | 345,508 |
| Profit for the year | | ₩ 1,331,114 | 1,217,274 |
| Earnings per share | 28 | | |
| Basic and diluted earnings per share (in won) | | ₩ 18,613 | 17,001 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | 2017 | 2016 |
|--|-----------------|--------------------|------------------|
| Profit for the year | | ₩ 1,331,114 | 1,217,274 |
| Other comprehensive income (loss) | | | |
| Items that will never be reclassified to profit or loss, net of taxes: | | | |
| Remeasurement of defined benefit liabilities | <i>15</i> | 1,746 | (10,319) |
| Items that are or may be reclassified subsequently to profit or loss, net of taxes: | | | |
| Net change in unrealized fair value of available-for-sale financial assets | <i>23,26</i> | 119,910 | 5,385 |
| Net change in unrealized fair value of derivatives | <i>16,23,26</i> | 20,184 | (13,950) |
| Other comprehensive income (loss) for the year, net of taxes | | 141,840 | (18,884) |
| Total comprehensive income | | ₩ 1,472,954 | 1,198,390 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

*(in millions of
won)*

| | Share capital | Paid-in surplus | Capital surplus and others | | | | Sub-total | Retained earnings | Reserves | Total equity |
|--|------------------|--------------------|----------------------------|-----------------|-----------------|------------------|----------------|----------------------|-----------------|-------------------|
| | | | Treasury share | Hybrid bonds | Share option | Other | | | | |
| Balance at January 1, 2016 | ₩ 44,639 | 2,915,887 | (2,260,626) | 398,518 | | (684,333) | 369,446 | 13,418,603 | (53,228) | 13,779,460 |
| Net comprehensive income: | | | | | | | | | | |
| Profit for the year | | | | | | | | 1,217,274 | | 1,217,274 |
| Other comprehensive losses | | | | | | | | (10,319) | (8,565) | (18,884) |
| | | | | | | | | 1,206,955 | (8,565) | 1,198,390 |
| Transactions with owners: | | | | | | | | | | |
| Annual dividends | | | | | | | | (635,482) | | (635,482) |
| Interim dividends | | | | | | | | (70,609) | | (70,609) |
| Business combination under common control | | | | | | | 2,035 | 2,035 | | 2,035 |
| Interest on hybrid bonds | | | | | | | | (16,840) | | (16,840) |
| | | | | | | | 2,035 | 2,035 | (722,931) | (720,891) |
| Balance at December 31, 2016 | ₩ 44,639 | 2,915,887 | (2,260,626) | 398,518 | | (682,298) | 371,481 | 13,902,627 | (61,793) | 14,256,955 |
| Balance at January 1, 2017 | ₩ 44,639 | 2,915,887 | (2,260,626) | 398,518 | | (682,298) | 371,481 | 13,902,627 | (61,793) | 14,256,955 |

| | | | | | | | | | | |
|--------------|----------|-----------|-------------|---------|-----|-----------|---------|------------|---------|------------|
| tal | | | | | | | | | | |
| prehensive | | | | | | | | | | |
| ome: | | | | | | | | | | |
| ofit for the | | | | | | | | | | |
| ar | | | | | | | | 1,331,114 | | 1,331,114 |
| her | | | | | | | | | | |
| prehensive | | | | | | | | 1,746 | 140,094 | 141,840 |
| ome | | | | | | | | | | |
| | | | | | | | | 1,332,860 | 140,094 | 1,472,954 |
| ansactions | | | | | | | | | | |
| th owners: | | | | | | | | | | |
| annual | | | | | | | | | | |
| ividends | | | | | | | | (635,482) | | (635,482) |
| erim | | | | | | | | | | |
| ividends | | | | | | | | (70,609) | | (70,609) |
| are option | | | | 414 | | 414 | | | | 414 |
| erest on | | | | | | | | | | |
| brid bonds | | | | | | | | (16,840) | | (16,840) |
| | | | | 414 | | 414 | | (722,931) | | (722,517) |
| alance at | | | | | | | | | | |
| ember 31, | | | | | | | | | | |
| 17 | ₩ 44,639 | 2,915,887 | (2,260,626) | 398,518 | 414 | (682,298) | 371,895 | 14,512,556 | 78,301 | 15,007,391 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Cash Flows

For the years ended December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | 2017 | 2016 |
|---|-------------|----------------------|--------------------|
| Cash flows from operating activities: | | | |
| Cash generated from operating activities | | | |
| Profit for the year | | ₩ 1,331,114 | 1,217,274 |
| Adjustments for income and expenses | 35 | 2,804,239 | 2,931,278 |
| Changes in assets and liabilities related to operating activities | 35 | (293,836) | (143,263) |
| Sub-total | | 3,841,517 | 4,005,289 |
| Interest received | | 46,774 | 23,014 |
| Dividends received | | 101,256 | 113,955 |
| Interest paid | | (183,939) | (199,332) |
| Income tax paid | | (548,138) | (367,354) |
| Net cash provided by operating activities | | 3,257,470 | 3,575,572 |
| Cash flows from investing activities: | | | |
| Cash inflows from investing activities: | | | |
| Decrease in short-term investment securities, net | | 50,000 | |
| Decrease in short-term financial instruments, net | | 1,000 | 36,500 |
| Collection of short-term loans | | 206,932 | 232,745 |
| Proceeds from disposals of long-term investment securities | | 15,276 | 336,669 |
| Proceeds from disposals of investments in subsidiaries and associates | | | 1,063 |
| Increase in cash due to business combination | | | 360 |
| Proceeds from disposals of property and equipment | | 19,667 | 14,539 |
| Proceeds from disposals of intangible assets | | 3,811 | 7,689 |
| Sub-total | | 296,686 | 629,565 |
| Cash outflows for investing activities: | | | |
| Increase in short-term investment securities, net | | | (6,335) |
| Increase in short-term loans | | (203,511) | (237,197) |
| Increase in long-term financial instruments | | | (40) |
| Acquisitions of long-term investment securities | | (12,863) | (19,501) |
| Increase in investments in subsidiaries and associates | | (286,298) | (87,088) |
| Acquisitions of property and equipment | | (1,870,634) | (1,674,027) |
| Acquisitions of intangible assets | | (75,298) | (580,219) |
| Sub-total | | (2,448,604) | (2,604,407) |
| Net cash used in investing activities | | ₩ (2,151,918) | (1,974,842) |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | 2017 | 2016 |
|---|-------------|--------------------|--------------------|
| Cash flows from financing activities: | | | |
| Cash inflows from financing activities: | | | |
| Proceeds from issuance of debentures | ₩ | 647,328 | 607,474 |
| Cash inflows from settlement of derivatives | | 188 | 251 |
| Sub-total | | 647,516 | 607,725 |
| Cash outflows for financing activities: | | | |
| Decrease in short-term borrowings, net | | | (230,000) |
| Repayments of long-term borrowings | | (13,002) | (12,814) |
| Repayments of long-term accounts payable other | | (302,867) | (120,718) |
| Repayments of debentures | | (602,733) | (680,000) |
| Payments of dividends | | (706,091) | (706,091) |
| Payments of interest on hybrid bonds | | (16,840) | (16,840) |
| Cash outflows from settlement of derivatives | | (105,269) | |
| Sub-total | | (1,746,802) | (1,766,463) |
| Net cash used in financing activities | | (1,099,286) | (1,158,738) |
| Net increase in cash and cash equivalents | | 6,266 | 441,992 |
| Cash and cash equivalents at beginning of the year | | 874,350 | 431,666 |
| Effects of exchange rate changes on cash and cash equivalents | | (33) | 692 |
| Cash and cash equivalents at end of the year | ₩ | 880,583 | 874,350 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

1. Reporting Entity

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

The Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2017, the Company's total issued shares are held by the following shareholders:

| | Number of shares | Percentage of total shares issued (%) |
|---|-------------------|---|
| SK Holdings Co., Ltd. | 20,363,452 | 25.22 |
| National Pension Service | 7,392,350 | 9.16 |
| Institutional investors and other minority stockholders | 42,853,358 | 53.07 |
| Treasury shares | 10,136,551 | 12.55 |
| Total number of shares | 80,745,711 | 100.00 |

2. Basis of Presentation

(1) Statement of compliance

These separate financial statements were prepared in accordance with Korean International Financial Reporting Standards (K-IFRS), as prescribed in the *Act on External Audits of Stock Companies in the Republic of Korea*.

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

The separate financial statements were authorized for issuance by the Board of Directors on February 2, 2018, which will be submitted for approval at the shareholders' meeting to be held on March 21, 2018.

(2) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the separate statement of financial position:

derivative financial instruments measured at fair value;

financial instruments at fair value through profit or loss measured at fair value;

available-for-sale financial assets measured at fair value; and

assets for defined benefit plans recognized at the net of the fair value of plan assets less the total present value of defined benefit obligations.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Presentation, Continued

(3) Functional and presentation currency

These separate financial statements are presented in Korean won, which is the currency of the primary economic environment in which the Company operates.

(4) Use of estimates and judgments

The preparation of the separate 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in Note 4 for classification of lease.

2) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: allowance for doubtful accounts, estimated useful lives of property and equipment and intangible assets, impairment of goodwill, recognition of provision, measurement of defined benefit liabilities, and recognition of deferred tax assets (liabilities).

3) Fair value measurement

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

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, are used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the

requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Presentation, Continued

(4) Use of estimates and judgments, Continued

3) Fair value measurement, Continued

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about assumptions used for fair value measurements are included in Note 31.

3. Changes in accounting policies

Except the following amendments to the standards that are effective for annual periods beginning on January 1, 2017, the accounting policies have been applied consistently to all periods presented in these separate financial statements.

1) K-IFRS No. 1007, *Cash Flow Statements*

The Company adopted the amendments to K-IFRS No. 1007, which form a part of the IASB's broader disclosure initiative, in the period beginning on January 1, 2017. The amendment requires the Company to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company disclosed the reconciliation of the opening and closing balances of liabilities arising from financing activities including changes from financing cash flows; changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes in Note 35.

2) K-IFRS No. 1012, *Income Taxes*

The Company adopted the amendments to K-IFRS No. 1012 in the period beginning January 1, 2017. The amendments clarify the necessity to consider whether there are restrictions on tax laws on the sources of taxable profits which may be used for the reversal of deductible temporary difference. In addition, the amendments provide the guidance on how to estimate the probable future taxable profit and specify the circumstances where an asset can be recovered for more than its carrying amount. These amendments have no impact on the Company's separate financial statements.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies

The significant accounting policies applied by the Company in the preparation of its separate financial statements in accordance with K-IFRSs are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(1) Operating segments

The Company presents disclosures relating to operating segments on its consolidated financial statements in accordance with K-IFRS No. 1108, *Operating Segments* and such disclosures are not separately disclosed on these separate financial statements.

(2) Investments in subsidiaries and associates

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, *Separate Financial Statements*. The Company applies the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

The assets and liabilities acquired under business combination under common control are recognized at the carrying amounts in the ultimate controlling shareholder's consolidated financial statements. The difference between consideration and carrying amount of net assets acquired is added to or subtracted from capital surplus and others.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and financial asset with maturities of three months or less from the acquisition date that are easily convertible to cash and subject to an insignificant risk of changes in their fair value.

(4) Inventories

Inventories are stated at the acquisition cost using the average method. During the period, a perpetual inventory system is used to track inventory quantities, which is adjusted to the physical inventory counts performed at the period end. When the net realizable value of inventories is less than the acquisition cost, the carrying amount is reduced to the net realizable value and any difference is charged to current operations as operating expenses.

(5) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets not at fair value through profit or loss are measured at their fair value plus transaction costs that are directly attributable to the acquisition of asset.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial asset at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investment. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income (OCI) in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(v) De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets

that is created or retained by the Company is recognized as a separate asset or liability. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

The Company holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Company designates derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the statement of income. The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting, Continued

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes following loss events:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(7) Impairment of financial assets, Continued

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The Company can recognize impairment losses directly or by establishing an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss subsequently. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(8) Property and equipment

Property and equipment are initially measured at cost. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(8) Property and equipment, Continued

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as a separate item if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized as other non-operating income (loss).

The estimated useful lives of the Company's property and equipment are as follows:

| | Useful lives (years) |
|------------------------------|----------------------|
| Buildings and structures | 15, 30 |
| Machinery | 3 ~ 6 |
| Other property and equipment | 4 ~ 10 |

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(9) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to

the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period do not exceed the amount of borrowing costs incurred during that period.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(10) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, club memberships are expected to be available for use as there are no foreseeable limits to the periods. This intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Company's intangible assets are as follows:

| | Useful lives (years) |
|------------------------|----------------------|
| Frequency usage rights | 5 ~ 13 |
| Land usage rights | 5 |
| Industrial rights | 5, 10 |
| Development costs | 5 |
| Facility usage rights | 10, 20 |
| Other | 3 ~ 20 |

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(11) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(i) Grants related to assets

Government grants whose primary condition is that the Company purchases, constructs or otherwise acquires a long-term asset are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

(ii) Grants related to income

Government grants which are intended to compensate the Company for expenses incurred are deducted from the related expenses.

(12) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss to the extent the carrying amount of the asset exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the business acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(13) Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its separate statement of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for depreciable assets that are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Company reviews to determine whether the leased assets are impaired at the reporting date.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate of interest.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(14) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Company recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(15) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the issue of the financial liability are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the issue of the financial liability. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(16) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service. The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans

At the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized at present value of defined benefit obligations net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Company recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(16) Employee benefits, Continued

(v) Termination benefits

The Company recognizes a liability and expense for termination benefits at the earlier of the period when the Company can no longer withdraw the offer of those benefits and the period when the Company recognizes costs for a restructuring that involves the payment of termination benefits. If benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

(17) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

(18) Transactions in foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(19) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its own shares, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are directly recognized in equity being as transaction with owners.

(20) Hybrid bond

The Company recognizes a financial instrument issued by the Company as an equity instrument if it does not include contractual obligation to deliver financial assets including cash to the counter party.

(21) Share-based Payment

For equity-settled share-based payment transaction, if the fair value of the goods or services received cannot be reliably estimated, the Company measures their value indirectly by reference to the fair value of the equity instruments granted. Related expense, with a corresponding increase in capital surplus and others, is recognized over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(22) Revenue

Revenue from the sale of goods, rendering of services or use of assets is measured at the fair value of the consideration received or receivable. Returns, trade discounts and volume rebates are recognized as a reduction of revenue.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(i) Services rendered

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed.

Revenue from other services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(22) Revenue, Continued

(ii) Goods sold

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programs is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Company performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

(23) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on disposal of available-for-sale financial assets, changes in fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings, changes in fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

(24) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Company prepares consolidated income tax returns under the tax-consolidation system and its economically unified wholly owned subsidiaries.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(24) Income taxes, Continued

(i) Current tax

In accordance with the tax-consolidation system, the Company calculates current taxes on the consolidated taxable income for the Company and its wholly owned domestic subsidiaries and recognizes the income tax payable as current tax liabilities of the Company.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and includes interests and fines related to income taxes paid or payable. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company recognizes a deferred tax liability for all taxable temporary differences, except for the difference associated with investments in subsidiaries and associates that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for all deductible temporary differences, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

A deferred tax asset is recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Future taxable profit is dependent on the reversal of taxable temporary differences. If there are insufficient taxable temporary differences to recognize the deferred tax asset, the business plan of the Company and the reversal of existing temporary differences are considered in determining the future taxable profit.

The Company reviews the carrying amount of a deferred tax asset at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax

consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(24) Income taxes, Continued

(ii) Deferred tax, Continued

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they are intended to be settled current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

(25) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if any.

(26) Standards issued but not yet effective

The following new standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Company has not early adopted the following new standards in preparing the accompanying separate financial statements.

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

K-IFRS No. 1109, published on September 25, 2015 which will replace the K-IFRS No. 1039 *Financial Instruments: Recognition and Measurement*, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company currently plans to apply K-IFRS No.1109 in the period beginning on January 1, 2018.

K-IFRS No. 1109 will be applied retrospectively with exemption allowing the Company not to restate comparative information for prior periods with respect to classification and measurement changes. The Company will recognize any difference on the measurement of financial assets and liabilities in the opening balance of retained earnings of the year beginning January 1, 2018. In the case of hedge accounting, the prospective application is allowed except for those specified in K-IFRS No. 1109 such as accounting for the time value of options and the forward element of

forward contracts which requires retrospective application.

Key features of K-IFRS No. 1109 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment model based on changes in expected credit losses, and new approach to hedge qualification and methods for assessing hedge effectiveness.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

To ensure smooth implementation of K-IFRS No.1109, the Company needs to assess the financial impact of adopting K-IFRS No. 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS No. 1109 on the Company's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

Based on the circumstances and information available as of December 31, 2017, the Company preliminarily assessed the financial impact on its separate financial statements resulting from the adoption of K-IFRS No. 1109. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available in subsequent periods.

i) Classification and measurement of financial assets

Classification of financial assets under K-IFRS No. 1109 is driven by the entity's business model for managing financial assets and their contractual cash flows. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models and contractual cash flows are as follows;

| Business model assessment(*1) | Contractual cash flow characteristics | |
|--|--|----------------------------------|
| | Solely payments of principal and interest | Others |
| Hold to collect contractual cash flows | Amortized cost(*2) | |
| Hold to collect contractual cash flows and sell financial assets | FVOCI- measured at fair value(*2) | FVTPL-measured at fair value(*3) |
| Hold to sell financial assets and others | FVTPL-measured at fair value | |

(*1) The business model will be assessed at portfolio level.

(*2)

To eliminate or significantly reduce the accounting mismatch, the Company may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.

(*3) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option. This election will be made on an investment-by-investment basis.

As new classification requirements for financial assets under K-IFRS No. 1109 are more stringent than requirements under K-IFRS No. 1039, the adoption of the new standard may result in increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Company. As of December 31, 2017, the Company's financial assets consist of ₩4,019,888 million of loans and receivables, ₩771,986 million of available-for-sale financial assets, and ₩9,054 million of financial assets at fair value through profit or loss.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

i) Classification and measurement of financial assets, Continued

A financial asset is measured at amortized cost under K-IFRS No. 1109 if the asset is held by the Company to collect its contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Company has ₩4,019,888 million of loans and receivables measured at amortized cost.

Based on preliminary assessment, most of the Company's loans and receivables are held to collect their contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. Though some are held for collecting the asset's contractual cash flows and sale, management does not expect this to have a significant impact due to the short term nature of the receivables.

A financial asset is measured at FVOCI under K-IFRS No. 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Company has ₩900 million of debt instruments classified as available-for-sale financial assets.

Most of the debt instruments held by the Company classified as available-for-sale financial assets are expected to be classified as financial assets measured at FVOCI upon adoption of K-IFRS No. 1109 as at January 1, 2018. Therefore, management does not expect there to be a significant impact.

Under K-IFRS No. 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2017, the Company has ₩771,086 million of available-for-sale equity instruments.

As the Company plans to classify the equity instruments with long-term investment purposes to financial assets measured at FVOCI under K-IFRS No. 1109, the Company's preliminary assessment did not indicate any material impact on the Company's separate financial statements except no recycling of amounts from OCI to profit and loss is allowed.

All other financial assets are measured at FVTPL. As of December 31, 2017, the Company has no debt and equity instruments designated as FVTPL using the fair value option.

ii) Classification and measurement of financial liabilities

Under K-IFRS No. 1109, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

ii) Classification and measurement of financial liabilities, Continued

Adoption of K-IFRS No. 1109 may result in decrease in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

ii) Classification and measurement of financial liabilities, Continued

As of December 31, 2017, the Company's total financial liability amounts to ~~₩~~9,663,649 million, among which the financial liabilities designated as FVTPL using fair value option amount to ~~₩~~60,278 million.

As of December 31, 2017, most of the financial liabilities designated as FVTPL of the Company have short-term maturities with no significant changes in their credit risks. The Company's preliminary assessment did not indicate any material impact on the Company's separate financial statements if K-IFRS No. 1109 were applied at December 31, 2017.

iii) Impairment: financial assets and contract assets

The current impairment requirements under K-IFRS No. 1039 are based on an incurred loss model, where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, K-IFRS No. 1109 replaces the incurred loss model in K-IFRS No. 1039 with an expected credit loss model which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

Under K-IFRS No. 1109, the Company should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of K-IFRS No. 1039.

| | Stages (*1) | Loss allowances |
|---------|---|--|
| Stage 1 | No significant increase in credit risk since initial recognition (*2) | Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date. |
| Stage 2 | Significant increase in credit risk since initial recognition | Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial instrument. |
| Stage 3 | Objective evidence of credit risk impairment | |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

- 1) K-IFRS No. 1109, *Financial Instruments*, Continued
- iii) Impairment: financial assets and contract assets, Continued

(*1) Under K-IFRS No. 1115, *Revenue from Contracts with Customers* (see note 4 (26) (2)), for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under K-IFRS No. 1115, the Company may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Company may choose to recognize loss allowances at an amount equal to lifetime expected credit losses. The Company expects to perform the analysis on whether there was a significant increase in credit risk on collective basis instead of on individual instrument basis. In addition, when information that is more forward-looking than past due status is not available without undue cost or effort, the Company expects to use past due information to determine whether there have been significant increases in credit risk since initial recognition.

(*2) The Company may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

K-IFRS No. 1109 allows the Company to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date. As of December 31, 2017, the Company has ₩4,019,888 million of debt instrument financial assets measured at amortized cost and ₩205,374 million as loss allowances for these assets. The Company's preliminary assessment did not indicate any material impact on the Company's separate financial statements upon adoption of K-IFRS No.1109 on January 1, 2018.

iv) Hedge accounting

K-IFRS No. 1109 maintains the mechanics of hedge accounting from those in K-IFRS No. 1039. However, K-IFRS No. 1109 replaces existing rule-based requirements under K-IFRS No. 1039 that are complex and difficult to apply with principle based requirement focusing more on the Company's risk management purposes and procedures. Under K-IFRS No. 1109, more hedging instruments and hedged items are permitted and 80%-125% effectiveness requirement is removed.

By complying with the hedging rules in K-IFRS No. 1109, the Company may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS No. 1039 thereby reducing volatility in profit or loss. As of December 31, 2017, the Company recognized the total amount of ₩1,548,247 million as hedged liabilities that applied hedge accounting and changes in fair value of cash flow hedge in the amount of ₩70,572 million was recognized in OCI for the year ended December 31, 2017.

Upon initial application of K-IFRS No. 1109, the Company may choose as its accounting policy to continue to apply hedge accounting requirements under K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

iv) Hedge accounting, Continued

The Company is yet to decide on its accounting policy whether to continuously apply the hedge accounting requirements of K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109 when initially applying K-IFRS No. 1109. The Company designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Company's hedging instruments as of December 31, 2017 satisfy the hedge requirements of retrospective testing (80~125%) under K-IFRS No. 1039, the adoption of K-IFRS No. 1109 is not expected to have material impact on the Company's separate financial statements.

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

K-IFRS No. 1115, *Revenue from Contracts with Customers*, published on November 6, 2015 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRS No. 2113, *Customer Loyalty Programs*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate*, and K-IFRS No. 2118, *Transfers of Assets from Customers*. The Company plans to adopt K-IFRS No. 1115 on January 1, 2018. The Company plans to apply K-IFRS No. 1115 by recognizing the cumulative effect of initially applying K-IFRS No. 1115 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the year beginning January 1, 2018. The Company elected to apply K-IFRS No. 1115 retrospectively only to contracts that are not completed contracts at the date of initial application (January 1, 2018) using the transition method permitted by K-IFRS No. 1115.

K-IFRS No. 1018 provides separate revenue recognition criteria by transaction type which include sale of goods, rendering of services, and use of entity assets by others yielding interest, royalties and dividends. However, K-IFRS No. 1115 introduces a five-step model for revenue recognition that focuses on the transfer of control rather than the transfer of risks and rewards. The steps in five-step model are as follows:

identification of the contract with a customer;

identification of the performance obligations in the contract;

determination of the transaction price;

allocation of the transaction price to the performance obligations in the contract; and

recognition of revenue when (or as) the entity satisfies a performance obligation.

The Company updated its accounting system and related controls based on the understanding of the revenue stream of the Company with the assistance of external information technology and accounting specialists. The Company is assessing the financial impact of the adoption of K-IFRS No. 1115 on its separate financial statements and plans to complete the assessment by March 31, 2018. The results of the assessment will be disclosed in the Company's condensed separate interim financial statements for the three-month period ending March 31, 2018.

Based on the circumstances and information available as of December 31, 2017, the Company preliminarily assessed the financial impact on its separate financial statements resulting from the adoption of K-IFRS No. 1115. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available to use in subsequent periods.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

- Incremental costs to acquire a contract

The Company has exclusive contracts with its sales agents to sell the Company's wireless telecommunications services to subscribers. These agents receive commissions depending on the number of subscribers newly added and retained. The commissions paid to the agents constitute a significant portion of the Company's operating expenses. Currently, the portion of these commissions that would not have been incurred if there have been no binding contracts with the subscribers are expensed.

Under K-IFRS No. 1115, for the Company's incremental costs to acquire a subscription contract, the Company expects to capitalize such amounts and amortized over the expected subscription period estimated based on historical experience. However, as a practical expedient, the Company plans to expense the incremental cost as incurred if the amortization period of the contract acquisition and fulfillment cost is considered to be not longer than one year.

As of December 31, 2017, the Company is assessing the impact of capitalizing the incremental costs associated with obtaining customer contracts. Based on the preliminary assessment, the Company expects commission expenses to decrease, while corresponding assets capitalized (incremental costs of obtaining a contract) and amortization expenses to be recognized and incurred, respectively.

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

K-IFRS No. 1116, published on May 22, 2017, is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. K-IFRS No. 1116 replaces existing leases guidance including K-IFRS No. 1017, *Leases*, K-IFRS No. 2104, *Determining whether an Arrangement contains a Lease*, K-IFRS No. 2015, *Operating Leases - Incentives*, and K-IFRS No. 2027, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

K-IFRS No. 1116, at the inception date of a contract and the first implementation of the standard, requires the Company to determine whether a contract is, or contains, a lease unless the Company applies the practical expedient for the existing lease contract at the date of adoption of the standard.

When accounting for lease, lessee and lessor should account for each lease component within the contract as a lease separately from non-lease components of the contract.

Lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. However, there are optional exemptions for short-term leases and leases of low value items. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and, instead, account for each lease component and any associated non-lease components as a single lease component.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

Lessor accounting remains similar to the current standard K-IFRS No. 1017. For a sale and leaseback arrangement, K-IFRS No. 1116 requires the Company to apply the requirements for determining when a performance obligation is satisfied in K-IFRS No. 1115 to determine whether the transfer of an asset is accounted for as a sale of that asset. However, sale and leaseback arrangements entered into before the adoption of K-IFRS No. 1116 may not be reassessed.

(1) Lease accounting for lessees

As a lessee, the Company can either apply the K-IFRS No. 1116 using a full retrospective approach; or modified retrospective approach. The full retrospective approach requires the Company to retrospectively apply the new standard to each prior reporting period presented, while modified retrospective approach requires the lessee to recognize the cumulative effect of initial application at the date of initial application of the new leases standard.

(2) Lease accounting for lessors

In case where the Company is an intermediate lessor, the Company should reassess subleases that were classified as operating leases applying K-IFRS No. 1017 and are ongoing at the date of initial application, whether each sublease should be classified as an operating lease or a finance lease applying K-IFRS No. 1116. For subleases that were classified as operating leases applying K-IFRS No. 1017 but finance leases applying K-IFRS No. 1116, the Company should accounts for such sublease as a new finance lease entered into at the date of initial application of K-IFRS No. 1116.

The Company plans to update its accounting system and related controls and complete the assessment of impact on its separate financial statements resulting from the adoption of K-IFRS No. 1116 by December 31, 2018.

5. Restricted Deposits

Deposits which are restricted in use as of December 31, 2017 and 2016 are summarized as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|------------------------------|------------------------------|
| Short-term financial instruments(*) | ₩ 89,000 | 89,000 |
| Long-term financial instruments(*) | 382 | 102 |
| | ₩ 89,382 | 89,102 |

(*) Financial instruments include charitable trust fund established by the Company where profits from the fund are donated to charitable institutions. As of December 31, 2017 the funds cannot be withdrawn before maturity.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

6. Trade and Other Receivables

(1) Details of trade and other receivables as of December 31, 2017 and 2016 are as follows:

(In millions of won)

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

(In millions of won)

| | Gross amount | December 31, 2016 Allowances for doubtful accounts | Carrying amount |
|-------------------------------------|---------------------|---|----------------------------|
| Current assets: | | | |
| Accounts receivable trade | ₩1,713,531 | (119,027) | 1,594,504 |
| Short-term loans | 54,690 | (547) | 54,143 |
| Accounts receivable other | 830,675 | (58,105) | 772,570 |
| Accrued income | 460 | | 460 |
| | 2,599,356 | (177,679) | 2,421,677 |
| Non-current assets: | | | |
| Long-term loans | 52,308 | (41,148) | 11,160 |
| Long-term accounts receivable other | 147,139 | | 147,139 |
| Guarantee deposits | 173,287 | | 173,287 |

| | | | |
|---|-----------|-----------|-----------|
| | 372,734 | (41,148) | 331,586 |
| ₩ | 2,972,090 | (218,827) | 2,753,263 |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

6. Trade and Other Receivables, Continued

- (2) Changes in allowances for doubtful accounts of trade and other receivables for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|--|-------------|-------------|
| Balance at January 1 | ₩ 218,827 | 204,677 |
| Bad debt expense | 20,337 | 52,164 |
| Write-offs | (54,232) | (56,128) |
| Collection of receivables previously written-off | 20,442 | 18,114 |
| Balance at December 31 | ₩ 205,374 | 218,827 |

- (3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | December 31, 2016 | |
|----------------------------------|--------------------------------|------------------------------------|--------------------------------|-----------------------------------|
| | Accounts receivable | Other trade receivables | Accounts receivable | Other tradereceivables |
| Neither overdue nor impaired | ₩ 1,216,283 | 1,506,220 | 1,285,629 | 1,089,134 |
| Overdue but not impaired | 19,378 | | 20,734 | |
| Impaired | 392,375 | 116,041 | 407,168 | 169,425 |
| | 1,628,036 | 1,622,261 | 1,713,531 | 1,258,559 |
| Allowances for doubtful accounts | (107,827) | (97,547) | (119,027) | (99,800) |
| | ₩ 1,520,209 | 1,524,714 | 1,594,504 | 1,158,759 |

The Company establishes allowances for doubtful accounts based on the likelihood of recoverability of trade and other receivables based on their aging at the end of the period, past customer default experience, customer credit status, and economic and industrial factors.

- (4) The aging of overdue but not impaired accounts receivable as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--------------------|------------------------------|------------------------------|
| Less than 1 month | ₩ 904 | 1,717 |
| 1 ~ 3 months | 1,402 | 1,890 |
| 3 ~ 6 months | 1,561 | 4,637 |
| More than 6 months | 15,511 | 12,490 |
| | ₩ 19,378 | 20,734 |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

7. Investment Securities

(1) Details of short-term investment securities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|-----------------------------|------------------------------|------------------------------|
| Beneficiary certificates(*) | ₩ 47,383 | 97,340 |

(*) The income distributable in relation to beneficiary certificates as of December 31, 2017, were accounted for as accrued income.

(2) Details of long-term investment securities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---------------------------------|------------------------------|------------------------------|
| Equity securities: | | |
| Marketable equity securities(*) | ₩ 586,713 | 421,846 |
| Unlisted equity securities etc. | 136,990 | 128,831 |
| | 723,703 | 550,677 |
| Debt securities: | | |
| Investment bonds | 900 | 10,289 |
| | ₩ 724,603 | 560,966 |

(*) The Company recognized gain on disposal amounting to ₩138,779 million as the Company disposed its entire marketable equity securities of POSCO Co., Ltd. for ₩305,110 million of cash during the year ended December 31, 2016.

8. Investments in Subsidiaries, Associates and Joint ventures

(1) Investments in subsidiaries, associates and joint ventures as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--|------------------------------|------------------------------|
| Investments in subsidiaries | ₩ 4,391,693 | 4,345,956 |
| Investments in associates and joint ventures | 4,760,628 | 4,380,582 |
| | ₩ 9,152,321 | 8,726,538 |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

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

(2) Details of investments in subsidiaries as of December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | December 31, 2017 | | | December 31, 2016 |
|--|-------------------|---------------|-----------------|-------------------|
| | Number of shares | Ownership (%) | Carrying amount | Carrying amount |
| SK Telink Co., Ltd.(*1) | 1,432,627 | 100.0 | ₩ 243,988 | 208,707 |
| SK Broadband Co., Ltd. | 298,460,212 | 100.0 | 1,870,582 | 1,870,582 |
| SK Communications Co., Ltd.(*2) | 43,427,530 | 100.0 | 69,668 | 82,857 |
| PS&Marketing Corporation | 66,000,000 | 100.0 | 313,934 | 313,934 |
| SERVICEACE Co., Ltd. | 4,385,400 | 100.0 | 21,927 | 21,927 |
| SERVICE TOP Co., Ltd. | 2,856,200 | 100.0 | 14,281 | 14,281 |
| Network O&S Co., Ltd. | 3,000,000 | 100.0 | 15,000 | 15,000 |
| SK Planet Co., Ltd. | 57,338,266 | 98.1 | 1,298,237 | 1,298,237 |
| IRIVER LIMITED(*3) | 21,826,296 | 45.9 | 91,642 | 54,503 |
| SK Telecom China Holdings Co., Ltd. | | 100.0 | 38,652 | 38,652 |
| SKT Vietnam PTE. Ltd. | 180,476,700 | 73.3 | 2,364 | 2,364 |
| SKT Americas, Inc. | 122 | 100.0 | 45,701 | 45,701 |
| YTK Investment Ltd.(*4) | | 100.0 | 3,388 | 18,693 |
| Atlas Investment | | 100.0 | 84,495 | 82,684 |
| SK Global Healthcare Business Group Ltd. | | 100.0 | 39,649 | 39,649 |
| Entrix Co., Ltd.(*5) | | | | 27,628 |
| SK techx Co., Ltd.(*5) | 6,713,838 | 100.0 | 155,999 | 128,371 |
| One Store Co., Ltd. | 10,409,600 | 65.5 | 82,186 | 82,186 |
| | | | ₩4,391,693 | 4,345,956 |

(*1) On September 28, 2017, the board of directors of the Company resolved to acquire the shares of SK Telink Co., Ltd. held by the non-controlling shareholders of SK Telink Co., Ltd. on December 14, 2017 at ₩270,583 per share in cash. The Company paid ₩35,281 million in cash, in aggregate, and the Company wholly owns the SK Telink Co., Ltd. as of December 31, 2017.

(*2) On November 24, 2016, the board of directors of the Company resolved to acquire all of the shares of SK Communications Co., Ltd. held by the non-controlling shareholders of SK Communications Co., Ltd. on February 7, 2017 at ₩2,814 per share in cash. The Company paid ₩43,328 million in cash, in aggregate, and the Company wholly owns SK Communications Co., Ltd. as of December 31, 2017. Impairment loss on investments in SK Communications Co., Ltd. amounting to ₩56,517 million was recognized during the year ended

December 31, 2017.

(*3) During the year ended December 31, 2017, the Company acquired 4,699,248 shares of IRIVER LIMITED at ₩25,000 million participating in the investee's non-proportional capital increase. In addition, SM mobile communications Co., Ltd., one of the associates of the Company, was merged into IRIVER LIMITED during the year ended December 31, 2017 with the Company acquiring 1,925,009 shares of IRIVER LIMITED based on the merger ratio set on October 1, 2017. As a result of the merger, the Company's ownership interest of IRIVER LIMITED has changed from 45.88 to 45.90%. Although the Company has less than 50% of the voting rights of IRIVER LIMITED, the Company is considered to have control over IRIVER LIMITED since the Company holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

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

(2) Details of investments in subsidiaries as of December 31, 2017 and 2016 are as follows, Continued:

(*4) Impairment loss amounting to ₩15,305 million was recognized during the year ended December 31, 2017.

(*5) Entrix Co., Ltd., one of the subsidiaries of the Company, was merged into SK techx Co., Ltd. during the year ended December 31, 2017.

(3) Details of investments in associates and joint ventures as of December 31, 2017 and 2016 are as follows:

(In millions of won, except for share data)

| | December 31, 2017 | | | December 31, 2016 |
|---|-------------------|---------------|-----------------|-------------------|
| | Number of shares | Ownership (%) | Carrying amount | Carrying amount |
| Investments in associates: | | | | |
| SK China Company Ltd.(*1) | 10,928,921 | 27.3 | ₩ 601,192 | 47,830 |
| HappyNarae Co., Ltd.(*2) | 720,000 | 45.0 | 12,939 | 12,250 |
| Korea IT Fund(*3) | 190 | 63.3 | 220,957 | 220,957 |
| Wave City Development Co., Ltd.(*4) | 393,460 | 19.1 | 1,532 | 1,532 |
| KEB HanaCard Co., Ltd.(*4) | 39,902,323 | 15.0 | 253,739 | 253,739 |
| Daehan Kanggun BcN Co., Ltd. | 1,675,124 | 29.0 | 353 | 353 |
| NanoEnTek, Inc. | 6,960,445 | 28.5 | 47,958 | 47,958 |
| SK Industrial Development China Co., Ltd.(*1) | | | | 83,691 |
| SK Technology Innovation Company | 14,700 | 49.0 | 45,864 | 45,864 |
| SK hynix Inc. | 146,100,000 | 20.1 | 3,374,725 | 3,374,725 |
| SK MENA Investment B.V. | 9,772,686 | 32.1 | 14,485 | 14,485 |
| SK Latin America Investment S.A. | 9,448,937 | 32.1 | 14,243 | 14,243 |
| SKY Property Mgmt. Ltd.(*1) | | | | 145,656 |
| S.M. Culture & Contents Co., Ltd. (*5) | 22,033,898 | 23.4 | 65,341 | |
| SK USA, Inc. and others | | | 71,824 | 81,823 |
| | | | ₩ 4,725,152 | 4,345,106 |

Investment in joint venture:

| | | | | | |
|---------------------------|-----------|------|---|-----------|-----------|
| Finnq Co. Ltd.(*6) | 4,900,000 | 49.0 | ₩ | 24,580 | 24,580 |
| 12CM GLOBAL PTE. LTD.(*6) | 1,007,143 | 62.7 | | 10,896 | 10,896 |
| | | | | 35,476 | 35,476 |
| | | | ₩ | 4,760,628 | 4,380,582 |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

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

(3) Details of investments in associates and joint ventures as of December 31, 2017 and 2016 are as follows, Continued:

(*1) During the year ended December 31, 2017, the Company contributed its shares in SKY Property Mgmt. Ltd. and SK Industrial Development China Co., Ltd., both the equity method investees of the Company, to SK China Company Ltd., and participated in SK China Company Ltd.'s rights issue amounting to USD 100,000,000; which resulted in Company's acquiring 8,101,884 and 2,107,037 shares of SK China Company Ltd., respectively. In connection with the contributions, the Company recognized disposal gains of ₩211,306 million for the year ended December 31, 2017.

(*2) The Company acquired 40,000 shares of HappyNarae Co., Ltd. at ₩17,212 per share during the year ended December 31, 2017.

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

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

(*5) During the year ended December 31, 2017, the Company subscribed to a third-party allocation of new shares of 22,033,898 by S.M. Culture & Contents Co., Ltd. at ₩65,341 million in cash.

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

(4) The market price of investments in listed subsidiaries as of December 31, 2017 and 2016 are as follows:

(In millions of won, except for share data)

| December 31, 2017 | December 31, 2016 |
|--------------------------|--------------------------|
| Fair value | Fair value |

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| | Market value per share (in won) | Number of shares | | Market value per share (in won) | Number of shares | |
|--------------------------------|--|-----------------------------|---------|--|-----------------------------|--------|
| IRIVER LIMITED | ₩ 5,580 | 21,826,296 | 121,790 | 5,400 | 15,202,039 | 82,091 |
| SK Communications Co., Ltd.(*) | | | | 2,780 | 28,029,945 | 77,923 |

(*) The ordinary shares of SK Communication Co., Ltd. were voluntarily delisted from KOSDAQ market of Korea Exchange on February 7, 2017.

SK TELECOM CO., LTD.

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For the years ended December 31, 2017 and 2016

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

(5) The market price of investments in listed associates as of December 31, 2017 and 2016 are as follows:

(In millions of won, except for share data)

| | December 31, 2017 | | | December 31, 2016 | | |
|---------------------------------|---------------------------------|------------------|------------|---------------------------------|------------------|------------|
| | Market value per share (in won) | Number of shares | Fair value | Market value per share (in won) | Number of shares | Fair value |
| NanoEnTek, Inc. | ₩ 5,950 | 6,960,445 | 41,415 | 5,020 | 6,960,445 | 34,941 |
| SK hynix Inc. | 76,500 | 146,100,000 | 11,176,650 | 44,700 | 146,100,000 | 6,530,670 |
| S.M.Culture & Contents Co.,Ltd. | 2,700 | 22,033,898 | 59,492 | | | |

9. Property and Equipment

(1) Property and equipment as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | |
|--------------------------|-------------------|--------------------------|-----------------|
| | Acquisition cost | Accumulated depreciation | Carrying amount |
| Land | ₩ 525,572 | | 525,572 |
| Buildings | 1,117,686 | (570,814) | 546,872 |
| Structures | 864,776 | (488,021) | 376,755 |
| Machinery | 22,636,857 | (17,988,526) | 4,648,331 |
| Other | 1,439,163 | (990,960) | 448,203 |
| Construction in progress | 377,400 | | 377,400 |
| | ₩ 26,961,454 | (20,038,321) | 6,923,133 |

(In millions of won)

December 31, 2016
Acquisition cost

| | | Accumulated depreciation | Carrying amount |
|--------------------------|--------------|-------------------------------------|----------------------------|
| Land | ₩ 506,786 | | 506,786 |
| Buildings | 1,091,448 | (534,427) | 557,021 |
| Structures | 809,876 | (452,811) | 357,065 |
| Machinery | 22,251,666 | (17,469,681) | 4,781,985 |
| Other | 1,442,398 | (949,988) | 492,410 |
| Construction in progress | 603,272 | | 603,272 |
| | ₩ 26,705,446 | (19,406,907) | 7,298,539 |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

9. Property and Equipment, Continued

(2) Details of the changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | | | | | | Ending balance |
|--------------------------|------------------------------|--------------------|-----------------|--------------------|---------------------|--|---------------------------|
| | Beginning balance | Acquisition | Disposal | Transfer(*) | Depreciation | | |
| Land | ₩ 506,786 | 4,927 | (4,449) | 18,308 | | | 525,572 |
| Buildings | 557,021 | 2,138 | (477) | 24,927 | (36,737) | | 546,872 |
| Structures | 357,065 | 46,614 | (74) | 8,387 | (35,237) | | 376,755 |
| Machinery | 4,781,985 | 213,975 | (24,180) | 1,330,226 | (1,653,675) | | 4,648,331 |
| Other | 492,410 | 685,159 | (5,853) | (614,933) | (108,580) | | 448,203 |
| Construction in progress | 603,272 | 936,669 | (4,088) | (1,158,453) | | | 377,400 |
| | ₩ 7,298,539 | 1,889,482 | (39,121) | (391,538) | (1,834,229) | | 6,923,133 |

(*) Includes reclassification to intangible assets.

(In millions of won)

| | 2016 | | | | | | Ending balance |
|--------------------------|------------------------------|--------------------|-----------------|---------------------|---------------------|-------------------|---------------------------|
| | Beginning balance | Acquisition | Disposal | Transfer(*1) | Depreciation | Others(*2) | |
| Land | ₩ 494,359 | 2,456 | (3,408) | 13,379 | | | 506,786 |
| Buildings | 557,932 | 4,336 | (8,935) | 39,576 | (35,888) | | 557,021 |
| Structures | 342,411 | 33,655 | (33) | 15,144 | (34,112) | | 357,065 |
| Machinery | 5,222,023 | 205,285 | (35,593) | 1,008,626 | (1,620,968) | 2,612 | 4,781,985 |
| Other | 402,252 | 777,971 | (4,446) | (570,758) | (112,953) | 344 | 492,410 |
| Construction in progress | 423,303 | 821,308 | (6,848) | (637,930) | | 3,439 | 603,272 |
| | ₩ 7,442,280 | 1,845,011 | (59,263) | (131,963) | (1,803,921) | 6,395 | 7,298,539 |

(*1) Includes reclassification to intangible assets.

(*2) Composed of property and equipment acquired in connection with business combination.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

10. Goodwill

Goodwill as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
|--|----------------------|----------------------|

| | | |
|---|-------------|-----------|
| Goodwill related to acquisition of Shinsegi Telecom, Inc. | ₩ 1,306,236 | 1,306,236 |
|---|-------------|-----------|

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.6% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 0.4% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Company's long-term wireless telecommunication business growth rate. Management of the Company does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

11. Intangible Assets

(1) Intangible assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | | |
|------------------------|---------------------|-----------------------------|---------------------------|--------------------|
| | Acquisition cost | Accumulated amortization | Accumulated impairment | Carrying amount |
| Frequency usage rights | ₩4,843,955 | (2,667,015) | | 2,176,940 |
| Land usage rights | 46,407 | (38,549) | | 7,858 |
| Industrial rights | 51,978 | (39,079) | | 12,899 |
| Development costs | 95,958 | (95,958) | | |
| Facility usage rights | 52,312 | (35,856) | | 16,456 |
| Club memberships(*1) | 75,546 | | (30,703) | 44,843 |
| Other(*2) | 2,854,375 | (2,023,826) | | 830,549 |
| | ₩8,020,531 | (4,900,283) | (30,703) | 3,089,545 |

*(In millions of won)***December 31, 2016**

| | Acquisition cost | Accumulated amortization | Accumulated impairment | Carrying amount |
|------------------------|-----------------------------|-------------------------------------|-----------------------------------|----------------------------|
| Frequency usage rights | ₩4,843,955 | (2,263,127) | | 2,580,828 |
| Land usage rights | 45,385 | (37,026) | | 8,359 |
| Industrial rights | 49,566 | (35,874) | | 13,692 |
| Development costs | 98,866 | (98,866) | | |
| Facility usage rights | 50,780 | (34,521) | | 16,259 |
| Club memberships (*1) | 78,723 | | (34,739) | 43,984 |
| Other(*2) | 2,429,094 | (1,816,553) | | 612,541 |
| | ₩7,596,369 | (4,285,967) | (34,739) | 3,275,663 |

(*1) Club memberships are classified as intangible assets with indefinite useful life and are not amortized.

(*2) Other intangible assets primarily consist of computer software and usage rights to a research facility which the Company built and donated, and the Company is given rights-to-use for a definite number of years in turn.

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Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

11. Intangible Assets, Continued

(2) Details of the changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | | | | | Ending balance |
|------------------------|------------------------------|--------------------|-----------------|--------------------|---------------------|---------------------------|
| | Beginning balance | Acquisition | Disposal | Transfer(*) | Amortization | |
| Frequency usage rights | ₩ 2,580,828 | | | | (403,888) | 2,176,940 |
| Land usage rights | 8,359 | 3,247 | (201) | 200 | (3,747) | 7,858 |
| Industrial rights | 13,692 | 2,437 | (19) | | (3,211) | 12,899 |
| Facility usage rights | 16,259 | 2,806 | (36) | 129 | (2,702) | 16,456 |
| Club memberships | 43,984 | 2,969 | (2,197) | 87 | | 44,843 |
| Other | 612,541 | 63,839 | (4,642) | 414,560 | (255,749) | 830,549 |
| | ₩ 3,275,663 | 75,298 | (7,095) | 414,976 | (669,297) | 3,089,545 |

(*) Includes reclassification from advance payments and property and equipment.

(In millions of won)

| | 2016 | | | | | | Ending balance | |
|----------------------------|------------------------------|--------------------|-----------------|---------------------|---------------------|-------------------|---------------------------|-----------------------|
| | Beginning balance | Acquisition | Disposal | Transfer(*2) | Amortization | Others(*3) | | Impairment(*4) |
| Frequency usage rights(*1) | ₩ 1,103,517 | 1,810,076 | | | (332,765) | | 2,580,828 | |
| Land usage rights | 11,695 | 1,041 | (100) | | (4,277) | | 8,359 | |
| Industrial rights | 11,828 | 6,019 | (122) | | (4,235) | 202 | 13,692 | |
| Facility usage rights | 16,486 | 2,181 | (50) | 231 | (2,589) | | 16,259 | |
| Club memberships | 61,512 | 118 | (1,397) | | | (16,249) | 43,984 | |
| Other | 561,031 | 96,212 | (7,546) | 144,140 | (206,972) | 25,676 | 612,541 | |
| | ₩ 1,766,069 | 1,915,647 | (9,215) | 144,371 | (550,838) | 25,878 | (16,249) | 3,275,663 |

(*1)

During the year ended December 31, 2016, the Company acquired the frequency right for bandwidth blocs in the 2.6 GHz band for ₩1,330,100 million at the spectrum auction held by the Ministry of Science, ICT and Future Planning (MSIP) of Korea and made the initial payment in accordance with the terms of the agreement in August 2016. The remaining consideration will be paid on an annual installment basis for 10 years from August 2016. In addition, the Company extended frequency usage rights for 2.1 GHz band for ₩568,500 million with the initial payment made to MSIP during the year ended December 31, 2016. The remaining consideration will be paid on an annual installment basis for 5 years from December 2016.

(*2) Includes reclassification from advance payments and property and equipment.

(*3) Composed of intangible assets acquired in connection with business combination.

(*4) The Company recognized the difference between recoverable amount and the carrying amount of club memberships amounting to ₩16,249 million as impairment loss for the year ended December 31, 2016.

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For the years ended December 31, 2017 and 2016

11. Intangible Assets, Continued

- (3) Research and development expenditures recognized as expense for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|---|-----------|---------|
| Research and development costs expensed as incurred | ₩ 302,656 | 274,230 |

- (4) Details of frequency usage rights as of December 31, 2017 are as follows:

(In millions of won)

| | Amount | Description | Commencement of amortization | Completion of amortization |
|----------------|-------------|---|------------------------------------|-------------------------------|
| 800MHz license | ₩ 141,904 | Frequency usage rights relating to CDMA and LTE service | Jul. 2011 | Jun. 2021 |
| 1.8GHz license | 502,480 | Frequency usage rights relating to LTE service | Sept. 2013 | Dec. 2021 |
| WiBro license | 2,957 | WiBro service | Mar. 2012 | Mar. 2019 |
| 2.6GHz license | 1,092,770 | Frequency usage rights relating to LTE service | Sept. 2016 | Dec. 2026 |
| 2.1GHz license | 436,829 | Frequency usage rights relating to W-CDMA and LTE service | Dec. 2016 | Dec. 2021 |
| | ₩ 2,176,940 | | | |

12. Borrowings and Debentures

- (1) Long-term borrowings as of December 31, 2017 and 2016 are as follows:

(In millions of won and thousands of U.S. dollars)

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| Lender | Annual interest rate (%) | Maturity | December 31, 2017 | December 31, 2016 |
|-----------------------------|---------------------------------|-----------------|--------------------------|--------------------------|
| Export Kreditnamnden(*) | 1.70 | Apr. 29, 2022 | ₩ 55,471 | 76,493 |
| | | | (USD 51,775) | (USD 63,296) |
| Less present value discount | | | (954) | (1,586) |
| | | | 54,517 | 74,907 |
| Less current installments | | | (12,031) | (13,491) |
| | | | ₩ 42,486 | 61,416 |

(*) The long-term borrowings are to be repaid by installments on an annual basis from 2014 to 2022.

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For the years ended December 31, 2017 and 2016

12. Borrowings and Debentures, Continued

(2) Debentures as of December 31, 2017 and 2016 are as follows:

(In millions of won, thousands of U.S. dollars, and thousands of other currencies)

| | | | | Annual interest rate (%) | December 31, 2017 | December 31, 2016 |
|-------------------------------|--------------------------------|------|------|--------------------------|-------------------|-------------------|
| Unsecured corporate bonds | Other fund | 2018 | 5.00 | ₩ 200,000 | 200,000 | |
| Unsecured corporate bonds | Operating fund | 2021 | 4.22 | 190,000 | 190,000 | |
| Unsecured corporate bonds | Operating and refinancing fund | 2019 | 3.24 | 170,000 | 170,000 | |
| Unsecured corporate bonds | | 2022 | 3.30 | 140,000 | 140,000 | |
| Unsecured corporate bonds | | 2032 | 3.45 | 90,000 | 90,000 | |
| Unsecured corporate bonds | Operating fund | 2023 | 3.03 | 230,000 | 230,000 | |
| Unsecured corporate bonds | | 2033 | 3.22 | 130,000 | 130,000 | |
| Unsecured corporate bonds | | 2019 | 3.30 | 50,000 | 50,000 | |
| Unsecured corporate bonds | | 2024 | 3.64 | 150,000 | 150,000 | |
| Unsecured corporate bonds(*1) | | 2029 | 4.72 | 60,278 | 59,600 | |
| Unsecured corporate bonds | Refinancing fund | 2019 | 2.53 | 160,000 | 160,000 | |
| Unsecured corporate bonds | | 2021 | 2.66 | 150,000 | 150,000 | |
| Unsecured corporate bonds | | 2024 | 2.82 | 190,000 | 190,000 | |
| Unsecured corporate bonds | Operating and refinancing fund | 2022 | 2.40 | 100,000 | 100,000 | |
| Unsecured corporate bonds | | 2025 | 2.49 | 150,000 | 150,000 | |
| Unsecured corporate bonds | | 2030 | 2.61 | 50,000 | 50,000 | |
| Unsecured corporate bonds | Operating fund | 2018 | 1.89 | 90,000 | 90,000 | |
| Unsecured corporate bonds | | 2025 | 2.66 | 70,000 | 70,000 | |
| Unsecured corporate bonds | | 2030 | 2.82 | 90,000 | 90,000 | |
| Unsecured corporate bonds | Operating and refinancing fund | 2018 | 2.07 | 80,000 | 80,000 | |
| Unsecured corporate bonds | | 2025 | 2.55 | 100,000 | 100,000 | |
| Unsecured corporate bonds | | 2035 | 2.75 | 70,000 | 70,000 | |
| Unsecured corporate bonds | Operating fund | 2019 | 1.65 | 70,000 | 70,000 | |
| Unsecured corporate bonds | | 2021 | 1.80 | 100,000 | 100,000 | |
| Unsecured corporate bonds | | 2026 | 2.08 | 90,000 | 90,000 | |
| Unsecured corporate bonds | | 2036 | 2.24 | 80,000 | 80,000 | |
| Unsecured corporate bonds | | 2019 | 1.62 | 50,000 | 50,000 | |
| Unsecured corporate bonds | | 2021 | 1.71 | 50,000 | 50,000 | |
| Unsecured corporate bonds | | 2026 | 1.97 | 120,000 | 120,000 | |
| Unsecured corporate bonds | | 2031 | 2.17 | 50,000 | 50,000 | |
| Unsecured corporate bonds | Refinancing fund | 2020 | 1.93 | 60,000 | | |
| Unsecured corporate bonds | | 2022 | 2.17 | 120,000 | | |
| Unsecured corporate bonds | | 2027 | 2.55 | 100,000 | | |

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| | | | | |
|---------------------------|--------------------------------|------|------|---------|
| Unsecured corporate bonds | Operating and refinancing fund | 2032 | 2.65 | 90,000 |
| Unsecured corporate bonds | Refinancing fund | 2020 | 2.39 | 100,000 |
| Unsecured corporate bonds | Operating and refinancing fund | 2022 | 2.63 | 80,000 |
| Unsecured corporate bonds | Refinancing fund | 2027 | 2.84 | 100,000 |

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For the years ended December 31, 2017 and 2016

12. Borrowings and Debentures, Continued

(2) Debentures as of December 31, 2017 and 2016 are as follows, Continued:

(In millions of won, thousands of U.S. dollars, and thousands of other currencies)

| | Purpose | Maturity | Annual interest rate (%) | December 31, 2017 | December 31, 2016 |
|--------------------------------------|----------------|-----------------|---|------------------------------|------------------------------|
| Unsecured global bonds | Operating fund | 2027 | 6.63 | 428,560 | 483,400 |
| | | | | (USD 400,000) | (USD 400,000) |
| Unsecured corporate Swiss bonds | | 2017 | 1.75 | | 354,399 |
| | | | | | (CHF 300,000) |
| Unsecured global bonds | | 2018 | 2.13 | 749,980 | 845,950 |
| | | | | (USD 700,000) | (USD 700,000) |
| Unsecured corporate Australian bonds | | 2017 | 4.75 | | 261,615 |
| | | | | | (AUD 300,000) |
| Floating rate notes(*2) | | | 3M Libor | 321,420 | 362,550 |
| | | 2020 | +0.88 | (USD 300,000) | (USD 300,000) |
| | | | | 5,470,238 | 5,627,514 |
| Less discounts on bonds | | | | (16,374) | (21,070) |
| | | | | 5,453,864 | 5,606,444 |
| Less current installments of bonds | | | | (1,119,016) | (615,377) |
| | | | | ₩ 4,334,848 | 4,991,067 |

(*1) The Company eliminated a measurement inconsistency of accounting profit or loss between the bonds and related derivatives by designating the structured bonds as financial liabilities at fair value through profit or loss. The carrying amount of financial liabilities designated at fair value through profit or loss exceeds the principal amount required to pay at maturity by ₩10,278 million as of December 31, 2017.

(*2) As of December 31, 2017, 3M LIBOR rate is 1.69%.

13. Long-term Payables Other

- (1) As of December 31, 2017 and 2016, details of long-term payables other which consist of payables related to the acquisition of frequency usage rights are as follows (See Note 11):

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Long-term payables other | ₩ 1,710,255 | 2,013,122 |
| Present value discount on long-term payables other | (79,874) | (108,406) |
| | 1,630,381 | 1,904,716 |
| Less current installments of long-term payables other | (301,751) | (301,773) |
| Carrying amount at December 31 | ₩ 1,328,630 | 1,602,943 |

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For the years ended December 31, 2017 and 2016

13. Long-term Payables – Other, Continued

- (2) The repayment schedule of the principal amount of long-term payables – other related to acquisition of frequency usage rights as of December 31, 2017 is as follows:

(In millions of won)

| | Amount |
|-------------------|--------------------|
| Less than 1 year | ₩ 302,867 |
| 1~3 years | 605,734 |
| 3~5 years | 402,624 |
| More than 5 years | 399,030 |
| | ₩ 1,710,255 |

14. Provisions

Changes in provisions for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | For the year ended December 31, 2017 | | | | | As of December 31, 2017 | |
|--|---|-----------------|--------------------|-----------------|---------------------------|--|-------------------------|
| | Beginning balance | Increase | Utilization | Reversal | Ending balance | Current | Non- current |
| Provision for installment of handset subsidy | ₩ 24,710 | 2 | (8,898) | (11,940) | 3,874 | 3,874 | |
| Provision for restoration | 53,022 | 4,378 | (817) | (421) | 56,162 | 39,984 | 16,178 |
| Emission allowance | 2,788 | 4,663 | (518) | (2,283) | 4,650 | 4,650 | |
| | ₩ 80,520 | 9,043 | (10,233) | (14,644) | 64,686 | 48,508 | 16,178 |

(In millions of won)

| For the year ended December 31, 2016 | As of December 31, 2016 |
|---|--|
|---|--|

| | Beginning balance | Increase | Utilization | Reversal | Ending balance | Current | Non- current |
|---|------------------------------|-----------------|--------------------|-----------------|---------------------------|----------------|-------------------------|
| Provision for installment of handset subsidy | ₩ 5,670 | 37,530 | (18,490) | | 24,710 | 19,939 | 4,771 |
| Provision for restoration | 50,459 | 4,280 | (804) | (913) | 53,022 | 36,300 | 16,722 |
| Emission allowance | 1,477 | 1,480 | (169) | | 2,788 | 2,788 | |
| | ₩57,606 | 43,290 | (19,463) | (913) | 80,520 | 59,027 | 21,493 |

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

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Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

15. Defined Benefit Assets

(1) Details of defined benefit assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--|------------------------------|------------------------------|
| Present value of defined benefit obligations | ₩ 278,778 | 240,289 |
| Fair value of plan assets | (318,860) | (265,076) |
| | ₩ (40,082) | (24,787) |

(2) Principal actuarial assumptions as of December 31, 2017 and 2016 are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Discount rate for defined benefit obligations | 3.06% | 2.62% |
| Expected rate of salary increase | 3.72% | 3.72% |

Discount rate for defined benefit obligation is determined based on market yields of high-quality corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of salary increase is determined based on the Company's historical promotion index, inflation rate and salary increase ratio.

(3) Changes in defined benefit obligations for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | For the year ended December 31 | |
|----------------------------------|---|-------------|
| | 2017 | 2016 |
| Beginning balance | ₩ 240,289 | 212,139 |
| Current service cost | 39,351 | 37,682 |
| Interest cost | 6,715 | 5,757 |
| Remeasurement | | |
| - Demographic assumption | | |
| - Financial assumption | (8,366) | 375 |
| - Adjustment based on experience | 6,178 | 7,091 |

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| | | |
|----------------|-----------|----------|
| Benefit paid | (18,783) | (17,896) |
| Others(*) | 13,394 | (4,859) |
| Ending balance | ₩ 278,778 | 240,289 |

(*) Others for the years ended December 31, 2017 and 2016 include the changes in liabilities due to transfer of executives to or from affiliates.

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For the years ended December 31, 2017 and 2016

15. Defined Benefit Assets, Continued

(4) Changes in plan assets for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | For the year ended | |
|-----------------------------|---------------------------|-------------|
| | December 31 | |
| | 2017 | 2016 |
| Beginning balance | ₩ 265,076 | 208,133 |
| Interest income | 6,807 | 5,378 |
| Remeasurement | (1,922) | (6,147) |
| Contributions | 68,500 | 60,000 |
| Benefit paid | (26,279) | (5,040) |
| Others | 6,678 | 2,752 |
| Ending balance | ₩ 318,860 | 265,076 |

The Company expects to make a contribution of ₩56,500 million to the defined benefit plans in 2018.

(5) 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 years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | For the year ended | |
|-----------------------------|---------------------------|-------------|
| | December 31 | |
| | 2017 | 2016 |
| Current service cost | ₩ 39,351 | 37,682 |
| Net interest cost (income) | (92) | 379 |
| | ₩ 39,259 | 38,061 |

The above costs are recognized in labor, research and development, or capitalized into construction-in-progress.

(6) Details of plan assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | For the year ended December 31 | |
|--|---|-------------|
| | 2017 | 2016 |
| Equity instruments | ₩ 9,819 | 7,903 |
| Debt instruments | 87,930 | 68,545 |
| Short-term financial instruments, etc. | 221,111 | 188,628 |
| | ₩ 318,860 | 265,076 |

- (7) As of December 31, 2017, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

(In millions of won)

| | 0.5% Increase | 0.5% Decrease |
|-------------------------------|--------------------------|--------------------------|
| Discount rate | ₩ (9,573) | 10,176 |
| Expected salary increase rate | 9,486 | (8,982) |

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

A weighted average duration of defined benefit obligations as of December 31, 2017 is 7.63 years.

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Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

16. Derivative Instruments

(1) Currency and interest rate swap contracts under cash flow hedge accounting as of December 31, 2017 are as follows:

(In thousands of foreign currencies)

Borrowing

| date | Hedging Instrument (Hedged item) | Hedged risk | Financial institution | Duration of contract |
|---------------|---|--|--|-------------------------------------|
| Jul. 20, 2007 | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000) | Foreign currency risk | Morgan Stanley and four other banks | Jul. 20, 2007 ~ Jul. 20, 2027 |
| Nov. 1, 2012 | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000) | Foreign currency risk | Standard Chartered and eight other banks | Nov. 1, 2012~ May 1, 2018 |
| Mar. 7, 2013 | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000) | Foreign currency risk and interest rate risk | DBS bank | Mar. 7, 2013 ~ Mar. 7, 2020 |
| Dec. 16, 2013 | Fixed-to-fixed cross currency (U.S. dollar borrowing amounting to USD 51,775) | Foreign currency risk | Deutsche bank | Dec.16, 2013 ~ Apr. 29, 2022 |

(2) As of December 31, 2017, details of fair values of the above derivatives recorded in assets or liabilities are as follows:

(In millions of won and thousands of foreign currencies)

| Hedging instrument (Hedged item) | Cash flow hedge | Held for trading | Fair value |
|--|------------------------|-------------------------|-------------------|
| Non-current assets: | | | |
| Structured bond (face value of KRW 50,000) | ₩ | 9,054 | 9,054 |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000) | 21,554 | | 21,554 |
| Total assets | | | ₩ 30,608 |
| Current liabilities: | | | |

| | | | |
|--|---|----------|------------|
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000) | ₩ | (27,791) | (27,791) |
| Non-current liabilities: | | | |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000) | | (7,613) | (7,613) |
| Fixed-to-fixed long-term borrowings (U.S. dollar borrowing amounting to USD 51,775) | | (3,106) | (3,106) |
| Total liabilities | | | ₩ (38,510) |

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For the years ended December 31, 2017 and 2016

17. Share Capital and Capital Surplus and Others

The 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 December 31, 2017 and 2016 are as follows:

(In millions of won, except for share data)

| | December 31, 2017 | December 31, 2016 |
|-----------------------------|--------------------------|--------------------------|
| Number of authorized shares | 220,000,000 | 220,000,000 |
| Number of issued shares(*) | 80,745,711 | 80,745,711 |
| Share capital | | |
| Common share | ₩ 44,639 | 44,639 |
| Capital surplus and others: | | |
| Paid-in surplus | 2,915,887 | 2,915,887 |
| Treasury shares (Note 18) | (2,260,626) | (2,260,626) |
| Hybrid bonds (Note 19) | 398,518 | 398,518 |
| Share option(Note 20) | 414 | |
| Others | (682,298) | (682,298) |
| | ₩ 371,895 | 371,481 |

(*) In 2002 and 2003, the Parent Company retired treasury shares with reduction of its retained earnings before appropriation. As a result, the Parent Company's outstanding shares have decreased without change in share capital.

There were no changes in share capital during the years ended December 31, 2017 and 2016 and details of shares outstanding as of December 31, 2017 and 2016 are as follows:

(In shares)

| | 2017 | | | 2016 | | |
|--------------------|--------------------------|----------------------------|-------------------------------|--------------------------|----------------------------|-------------------------------|
| | Issued shares | Treasury shares | Outstanding shares | Issued shares | Treasury shares | Outstanding shares |
| Shares outstanding | 80,745,711 | 10,136,551 | 70,609,160 | 80,745,711 | 10,136,551 | 70,609,160 |

18. Treasury Shares

The Company acquired treasury shares to provide share dividends, merge with Shinsegi Telecom, Inc. and SK IMT Co, Ltd., increase shareholder value and stabilize its share prices.

Treasury shares as of December 31, 2017 and 2016 are as follows:

(In millions of won, shares)

| | December 31, 2017 | December 31, 2016 |
|------------------|--------------------------|--------------------------|
| Number of shares | 10,136,551 | 10,136,551 |
| Acquisition cost | ₩ 2,260,626 | 2,260,626 |

SK TELECOM CO., LTD.

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For the years ended December 31, 2017 and 2016

19. Hybrid Bonds

Hybrid bonds classified as equity as of December 31, 2017 are as follows:

(In millions of won)

| | Type | Issuance date | Maturity(*1) | Annual interest rate (%)(*2) | Amount |
|----------------------|------------------------------------|---------------|--------------|------------------------------|----------|
| Private hybrid bonds | Unsecured subordinated bearer bond | June 7, 2013 | June 7, 2073 | 4.21 | ₩400,000 |
| Issuance costs | | | | | (1,482) |
| | | | | | ₩398,518 |

Hybrid bonds issued by the 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 Company.

(*1) The Company has a right to extend the maturity under the same terms at issuance without any notice or announcement. The Company also has the right to defer interest payment at its sole discretion.

(*2) Annual interest rate is calculated as yield rate of 5 year national bonds plus premium. According to the step-up clause, additional premium of 0.25% and 0.75%, respectively, after 10 years and 25 years from the issuance date are applied.

20. Share option

(1) At the shareholders' meeting held on March 24, 2017, the Company established a share option program that entitles key management personnel the option to purchase common shares of the Company. The terms and conditions related to the grants of the share options under the share option program are as follows:

| | 1-1 | Series 1-2 | 1-3 |
|------------------------------|-----|------------------------------------|-----|
| Grant date | | March 24, 2017 | |
| Types of shares to be issued | | 66,504 of registered common shares | |
| Grant method | | | |

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| | Reissue of treasury shares | | |
|------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Number of shares (in shares) | 22,168 | 22,168 | 22,168 |
| Exercise price (in won) | 246,750 | 266,490 | 287,810 |
| Exercise period | Mar. 25, 2019 ~ | Mar. 25, 2020 ~ | Mar. 25, 2021 ~ |
| | Mar. 24, 2022 | Mar. 24, 2023 | Mar. 24, 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) Share compensation expense recognized during the year ended December 31, 2017 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

| <i>(In millions of won)</i> | Share compensation expense | |
|---|----------------------------|-------|
| During the year ended December 31, 2017 | ₩ | 414 |
| In subsequent periods | | 977 |
| | ₩ | 1,391 |

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20. Share option, Continued

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

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

21. Retained Earnings

- (1) Retained earnings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Appropriated: | | |
| Legal reserve | ₩ 22,320 | 22,320 |
| Reserve for research & manpower development | | 60,001 |
| Reserve for business expansion | 10,171,138 | 9,871,138 |
| Reserve for technology development | 3,071,300 | 2,826,300 |
| | 13,264,758 | 12,779,759 |
| Unappropriated | 1,247,798 | 1,122,868 |
| | ₩ 14,512,556 | 13,902,627 |

- (2) Legal reserve

The Korean Commercial Act requires the Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to share capital.

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22. Statements of Appropriation of Retained Earnings

Details of statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016 are as follows:

Date of appropriation for 2017: March 21, 2018

Date of appropriation for 2016: March 24, 2017

(In millions of won)

| | 2017 | 2016 |
|---|-----------|-----------|
| Unappropriated retained earnings: | | |
| Unappropriated retained earnings | ₩ 2,387 | 3,362 |
| Remeasurement of defined benefit liabilities | 1,746 | (10,319) |
| Interim dividends: | | |
| 2017: ₩1,000 per share, 200% on par value | | |
| 2016: ₩1,000 per share, 200% on par value | (70,609) | (70,609) |
| Interest on hybrid bonds | (16,840) | (16,840) |
| Profit for the year | 1,331,114 | 1,217,274 |
| | 1,247,798 | 1,122,868 |
| Transfer from voluntary reserves: | | |
| Reserve for research and manpower development | | 60,001 |
| Appropriation of retained earnings: | | |
| Reserve for business expansion | 360,000 | 300,000 |
| Reserve for technology development | 250,000 | 245,000 |
| Cash dividends: | | |
| 2017: ₩ 9,000 per share, 1,800% on par value | | |
| 2016: ₩ 9,000 per share, 1,800% on par value | 635,482 | 635,482 |
| | 1,245,482 | 1,180,482 |
| Unappropriated retained earnings to be carried over to subsequent year | ₩ 2,316 | 2,387 |

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23. Reserves

(1) Details of reserves, net of taxes, as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---|--------------------------|--------------------------|
| Valuation gain on available-for-sale financial assets | ₩ 148,873 | 28,963 |
| Valuation loss on derivatives | (70,572) | (90,756) |
| | ₩ 78,301 | (61,793) |

(2) Changes in reserves for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | | |
|------------------------------|--|---|--------------|
| | Valuation gain on available-for-sale financial assets | Valuation gain (loss) on derivatives | Total |
| Balance at January 1, 2017 | ₩ 28,963 | (90,756) | (61,793) |
| Changes, net of taxes | 119,910 | 20,184 | 140,094 |
| Balance at December 31, 2017 | ₩ 148,873 | (70,572) | 78,301 |

(In millions of won)

| | 2016 | | |
|------------------------------|--|--|--------------|
| | Valuation gain on available-for-sale financial assets | Valuation loss on derivatives | Total |
| Balance at January 1, 2016 | ₩ 23,578 | (76,806) | (53,228) |
| Changes, net of taxes | 5,385 | (13,950) | (8,565) |
| Balance at December 31, 2016 | ₩ 28,963 | (90,756) | (61,793) |

- (3) Changes in valuation gain on available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|---|-------------|-------------|
| Balance at January 1 | ₩ 28,963 | 23,578 |
| Amount recognized as other comprehensive income during the year, net of taxes | 121,773 | 36,668 |
| Amount reclassified through profit or loss, net of taxes | (1,863) | (31,283) |
| Balance at December 31 | ₩ 148,873 | 28,963 |

- (4) Changes in valuation loss on derivatives for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|--|-------------|-------------|
| Balance at January 1 | ₩ (90,756) | (76,806) |
| Amount recognized as other comprehensive income (loss) during the year, net of taxes | 15,559 | (12,945) |
| Amount reclassified through profit or loss, net of taxes | 4,625 | (1,005) |
| Balance at December 31 | ₩ (70,572) | (90,756) |

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24. Other Operating Expenses

Details of other operating expenses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|--|-----------|---------|
| Other Operating Expenses: | | |
| Communication | ₩ 24,835 | 28,526 |
| Utilities | 232,757 | 210,007 |
| Taxes and dues | 20,318 | 21,678 |
| Repair | 229,724 | 217,205 |
| Research and development | 302,656 | 274,230 |
| Training | 23,968 | 22,359 |
| Bad debt for accounts receivable trade | 15,049 | 13,331 |
| Other | 41,986 | 50,442 |
| | ₩ 891,293 | 837,778 |

25. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|--|----------|--------|
| Other Non-operating Income: | | |
| Gain on disposal of property and equipment and intangible assets | ₩ 8,146 | 3,831 |
| Others | 10,325 | 50,457 |
| | ₩ 18,471 | 54,288 |
| Other Non-operating Expenses: | | |
| Loss on disposal of property and equipment and intangible assets | ₩ 30,884 | 41,831 |
| Impairment loss on property and equipment, and intangible assets | | 16,249 |
| Donations | 93,950 | 77,349 |
| Bad debt for accounts receivable other | 5,288 | 38,833 |

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| | | |
|--------|------------------|----------------|
| Others | 35,661 | 26,509 |
| | ₩ 165,783 | 200,771 |

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26. Finance Income and Costs

(1) Details of finance income and costs for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|-------------|-------------|
| Finance Income: | | |
| Interest income | ₩ 53,721 | 31,358 |
| Gain on sale of accounts receivable trade | 18,548 | 18,638 |
| Dividends | 101,256 | 113,955 |
| Gain on foreign currency transactions | 9,275 | 10,327 |
| Gain on foreign currency translations | 7 | 1,220 |
| Gain relating to financial liabilities at fair value through profit or loss | | 121 |
| Gain relating to financial assets at fair value through profit or loss | 142 | 287 |
| Gain on disposal of long-term investment securities | 3,390 | 143,525 |
| Gain on valuation of derivatives | 1,686 | 4,132 |
| | ₩ 188,025 | 323,563 |

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|-------------|-------------|
| Finance Costs: | | |
| Interest expenses | ₩ 246,327 | 239,420 |
| Loss on foreign currency transactions | 13,817 | 12,407 |
| Loss on foreign currency translations | 521 | 79 |
| Loss on disposal of long-term investment securities | 694 | 152 |
| Loss on settlement of derivatives | 10,031 | 3,428 |
| Loss relating to financial liabilities at fair value through profit or loss | 678 | 4,018 |
| Others | 2,030 | 1,889 |
| | ₩ 274,098 | 261,393 |

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26. Finance Income and Costs, Continued

- (2) Details of interest income included in finance income for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|--|-----------------|---------------|
| Interest income on cash equivalents and short-term financial instruments | ₩ 14,747 | 7,902 |
| Interest income on installment receivables and others | 38,974 | 23,456 |
| | ₩ 53,721 | 31,358 |

- (3) Details of interest expenses included in finance costs for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|--------------------------------|------------------|----------------|
| Interest expense on borrowings | ₩ 6,799 | 5,110 |
| Interest expense on debentures | 182,038 | 192,147 |
| Others | 57,490 | 42,163 |
| | ₩ 246,327 | 239,420 |

- (4) Finance income and costs by category of financial instruments for the years ended December 31, 2017 and 2016 are as follows. Bad debt expense (reversal of allowance for doubtful accounts) for accounts receivable trade, loans and receivables are presented and explained separately in Note 6.

- (i) Finance income and costs

(In millions of won)

| | 2017 | 2016 |
|--|-------------|-------------|
|--|-------------|-------------|

| | Finance income(*) | Finance costs | Finance income(*) | Finance costs |
|--|----------------------|------------------|----------------------|------------------|
| Financial Assets: | | | | |
| Financial assets at fair value through profit or loss | ₩ 1,827 | | 4,419 | 2,791 |
| Available-for-sale financial assets | 15,586 | 2,724 | 172,134 | 2,041 |
| Loans and receivables | 72,089 | 14,338 | 58,146 | 6,836 |
| Derivatives designated as hedging instrument | | | | 636 |
| Sub-total | 89,502 | 17,062 | 234,699 | 12,304 |
| Financial Liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | 678 | 121 | 4,018 |
| Financial liabilities measured at amortized cost | 9,251 | 246,327 | | 245,071 |
| Derivatives designated as hedging instrument | | 10,031 | | |
| Sub-total | 9,251 | 257,036 | 121 | 249,089 |
| | ₩ 98,753 | 274,098 | 234,820 | 261,393 |

(*) Finance income does not include ₩89,272 million and ₩94,825 million of dividends received from subsidiaries, associates and joint ventures for the years ended December 31, 2017 and 2016, respectively.

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26. Finance Income and Costs, Continued

(4) Finance income and costs by category of financial instruments for the years ended December 31, 2017 and 2016 are as follows. Bad debt expense (reversal of allowance for doubtful accounts) for accounts receivable trade, loans and receivables are presented and explained separately in Note 6, Continued

(ii) Other comprehensive income (loss)

(In millions of won)

| | 2017 | 2016 |
|--|-------------|-------------|
| Financial Assets: | | |
| Available-for-sale financial assets | ₩ 119,910 | 5,385 |
| Derivatives designated as hedging instrument | 7,302 | (904) |
| Sub-total | 127,212 | 4,481 |
| Financial Liabilities: | | |
| Derivatives designated as hedging instrument | 12,882 | (13,046) |
| | ₩ 140,094 | (8,565) |

(5) Details of impairment losses for financial assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|-------------------------------------|-------------|-------------|
| Accounts receivable trade | ₩ 15,049 | 13,331 |
| Other receivables | 5,288 | 38,833 |
| Available-for-sale financial assets | 2,030 | 1,889 |
| | ₩ 22,367 | 54,053 |

27. Income Tax Expense

(1) Income tax expenses for the years ended December 31, 2017 and 2016 consist of the following:

(In millions of won)

| | 2017 | 2016 |
|------------------------------------|------------------|----------------|
| Current tax expense | | |
| Current year | ₩ 404,613 | 456,340 |
| Current tax of prior years(*) | (112,423) | (2,176) |
| | 292,190 | 454,164 |
| Deferred tax expense | | |
| Changes in net deferred tax assets | (19,496) | (108,656) |
| Income tax expense | ₩ 272,694 | 345,508 |

(*) Current tax of prior years are mainly composed of the income tax refund due to a change in the interpretation of the tax authority in relation to the income tax previously recognized by the Company.

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27. Income Tax Expense, Continued

- (2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2017 and 2016 is attributable to the following:

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|-------------|-------------|
| Income taxes at statutory income tax rate | ₩ 387,660 | 377,731 |
| Non-taxable income | (40,381) | (38,676) |
| Non-deductible expenses | 29,124 | 42,012 |
| Tax credit and tax reduction | (34,300) | (28,555) |
| Changes in unrecognized deferred taxes | 42,896 | 23,617 |
| Income tax refund | (99,331) | (15,051) |
| Changes in tax rate etc. (*) | (12,974) | (15,570) |
| Income tax expense | ₩ 272,694 | 345,508 |

- (*) Based on the amendment to Korean Tax Law that was enacted in 2017, the income tax rate for taxable income in excess of ₩300,000 million is changed from 24.2% to 27.5%, which will be effective from January 1, 2018. As a result, the Company remeasured deferred tax assets and liabilities as a result of this rate change.

- (3) Deferred taxes directly charged to (credited from) equity for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|-------------|-------------|
| Valuation loss on available-for-sale financial assets | ₩ (45,331) | (1,720) |
| Valuation gain (loss) on derivatives | (3,103) | 4,454 |
| Remeasurement of defined benefit liabilities | 1,481 | 3,294 |
| | ₩ (46,953) | 6,028 |

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27. Income Tax Expense, Continued

(4) Details of the changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | Beginning | 2017 Deferred tax expense (income) | Directly charged to (credited from) equity | Ending |
|---|------------------|---|---|---------------|
| Deferred tax assets (liabilities) related to temporary differences: | | | | |
| Allowance for doubtful accounts | ₩ 52,550 | 5,454 | | 58,004 |
| Accrued interest income | (111) | (66) | | (177) |
| Available-for-sale financial assets | 74,162 | 8,169 | (45,331) | 37,000 |
| Investments in subsidiaries, associates and joint ventures | 57,399 | 8,549 | | 65,948 |
| Property and equipment (depreciation) | (228,718) | 16,572 | | (212,146) |
| Provisions | 5,980 | (4,941) | | 1,039 |
| Retirement benefit obligation | 7,759 | (2,323) | 1,481 | 6,917 |
| Valuation gain on derivatives | 28,975 | | (3,103) | 25,872 |
| Gain or loss on foreign currency translation | 19,360 | 2,562 | | 21,922 |
| Goodwill | 3,105 | (938) | | 2,167 |
| Others | 37,949 | (13,542) | | 24,407 |
| | ₩ 58,410 | 19,496 | (46,953) | 30,953 |

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27. Income Tax Expense, Continued

(4) Details of the changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows, Continued:

| <i>(In millions of won)</i> | Beginning | 2016 Deferred tax expense (income) | 2016 Directly charged to (credited from) equity | Ending |
|---|------------------|---|--|---------------|
| Deferred tax assets (liabilities) related to temporary differences: | | | | |
| Allowance for doubtful accounts | ₩ 51,343 | 1,207 | | 52,550 |
| Accrued interest income | (1,816) | 1,705 | | (111) |
| Available-for-sale financial assets | 82,671 | (6,789) | (1,720) | 74,162 |
| Investments in subsidiaries, associates and joint ventures | 72,025 | (14,626) | | 57,399 |
| Property and equipment (depreciation) | (298,453) | 69,735 | | (228,718) |
| Provisions | 1,372 | 4,608 | | 5,980 |
| Retirement benefit obligation | 7,437 | (2,972) | 3,294 | 7,759 |
| Valuation gain on derivatives | 24,521 | | 4,454 | 28,975 |
| Gain or loss on foreign currency translation | 19,518 | (158) | | 19,360 |
| Goodwill | 3,713 | (608) | | 3,105 |
| Unearned revenue (activation fees) | 2,065 | (2,065) | | |
| Others | (20,670) | 58,619 | | 37,949 |
| | ₩ (56,274) | 108,656 | 6,028 | 58,410 |

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27. Income Tax Expense, Continued

- (5) Details of temporary differences not recognized as deferred tax assets in the statements of financial position as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--|------------------------------|------------------------------|
| Allowance for doubtful accounts | ₩ 77,405 | 77,405 |
| Investments in subsidiaries, associates and joint ventures | 1,211,650 | 1,078,452 |
| Other temporary differences | 83,150 | 51,150 |

28. Earnings per Share

- (1) Basic earnings per share

- 1) Basic earnings per share for the years ended December 31, 2017 and 2016 are calculated as follows:

(In millions of won, shares)

| | 2017 | 2016 |
|--|-------------|-------------|
| Profit for the year | ₩ 1,331,114 | 1,217,274 |
| Interest on hybrid bonds | (16,840) | (16,840) |
| Profit for the year on common shares | 1,314,274 | 1,200,434 |
| Weighted average number of common shares outstanding | 70,609,160 | 70,609,160 |
| Basic earnings per share (in won) | ₩ 18,613 | 17,001 |

- 2) The weighted average number of common shares outstanding for the years ended December 31, 2017 and 2016 are calculated as follows:

(In shares)

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Issued common shares at January 1 | 80,745,711 | 80,745,711 |
| Effect of treasury shares | (10,136,551) | (10,136,551) |
| Weighted average number of common shares outstanding at December 31 | 70,609,160 | 70,609,160 |

(2) Diluted earnings per share

For the years ended December 31, 2017 and 2016, diluted earnings per share are the same as basic earnings per share as there are no dilutive potential common shares.

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29. Dividends

(1) Details of dividends declared

Details of dividend declared for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won, except for face value and share data)

| Year | Dividend type | Number of shares outstanding | Face value (in won) | Dividend ratio | Dividends |
|------|---------------------------|---------------------------------|------------------------|----------------|-----------|
| 2017 | Cash dividends (interim) | 70,609,160 | 500 | 200% | ₩ 70,609 |
| | Cash dividends (year-end) | 70,609,160 | 500 | 1,800% | 635,482 |
| | | | | | ₩ 706,091 |
| 2016 | Cash dividends (interim) | 70,609,160 | 500 | 200% | ₩ 70,609 |
| | Cash dividends (year-end) | 70,609,160 | 500 | 1,800% | 635,482 |
| | | | | | ₩ 706,091 |

(2) Dividends yield ratio

Dividends yield ratios for the years ended December 31, 2017 and 2016 are as follows:

(In won)

| Year | Dividend type | Dividend per share | Closing price at year-end | Dividend yield ratio |
|------|----------------|-----------------------|------------------------------|-------------------------|
| 2017 | Cash dividends | 10,000 | 267,000 | 3.75% |
| 2016 | Cash dividends | 10,000 | 224,000 | 4.46% |

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30. Categories of Financial Instruments

(1) Financial assets by category as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | | | |
|----------------------------------|--|--|----------------------------------|---|--------------|
| | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Loans and receivables | Derivatives hedging instrument | Total |
| Cash and cash equivalents | ₩ | | 880,583 | | 880,583 |
| Financial instruments | | | 94,382 | | 94,382 |
| Short-term investment securities | | 47,383 | | | 47,383 |
| Long-term investment securities | | 724,603 | | | 724,603 |
| Accounts receivable trade | | | 1,520,209 | | 1,520,209 |
| Loans and other receivables(*2) | | | 1,524,714 | | 1,524,714 |
| Derivative financial assets | 9,054 | | | 21,554 | 30,608 |
| | ₩ 9,054 | 771,986 | 4,019,888 | 21,554 | 4,822,482 |

(In millions of won)

| | December 31, 2016 | | | | |
|-------------------------------------|--|--|----------------------------------|---|--------------|
| | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Loans and receivables | Derivatives hedging instrument | Total |
| Cash and cash equivalents | ₩ | | 874,350 | | 874,350 |
| Financial instruments | | | 95,102 | | 95,102 |
| Short-term investment securities | | 97,340 | | | 97,340 |
| Long-term investment securities(*1) | 7,359 | 553,607 | | | 560,966 |
| Accounts receivable trade | | | 1,594,504 | | 1,594,504 |
| Loans and other receivables(*2) | | | 1,158,759 | | 1,158,759 |
| Derivative financial assets | 7,368 | | | 169,097 | 176,465 |
| | ₩ 14,727 | 650,947 | 3,722,715 | 169,097 | 4,557,486 |

(*1) Long-term investment securities were designated as financial assets at fair value through profit of loss since the fair value of embedded derivative (conversion right option) could not be separately measured.

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30. Categories of Financial Instruments, Continued

(1) Financial assets by category as of December 31, 2017 and 2016 are as follows, Continued:

(*2) Details of loans and other receivables as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|------------------------------|------------------------------|
| Short-term loans | ₩ 54,403 | 54,143 |
| Accounts receivable other | 1,003,509 | 772,570 |
| Accrued income | 659 | 460 |
| Long-term loans | 7,512 | 11,160 |
| Long-term accounts receivable other | 285,118 | 147,139 |
| Guarantee deposits | 173,513 | 173,287 |
| | ₩ 1,524,714 | 1,158,759 |

(2) Financial liabilities by category as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | | |
|--|---|---|---|------------------|
| | Financial liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Derivatives hedging instrument | Total |
| Derivative financial liabilities | ₩ | | 38,510 | 38,510 |
| Borrowings | | 54,517 | | 54,517 |
| Debentures (*1) | 60,278 | 5,393,586 | | 5,453,864 |
| Accounts payable other and others (*2) | | 4,116,758 | | 4,116,758 |
| | ₩ 60,278 | 9,564,861 | 38,510 | 9,663,649 |

(In millions of won)

| | December 31, 2016 | | | |
|--|---|---|---|--------------|
| | Financial liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Derivatives hedging instrument | Total |
| Derivative financial liabilities | ₩ | | 86,950 | 86,950 |
| Borrowings | | 74,907 | | 74,907 |
| Debentures (*1) | 59,600 | 5,546,844 | | 5,606,444 |
| Accounts payable other and others (*2) | | 4,150,132 | | 4,150,132 |
| | ₩ 59,600 | 9,771,883 | 86,950 | 9,918,433 |

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30. Categories of Financial Instruments, Continued

(2) Financial liabilities by category as of December 31, 2017 and 2016 are as follows, Continued:

(*1) Bonds classified as financial liabilities at fair value through profit or loss as of December 31, 2017 and 2016 are structured bonds and they were designated as financial liabilities at fair value through profit or loss in order to eliminate a measurement inconsistency with the related derivatives.

(*2) Details of accounts payable other and others as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Accounts payable other | ₩ 1,664,054 | 1,546,252 |
| Withholdings | 40 | 40 |
| Accrued expenses | 790,368 | 663,918 |
| Current portion of long-term payables other | 301,751 | 301,773 |
| Long-term payables other | 1,328,630 | 1,602,943 |
| Other non-current liabilities | 31,915 | 35,206 |
| | ₩ 4,116,758 | 4,150,132 |

31. Financial Risk Management

(1) Financial risk management

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

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

- 1) Market risk
 - (i) Currency risk

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

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

31. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(i) Currency risk, Continued

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2017 are as follows:

(In millions of won, thousands of foreign currencies)

| | Foreign currencies | Assets Won translation | Foreign currencies | Liabilities Won translation |
|--------|-----------------------|------------------------------|-----------------------|-----------------------------------|
| USD | 41,404 | ₩ 44,360 | 1,445,505 | ₩ 1,548,713 |
| EUR | 15,576 | 19,925 | 37 | 47 |
| JPY | 14,281 | 136 | 9,020 | 86 |
| Others | | 523 | | 194 |
| | | ₩ 64,944 | | ₩ 1,549,040 |

In addition, the Company has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures. (Refer to Note 16)

As of December 31, 2017, a hypothetical change in exchange rates by 10% would have increase (reduce) the Company's income before income tax as follows:

(In millions of won)

| | If increased by 10% | If decreased by 10% |
|--------|---------------------|---------------------|
| USD | ₩ 4,389 | (4,389) |
| EUR | 1,988 | (1,988) |
| JPY | 5 | (5) |
| Others | 33 | (33) |
| | ₩ 6,415 | (6,415) |

(ii) Equity price risk

The Company has listed and non-listed equity securities for its liquidity management and operating purpose. As of December 31, 2017, available-for-sale equity instruments measured at fair value amount to ₩636,642 million.

(iii) Interest rate risk

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

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

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

31. Financial Risk Management, Continued

(1) Financial risk management, Continued

- 1) Market risk, Continued
- (iii) Interest rate risk, Continued

As of December 31, 2017, floating-rate debentures amount to ₩321,420 million and the Company has entered into interest rate swaps to hedge interest rate risk related to floating-rate debentures (Refer to Note 16). Therefore, income before income taxes for the year ended December 31, 2017 would not have been affected by the changes in interest rates of floating-rate borrowings and debentures.

- 2) Credit risk
- The maximum credit exposure as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|---|-------------------|------------------|
| Cash and cash equivalents | ₩ 880,541 | 874,310 |
| Financial instruments | 94,382 | 95,102 |
| Available-for-sale financial assets | 900 | 2,930 |
| Accounts receivable trade | 1,520,209 | 1,594,504 |
| Loans and other receivables | 1,524,714 | 1,158,759 |
| Derivative financial assets | 30,608 | 176,465 |
| Financial assets at fair value through profit or loss | | 7,359 |
| | ₩4,051,354 | 3,909,429 |

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

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

The Company establishes an allowance for doubtful account that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Also, the Company's credit risk can arise due to transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Company has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Company is the carrying amount of financial assets as of December 31, 2017.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

31. Financial Risk Management, Continued

(1) Financial risk management, Continued

3) Liquidity risk

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

Contractual maturities of financial liabilities as of December 31, 2017 are as follows:

(In millions of won)

| | Carrying amount | Contractual cash flows | Less than 1 year | 1 to 5 years | More than 5 years |
|-----------------------------------|-----------------|------------------------|------------------|--------------|-------------------|
| Borrowings(*) | ₩ 54,517 | 58,341 | 13,354 | 44,987 | |
| Debentures (*) | 5,453,864 | 6,492,529 | 1,267,033 | 2,351,928 | 2,873,568 |
| Accounts payable other and others | 4,116,758 | 4,268,049 | 2,763,169 | 1,094,702 | 410,178 |
| | ₩9,625,139 | 10,818,919 | 4,043,556 | 3,491,617 | 3,283,746 |

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

(*) Includes interest payables.

As of December 31, 2017, 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 to 5 years | More than 5 years |
|-------------|-----------------|------------------------|------------------|--------------|-------------------|
| Assets | ₩ 21,554 | 17,118 | 7,446 | 28,075 | (18,403) |
| Liabilities | (38,510) | (39,257) | (28,342) | (10,915) | |

| | | | | |
|-----------|----------|----------|--------|----------|
| ₩(16,956) | (22,139) | (20,896) | 17,160 | (18,403) |
|-----------|----------|----------|--------|----------|

(2) Capital management

The Company manages its capital to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity structure. The overall strategy of the Company is the same as that of the Company as of and for the year ended December 31, 2016.

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

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

31. Financial Risk Management, Continued

(2) Capital management, Continued

Debt-equity ratio as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--------------------|----------------------|----------------------|
| Total liabilities | ₩ 10,550,131 | 11,191,620 |
| Total equity | 15,007,391 | 14,256,954 |
| Debt-equity ratios | 70.30% | 78.50% |

(3) Fair value

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

(In millions of won)

| | Carrying amount | December 31, 2017 | | | Total |
|--|--------------------|-------------------|---------|---------|---------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets that are measured at fair value | | | | | |
| Financial assets at fair value through profit or loss | ₩ 9,054 | | 9,054 | | 9,054 |
| Derivative financial assets | 21,554 | | 21,554 | | 21,554 |
| Available-for-sale financial assets | 636,642 | 586,713 | 47,383 | 2,546 | 636,642 |
| | ₩ 667,250 | 586,713 | 77,991 | 2,546 | 667,250 |
| Financial liabilities that are measured at fair value | | | | | |
| Financial liabilities at fair value through profit or loss | ₩ 60,278 | | 60,278 | | 60,278 |
| Derivative financial liabilities | 38,510 | | 38,510 | | 38,510 |

| | | | | |
|--|---|-----------|-----------|-----------|
| | ₩ | 98,788 | 98,788 | 98,788 |
| Financial liabilities that are not measured at fair value | | | | |
| Borrowings | ₩ | 54,517 | 55,131 | 55,131 |
| Debentures | | 5,393,586 | 5,647,638 | 5,647,638 |
| Long-term payables other | | 1,630,381 | 1,749,132 | 1,749,132 |
| | ₩ | 7,078,484 | 7,451,901 | 7,451,901 |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

31. Financial Risk Management, Continued

(3) Fair value, Continued

- 2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2016 are as follows:

(In millions of won)

| | | December 31, 2016 | | | | |
|--|----------------------------|--------------------------|----------------|----------------|--------------|--|
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total | |
| Financial assets that are measured at fair value | | | | | | |
| Financial assets at fair value through profit or loss | ₩ 14,727 | | 7,368 | 7,359 | 14,727 | |
| Derivative financial assets | 169,097 | | 169,097 | | 169,097 | |
| Available-for-sale financial assets | 522,491 | 421,846 | 97,340 | 3,305 | 522,491 | |
| | ₩ 706,315 | 421,846 | 273,805 | 10,664 | 706,315 | |
| Financial liabilities that are measured at fair value | | | | | | |
| Financial liabilities at fair value through profit or loss | ₩ 59,600 | | 59,600 | | 59,600 | |
| Derivative financial liabilities | 86,950 | | 86,950 | | 86,950 | |
| | ₩ 146,550 | | 146,550 | | 146,550 | |
| Financial liabilities that are not measured at fair value | | | | | | |
| Borrowings | ₩ 74,907 | | 76,574 | | 76,574 | |
| Debentures | 5,546,844 | | 5,957,419 | | 5,957,419 | |
| Long-term payables other | 1,904,716 | | 2,082,141 | | 2,082,141 | |
| | ₩ 7,526,467 | | 8,116,134 | | 8,116,134 | |

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

Available-for-sale financial assets amounting to ₩135,344 million and ₩128,456 million as of December 31, 2017 and December 31, 2016, respectively, are measured at cost in accordance with K-IFRS No. 1039 since they are equity instruments which do not have quoted price in an active market for the identical instruments and for which fair value cannot be reliably measured using other valuation methods.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

31. Financial Risk Management, Continued**(3) Fair value, Continued**

Fair value of the financial instruments that are traded in an active market (available-for-sale financial assets, financial liabilities at fair value through profit or loss, etc.) is measured based on the bid price at the end of the reporting date.

The Company uses various valuation methods for determination of fair value of financial instruments that are not traded in an active market. Fair value of available-for-sale securities is determined using the market approach methods and financial assets through profit or loss are measured using the option pricing model. In addition, derivative financial contracts and long-term liabilities are measured using the discounted present value methods. Inputs used to such valuation methods include swap rate, interest rate, and risk premium, and the Company performs valuation using the inputs which are consistent with natures of assets and liabilities measured.

Interest rates used by the Company for the fair value measurement as of December 31, 2017 are as follows:

| | Interest rate |
|---------------------------|----------------------|
| Derivative instruments | 1.54% ~ 2.24% |
| Borrowings and debentures | 2.48% ~ 2.55% |
| Long-term payables other | 2.23% ~ 2.60% |

- 3) There have been no transfers from Level 2 to Level 1 in 2017 and changes of financial assets classified as Level 3 for the year ended December 31, 2017 are as follows:

(In millions of won)

| | Balance at | Gain for | Other | Balance |
|---|------------------------|-----------------|----------------------|--------------------------|
| | January 1, 2017 | the year | comprehensive | December 31, 2017 |
| | | | loss | Disposals |
| Financial assets at fair value through profit or loss | ₩ 7,359 | 142 | | (7,501) |
| Available-for-sale financial assets | 3,305 | | (759) | 2,546 |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

31. Financial Risk Management, Continued

(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2017 and 2016 are as follows:

(In millions of won)

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

(In millions of won)

| | | December 31, 2016 | | | |
|--------------------------|------------------|---|---------------|---|-------------------|
| | | Gross financial instruments recognized | | Net financial instruments presented on the statement of financial position | |
| | | Amount | offset | Relevant financial instruments not offset | Net amount |
| Financial assets: | | | | | |
| Derivatives(*) | | ₩ 74,708 | | 74,708 | (74,708) |
| Accounts receivable | trade and others | 110,762 | (103,250) | 7,512 | 7,512 |
| | | ₩ 185,470 | (103,250) | 82,220 | 7,512 |

| Financial liabilities: | | | | | |
|-------------------------------|------------------|-----------|-----------|--------|--------|
| Derivatives(*) | | ₩ 86,950 | | 86,950 | 12,242 |
| Accounts payable | other and others | 103,250 | (103,250) | | |
| | | ₩ 190,200 | (103,250) | 86,950 | 12,242 |

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

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

32. Related Parties and Others

(1) List of related parties

| Relationship | Company |
|-----------------------------|---|
| Ultimate Controlling Entity | SK Holdings Co., Ltd. |
| Subsidiaries | SK Planet Co., Ltd. and 38 others(*) |
| Joint ventures | Dogus Planet, Inc. and 3 others |
| Associates | SK hynix Inc. and 40 others |
| Others | The Ultimate Controlling Entity's subsidiaries and associates, etc. |

(*) As of December 31, 2017, subsidiaries of the Company are as follows:

| Company | Ownership percentage(%)(*1) | Types of business |
|---|---|---|
| Subsidiaries owned by the Company | SK Telink Co., Ltd.(*2) | 100.0 Telecommunication and MVNO(Mobile Virtual Network Operator) service |
| | SK Communications Co., Ltd.(*3) | 100.0 Internet website services |
| | SK Broadband Co., Ltd. | 100.0 Telecommunication services |
| | PS&Marketing Corporation | 100.0 Communications device retail business |
| | SERVICEACE Co., Ltd. | 100.0 Customer center management service |
| | SERVICE TOP Co., Ltd. | 100.0 Customer center management service |
| | Network O&S Co., Ltd. | 100.0 Base station maintenance service |
| | SK Telecom China Holdings Co., Ltd. | 100.0 Investment |
| | SK Global Healthcare Business Group Ltd. | 100.0 Investment |
| | SKT Vietnam PTE. Ltd. | 73.3 Telecommunication services |
| | YTK Investment Ltd. | 100.0 Investment |
| | Atlas Investment | 100.0 Investment |
| | SKT Americas, Inc. | 100.0 Information gathering and consulting |
| | SK techx Co., Ltd.(*4) | 100.0 System software development and supply |
| | One Store Co., Ltd. | 65.5 Telecommunication services |
| | SK Planet Co., Ltd. | 98.1 Telecommunication services |
| | IRIVER LIMITED | 45.9 Manufacturing of media and audio equipment |
| Subsidiaries owned by SK Planet Co., Ltd. | SK m&service Co.,Ltd. (formerly, M&Service Co., Ltd.) | 100.0 Database and internet website service |
| | SK Planet Japan, K. K.(*5) | 79.5 Digital contents sourcing service |
| | SK Planet Global PTE. Ltd. | 100.0 Digital contents sourcing service |

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| | | | |
|---|---|-------|--|
| | SKP GLOBAL HOLDINGS PTE. LTD. | 100.0 | Investment |
| | SKP America LLC. | 100.0 | Digital contents sourcing service |
| | shopkick Management Company, Inc. | 100.0 | Investment |
| | shopkick, Inc. | 100.0 | Reward points-based in-store shopping app development |
| | 11street (Thailand) Co., Ltd. | 100.0 | Electronic commerce |
| | Hello Nature Ltd. | 100.0 | Retail of agro-fisheries and livestock |
| Subsidiaries owned by IRIVER LIMITED | iriver Enterprise Ltd. | 100.0 | Management of Chinese subsidiaries |
| | iriver Inc. | 100.0 | Sales and marketing in North America |
| | iriver China Co., Ltd. | 100.0 | Sales and manufacturing of MP3 and 4 in China |
| | Dongguan iriver Electronics Co., Ltd. | 100.0 | Sales and Manufacturing of e-book in China |
| | groovers Japan Co., Ltd. | 100.0 | Digital music contents sourcing and distribution service |
| | S.M. LIFE DESIGN COMPANY JAPAN INC. | 100.0 | Selling of goods in Japan |
| | S.M. Mobile Communications JAPAN Inc. | 100.0 | Digital contents service |
| Subsidiaries owned by SK Telink Co., Ltd. | NSOK Co., Ltd. (formerly, Neosnetworks Co., Ltd.)(*6) | 100.0 | Security systems service |
| Subsidiaries owned by SK techx Co., Ltd. | K-net Culture and Contents Venture Fund | 59.0 | Capital investing in startups |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

32. Related Parties and Others, Continued

(1) List of related parties, Continued

(*) As of December 31, 2017, subsidiaries of the Company are as follows, Continued:

| Company | | Ownership percentage(%)(*1) | Types of business |
|---|-------------------------------------|--|--|
| Subsidiaries owned by SK Broadband Co., Ltd. | Home & Service Co., Ltd.(*7) | 100.0 | Operation of information and communication facility |
| | SK stoa Co., Ltd.(*7) | 100.0 | Other telecommunication retail business |
| Others(*8) | SK Telecom Innovation Fund, L.P. | 100.0 | Investment |
| | SK Telecom China Fund I L.P. | 100.0 | Investment |

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

(*2) On September 28, 2017, the board of directors of the Company resolved to acquire the shares of SK Telink Co., Ltd. held by the non-controlling shareholders of SK Telink Co., Ltd. on December 14, 2017 at W270,583 per share in cash. The Company paid W35,281 million in cash, in aggregate, and the Company wholly owns the SK Telink Co., Ltd. as of December 31, 2017.

(*3) On November 24, 2016, the board of directors of the Company resolved to acquire all of the shares of SK Communications Co., Ltd. held by the non-controlling shareholders of SK Communications Co., Ltd. on February 7, 2017 at W2,814 per share in cash. The Company paid W43,328 million in cash and the Company wholly owns SK Communications Co., Ltd. as of December 31, 2017.

(*4) Entrix Co., Ltd. was merged into SK techx Co., Ltd. during the year ended December 31, 2017.

(*5) The ownership interest changed due to the non-proportional capital increase during the year ended December 31, 2017.

(*6) During the year ended December 31, 2017, Neosnetworks Co., Ltd. changed its name to NSOK Co., Ltd.

(*7) Home & Service Co., Ltd. and SK stoa Co., Ltd. were newly established by SK Broadband Co., Ltd. during the year ended December 31, 2017.

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

As of December 31, 2017, the Company is included in SK Group, a conglomerate as defined in the *Monopoly Regulation and Fair Trade Act*. All of the other entities included in SK Group are considered related parties of the Company.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

32. Related Parties and Others, Continued

(2) Compensation for the key management

The Company considers registered directors who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--------------------------------|----------------|--------------|
| Salaries | ₩ 2,169 | 1,645 |
| Defined benefits plan expenses | 258 | 424 |
| Share option | 414 | |
| | ₩ 2,841 | 2,069 |

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.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

32. Related Parties and Others, Continued

(3) Transactions with related parties for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| Scope | Company | 2017 Operating revenue and others | Operating expense and others | Acquisition of property and equipment | Collection of loans |
|-----------------------------|---|---|------------------------------------|---|---------------------------|
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1) | ₩ 12,075 | 498,815 | 126,996 | |
| Subsidiaries | SK Broadband Co., Ltd. | 116,763 | 543,626 | 92,860 | |
| | PS&Marketing Corporation(*2) | 12,947 | 1,614,910 | 945 | |
| | Network O&S Co., Ltd. | 5,184 | 203,475 | 52,347 | |
| | SK Planet Co., Ltd. | 28,879 | 34,182 | 255 | |
| | SK Telink Co., Ltd. | 61,963 | 19,384 | 27 | |
| | SERVICEACE Co., Ltd. | 7,947 | 130,202 | | |
| | SERVICE TOP Co., Ltd. | 8,446 | 141,170 | | |
| | SK techx Co., Ltd. | 6,102 | 183,437 | 6,250 | |
| | Others | 27,873 | 44,810 | 3,302 | |
| | | 276,104 | 2,915,196 | 155,986 | |
| Associates | F&U Credit information Co., Ltd. | 2,301 | 43,189 | 153 | |
| | HappyNarae Co., Ltd. | 55 | 14,028 | 60,014 | |
| | SK hynix Inc.(*3) | 119,080 | 251 | | |
| | KEB HanaCard Co., Ltd. | 17,873 | 15,045 | | |
| | Others(*4) | 4,330 | 31,606 | 151 | 204 |
| | | 143,639 | 104,119 | 60,318 | 204 |
| Other | SK Engineering & Construction Co., Ltd. | 4,370 | 204 | | |
| | SK Innovation Co., Ltd. | 6,700 | 950 | | |
| | SK Networks Co., Ltd. | 15,843 | 15,934 | 671 | |
| | SK Networks service Co., Ltd. | 344 | 50,658 | 4,686 | |
| | SK Telesys Co., Ltd. | 238 | 1,455 | 83,407 | |
| | SK TNS Co., Ltd. | 98 | 33,204 | 373,176 | |
| | Others | 17,754 | 48,845 | 10,891 | |

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| | | | | |
|--------------|------------------|------------------|----------------|------------|
| | 45,347 | 151,250 | 472,831 | |
| Total | ₩ 477,165 | 3,669,380 | 816,131 | 204 |

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

(*2) Operating expenses and others include ~~₩~~922,068 million paid to PS&Marketing Corporation relating to purchase of accounts receivables resulting from sale of handsets.

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

(*4) Operating revenue and others include ~~₩~~1,403 million of dividends received from Korea IT Fund.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

32. Related Parties and Others, Continued

(3) Transactions with related parties for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| Scope | Company | 2016 | | Acquisition of property and equipment | Loans | Collection of loans |
|--------------------------------|---|---------------------------------------|------------------------------------|--|-------|------------------------|
| | | Operating revenue and others | Operating expense and others | | | |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1) | ₩ 11,275 | 521,279 | 125,458 | | |
| Subsidiaries | SK Broadband Co., Ltd. PS&Marketing Corporation(*7) | 125,869 | 541,631 | 77,117 | | |
| | Network O&S Co., Ltd. | 12,407 | 1,540,644 | 3,643 | | |
| | SK Planet Co., Ltd. | 5,751 | 190,234 | 24,680 | | |
| | SK Telink Co., Ltd.(*2) | 36,685 | 139,995 | 427 | | |
| | SERVICEACE Co., Ltd.(*3) | 67,273 | 20,617 | | | |
| | SERVICE TOP Co., Ltd.(*4) | 13,291 | 135,181 | | | |
| | SK techx Co., Ltd. | 16,371 | 144,080 | | | |
| | Others | 5,712 | 181,000 | 8,346 | | |
| | | 23,164 | 38,176 | 4,190 | | |
| | | 306,523 | 2,931,558 | 118,403 | | |
| Associates | F&U Credit information Co., Ltd. | 2,295 | 42,131 | | | |
| | HappyNarae Co., Ltd. | 81 | 7,644 | 33,531 | | |
| | SK hynix Inc.(*5) | 91,528 | 306 | | | |
| | KEB HanaCard Co., Ltd. | 19,730 | 14,804 | | | |
| | Others(*6) | 7,484 | 20,742 | 1,573 | 1,100 | 3,194 |
| | | 121,118 | 85,627 | 35,104 | 1,100 | 3,194 |
| Other | SK Engineering & Construction Co., Ltd. | 4,518 | 928 | 10,694 | | |
| | SK Networks Co., Ltd. | 6,291 | 15,611 | | | |
| | | 842 | 50,841 | 5,514 | | |

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SK Networks service Co.,
Ltd.

| | | | |
|----------------------|--------|---------|---------|
| SK Telesys Co., Ltd. | 390 | 6,010 | 73,103 |
| SK TNS Co., Ltd. | 90 | 38,122 | 289,723 |
| Others | 17,608 | 42,972 | 12,090 |
| | 29,739 | 154,484 | 391,124 |

| | | | | | |
|--------------|------------------|------------------|----------------|--------------|--------------|
| Total | ₩ 468,655 | 3,692,948 | 670,089 | 1,100 | 3,194 |
|--------------|------------------|------------------|----------------|--------------|--------------|

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

32. Related Parties and Others, Continued

(3) Transactions with related parties for the years ended December 31, 2017 and 2016 are as follows, Continued:

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

(*2) Operating revenue and others include ~~₩~~2,489 million of dividends received.

(*3) Operating revenue and others include ~~₩~~5,504 million of dividends received.

(*4) Operating revenue and others include ~~₩~~7,700 million of dividends received.

(*5) Operating revenue and others include ~~₩~~73,050 million of dividends received.

(*6) Operating revenue and others include ~~₩~~6,082 million of dividends received from Korea IT Fund.

(*7) Operating expenses and others include ~~₩~~815,980 million paid to PS&Marketing Corporation relating to purchase of accounts receivables resulting from sale of handsets.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

32. Related Parties and Others, Continued

(4) Account balances with related parties as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| Scope | Company | December 31, 2017 | | |
|--------------------|---|-------------------|---|---|
| | | Loans | Accounts receivable Accounts receivable trade and others | Accounts payable Accounts payable other and others |
| Ultimate | | | | |
| Controlling Entity | SK Holdings Co., Ltd. | ₩ | 1,819 | 82,456 |
| Subsidiaries | SK Broadband Co., Ltd. | | 12,458 | 117,262 |
| | PS&Marketing Corporation | | 335 | 116,333 |
| | Network O&S Co., Ltd. | | 611 | 52,507 |
| | SK Planet Co., Ltd. | | 4,232 | 14,487 |
| | SK Telink Co., Ltd. | | 8,626 | 4,119 |
| | SERVICE ACE Co., Ltd. | | 252 | 24,432 |
| | SERVICE TOP Co., Ltd. | | 136 | 26,625 |
| | SK techx Co., Ltd. | | 1,273 | 22,722 |
| | One Store Co., Ltd. | | 226 | 23,210 |
| | SK m&service Co.,Ltd. | | 5,967 | 6,096 |
| | Others | | 2,059 | 17,860 |
| | | | 36,175 | 425,653 |
| Associates | HappyNarae Co., Ltd. | | 8 | 1,305 |
| | SK hynix Inc. | | 2,803 | 94 |
| | Wave City Development Co., Ltd. | | 38,412 | |
| | Daehan Kanggun BcN Co., Ltd.(*) | 22,147 | | |
| | KEB HanaCard Co., Ltd. | | 1,427 | 11,080 |
| | S.M. Culture & Contents Co.,Ltd. | | 77 | 4,559 |
| | Others | 611 | 1,928 | 2,443 |
| | | 22,758 | 44,655 | 19,481 |
| Other | SK Engineering and Construction Co., Ltd. | | 1,413 | 69 |
| | SK Networks Co., Ltd. | | 2,279 | 1,469 |
| | SK Networks Services Co., Ltd. | | 14 | 8,646 |

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| | | | |
|-------------------------|--|-------|---------|
| SK Telesys Co., Ltd. | | 26 | 397 |
| SK Innovation Co., Ltd. | | 2,530 | 564 |
| SK TNS Co., Ltd. | | | 133,220 |
| Others | | 1,884 | 14,016 |
| | | 8,146 | 158,381 |

| | | | | |
|-------|--|----------|--------|---------|
| Total | | ₩ 22,758 | 90,795 | 685,971 |
|-------|--|----------|--------|---------|

(*) The Company has recognized allowances for doubtful accounts on the entire balance of loans to Daehan Kanggun BcN Co., Ltd as of December 31, 2017.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

32. Related Parties and Others, Continued

(4) Account balances with related parties as of December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| Scope | Company | December 31, 2016 | | |
|--------------------|---|-------------------|---|---|
| | | Loans | Accounts receivable Accounts receivable trade and others | Accounts payable Accounts payable other and others |
| Ultimate | | | | |
| Controlling Entity | SK Holdings Co., Ltd. | ₩ | 1,577 | 68,939 |
| Subsidiaries | SK Broadband Co., Ltd. | | 16,219 | 79,399 |
| | PS&Marketing Corporation | | 228 | 126,178 |
| | Network O&S Co., Ltd. | | 93 | 33,998 |
| | SK Planet Co., Ltd. | | 3,950 | 36,462 |
| | SK Telink Co., Ltd. | | 12,140 | 2,882 |
| | SERVICE ACE Co., Ltd. | | | 24,425 |
| | SERVICE TOP Co., Ltd. | | | 26,086 |
| | SK techx Co., Ltd. | | 4,982 | 23,103 |
| | One Store Co., Ltd. | | 2,265 | 32,450 |
| | Others(*1) | | 16,464 | 23,858 |
| | | | 56,341 | 408,841 |
| Associates | HappyNarae Co., Ltd. | | | 16,570 |
| | SK hynix Inc. | | 4,398 | 92 |
| | Wave City Development Co., Ltd. | | 38,412 | |
| | Daehan Kanggun BcN Co., Ltd.(*2) | 22,147 | | |
| | KEB HanaCard Co., Ltd. | | 1,619 | 7,657 |
| | Others | 813 | 4,215 | 1,844 |
| | | 22,960 | 48,644 | 26,163 |
| Other | SK Engineering and Construction Co., Ltd. | | 982 | 4,975 |
| | SK Networks Co., Ltd. | | 1,175 | 1,353 |
| | SK Networks Services Co., Ltd. | | 11 | 9,882 |
| | SK Telesys Co., Ltd. | | 20 | 863 |
| | SK Innovation Co., Ltd. | | 1,114 | 427 |

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| | | | |
|------------------|-----------------|----------------|----------------|
| SK TNS Co., Ltd. | | | 66,751 |
| Others | | 1,278 | 19,070 |
| | | 4,580 | 103,321 |
| Total | ₩ 22,960 | 111,142 | 607,264 |

(*1) The convertible bonds amounting to ₩7,359 million are included in accounts receivable trade and others.

(*2) The Company has recognized allowances for doubtful accounts on the entire balance of loans to Daehan Kanggun BcN Co., Ltd as of December 31, 2016.

(5) The Company made additional investments in subsidiaries and associates during the year ended December 31, 2017 as presented in Note 8.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Sale and Leaseback

For the year ended December 31, 2012, the Company disposed a portion of its property and equipment and investment property, and entered into lease agreements with respect to those assets. These sale and leaseback transactions were accounted as operating leases.

The Company recognized lease payment of ₩15,087 million and ₩14,765 million, respectively, in relation to the operating lease agreements and lease revenue of ₩10,183 million and ₩9,344 million, respectively, in relation to sublease agreements for the year ended December 31, 2017 and 2016. Future lease payments and revenue from the operating lease agreements and sublease agreements are as follows:

| <i>(In millions of won)</i> | Minimum lease payments | Revenue |
|-----------------------------|-------------------------------|----------------|
| Less than 1 year | ₩ 15,786 | 10,209 |
| 1~5 years | 56,892 | 32,174 |
| | ₩ 72,678 | 42,383 |

34. Commitments and Contingencies**(1) Accounts receivables from sale of handsets**

The sales agents of the Company sell handsets to the Company's subscribers on an installment basis. During the year ended December 31, 2017, the Company entered into a comprehensive agreement to purchase the accounts receivables from handset sales with agents and to transfer the accounts receivables from handset sales to special purpose companies which were established with the purpose of liquidating receivables, respectively.

The accounts receivables from sale of handsets amounting to ₩1,111,614 million as of December 31, 2017, which the Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable other and long-term accounts receivable other.

(2) Legal claims and litigations

As of December 31, 2017, the Company 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 Company has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Company's financial position or operating results in the event an outflow of resources is ultimately necessary.

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

35. Statements of Cash Flows

- (1) Adjustments for income and expenses from operating activities for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|-------------|-------------|
| Gain on foreign currency translations | ₩ (7) | (1,220) |
| Interest income | (53,721) | (31,358) |
| Dividends | (101,256) | (113,955) |
| Gain relating to financial assets at fair value through profit or loss | (142) | (287) |
| Gain on disposal of long-term investment securities | (3,390) | (143,525) |
| Gain on disposal of property and equipment and intangible assets | (8,146) | (3,831) |
| Gain on valuation of derivatives | (1,686) | (4,132) |
| Gain relating to financial liabilities at fair value through profit or loss | | (121) |
| Gain on sale of accounts receivable trade | (18,548) | (18,638) |
| Other income | | (2,056) |
| Loss on foreign currency translations | 521 | 79 |
| Bad debt for accounts receivable trade | 15,049 | 13,331 |
| Bad debt for accounts receivable other | 5,288 | 38,833 |
| Loss on disposal of long-term investment securities | 694 | 152 |
| Other finance costs | 2,030 | 1,889 |
| Depreciation and amortization | 2,503,526 | 2,354,759 |
| Loss on disposal of property and equipment and intangible assets | 30,884 | 41,831 |
| Impairment loss on property and equipment and intangible assets | | 16,249 |
| Interest expenses | 246,327 | 239,420 |
| Loss relating to financial liabilities at fair value through profit or loss | 678 | 4,018 |
| Loss on settlement of derivatives | 10,031 | 3,428 |
| Gain (loss) relating to investments in subsidiaries and associates | (139,484) | 135,077 |
| Retirement benefit expenses | 39,259 | 38,061 |
| Share option | 414 | |
| Income tax expense | 272,694 | 345,508 |
| Other expenses | 3,224 | 17,766 |

₩ 2,804,239

2,931,278

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

35. Statements of Cash Flows, Continued

(2) Changes in assets and liabilities from operating activities for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|-------------------------------------|-------------|-------------|
| Accounts receivable trade | ₩ 59,143 | (70,902) |
| Accounts receivable other | (217,390) | (496,799) |
| Advance payments | 12,781 | 56,980 |
| Prepaid expenses | (13,132) | (15,768) |
| Inventories | 1,202 | 4,674 |
| Long-term accounts receivable other | (137,979) | (147,139) |
| Long-term prepaid expenses | 2,749 | 1,885 |
| Guarantee deposits | 5,534 | 109 |
| Accounts payable other | 98,925 | 444,873 |
| Advanced receipts | 4,695 | 21,331 |
| Withholdings | (124,591) | 34,891 |
| Deposits received | (5,536) | 3,154 |
| Accrued expenses | 87,224 | 90,638 |
| Unearned revenue | 6,990 | (9,951) |
| Provisions | (16,066) | 17,707 |
| Long-term provisions | (1,244) | 4,061 |
| Plan assets | (42,221) | (54,960) |
| Retirement benefit payment | (18,783) | (17,896) |
| Others | 3,863 | (10,151) |
| | ₩ (293,836) | (143,263) |

(3) Significant non-cash transactions for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--|-------------|-------------|
| Increase in accounts payable other relating to the acquisition of property and equipment and intangible assets | ₩ 18,848 | 1,506,412 |

SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

35. Statements of Cash Flows, Continued

(4) Reconciliation of liabilities arising from financing activities for the year ended December 31, 2017 is as follows:

(In millions of won)

| | January 1, 2017 | Cash flows | Non-cash transactions | | | December 31, 2017 |
|--|--------------------|---------------|--------------------------|-----------------------|------------------|----------------------|
| | | | Exchange rate changes | Fair value changes | Other changes | |
| Total liabilities from financing activities | | | | | | |
| Long-term borrowings | ₩ 74,907 | (13,002) | (7,898) | | 510 | 54,517 |
| Debentures | 5,606,444 | 44,595 | (204,424) | | 7,249 | 5,453,864 |
| Long-term payables other | 1,904,716 | (302,867) | | | 28,532 | 1,630,381 |
| Derivative financial liabilities | 86,950 | (105,269) | 13,281 | 38,510 | 5,038 | 38,510 |
| Derivative financial assets | (176,465) | 188 | 922 | 144,065 | 682 | (30,608) |
| | ₩ 7,496,552 | (376,355) | (198,119) | 182,575 | 42,011 | 7,146,664 |
| Other cash flows from financing activities | | | | | | |
| Payments of cash dividends | | ₩ (706,091) | | | | |
| Payments of interest on hybrid bond | | (16,840) | | | | |
| | | (722,931) | | | | |
| Total | | ₩ (1,099,286) | | | | |

Independent Accountants Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the Representative Director of

SK Telecom Co., Ltd.

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System (IACS) of SK Telecom Co., Ltd. (the Company) As of December 31, 2017. The Company s management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management s assessment and issue a report based on our review. In the accompanying report of management s assessment of IACS, the Company s management stated: Based on the assessment on the operations of the IACS, the Company s IACS has been effectively designed and is operating as of December 31, 2017, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company s IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company s IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2017 is not prepared, in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company s IACS in existence as of December 31, 2017. We did not review the Company s IACS subsequent to December 31, 2017. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

February 23, 2018

Report on the Assessment of Internal Accounting Control System (IACS)

English translation of a Report Originally Issued in Korean

To the Board of Directors and Audit Committee of

SK Telecom Co., Ltd.

I, as the Internal Accounting Control Officer (IACO) of SK Telecom Co., Ltd. (the Company), assessed the status of the design and operation of the Company s IACS as of December 31, 2017.

The Company s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect error or fraud which may cause material misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements reporting. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company s IACS has been appropriately designed and is operating effectively as of December 31, 2017, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

February 1, 2018

/s/ Internal Accounting Control Officer

/s/ Chief Executive Officer

SK TELECOM CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the accompanying consolidated financial statements of SK Telecom Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016 and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

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

KPMG Samjong Accounting Corp.

Seoul, Korea

February 23, 2018

This report is effective as of February 23, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | December 31, 2017 | December 31, 2016 |
|--|-------------------|------------------------------|------------------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | 33, 34 | ₩ 1,457,735 | 1,505,242 |
| Short-term financial instruments | 6, 33, 34, 36 | 616,780 | 468,768 |
| Short-term investment securities | 9, 33, 34 | 144,386 | 107,364 |
| Accounts receivable trade, net | 7, 33, 34, 35 | 2,126,007 | 2,240,926 |
| Short-term loans, net | 7, 33, 34, 35 | 62,830 | 58,979 |
| Accounts receivable other, net | 7, 33, 34, 35, 36 | 1,260,835 | 1,121,444 |
| Prepaid expenses | | 197,046 | 169,173 |
| Inventories, net | 8 | 272,403 | 259,846 |
| Advanced payments and other | 7, 9, 33, 34, 35 | 63,777 | 64,886 |
| Total Current Assets | | 6,201,799 | 5,996,628 |
| Non-Current Assets: | | | |
| Long-term financial instruments | 6, 33, 34 | 1,222 | 937 |
| Long-term investment securities | 9, 33, 34 | 887,007 | 828,521 |
| Investments in associates and joint ventures | 11 | 9,538,438 | 7,404,323 |
| Property and equipment, net | 12, 35, 36 | 10,144,882 | 10,374,212 |
| Goodwill | 10, 13 | 1,915,017 | 1,932,452 |
| Intangible assets, net | 14 | 3,586,965 | 3,776,354 |
| Long-term loans, net | 7, 33, 34, 35 | 50,874 | 65,476 |
| Long-term accounts receivable other | 7, 33, 34, 36 | 287,048 | 149,669 |
| Long-term prepaid expenses | | 90,834 | 88,130 |
| Guarantee deposits | 7, 33, 34, 35 | 292,590 | 298,964 |
| Long-term derivative financial assets | 20, 33, 34 | 253,213 | 214,770 |
| Defined benefit assets | 19 | 45,952 | 30,247 |
| Deferred tax assets | 30 | 88,132 | 75,111 |
| Other non-current assets | 7, 33, 34 | 44,696 | 61,869 |
| Total Non-Current Assets | | 27,226,870 | 25,301,035 |
| Total Assets | | ₩ 33,428,669 | 31,297,663 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Financial Position, Continued

As of December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | December 31, 2017 | December 31, 2016 |
|---|-----------------------|------------------------------|------------------------------|
| Liabilities and Shareholders Equity | | | |
| Current Liabilities: | | | |
| Short-term borrowings | <i>15, 33, 34</i> | ₩ 130,000 | 2,614 |
| Current installments of long-term debt, net | <i>15, 33, 34</i> | 1,530,948 | 888,467 |
| Current installments of long-term payables other | <i>16, 33, 34</i> | 302,703 | 301,773 |
| Accounts payable trade | <i>33, 34, 35</i> | 351,711 | 402,445 |
| Accounts payable other | <i>33, 34, 35</i> | 1,867,074 | 1,767,799 |
| Withholdings | <i>33, 34, 35</i> | 961,501 | 964,084 |
| Accrued expenses | <i>33, 34</i> | 1,327,906 | 1,125,816 |
| Income tax payable | <i>30</i> | 219,791 | 474,931 |
| Unearned revenue | | 175,732 | 188,403 |
| Provisions | <i>17</i> | 52,057 | 66,227 |
| Receipts in advance | | 161,266 | 174,588 |
| Derivative financial liabilities | <i>20, 33, 34</i> | 28,406 | 86,950 |
| Other current liabilities | | 28 | 2 |
| Total Current Liabilities | | 7,109,123 | 6,444,099 |
| Non-Current Liabilities: | | | |
| Debentures, excluding current installments, net | <i>15, 33, 34</i> | 5,596,570 | 6,338,930 |
| Long-term borrowings, excluding current installments, net | <i>15, 33, 34</i> | 211,486 | 139,716 |
| Long-term payables other | <i>16, 33, 34</i> | 1,346,763 | 1,624,590 |
| Long-term unearned revenue | | 7,052 | 2,389 |
| Defined benefit liabilities | <i>19</i> | 61,960 | 70,739 |
| Long-term derivative financial liabilities | <i>20, 33, 34</i> | 11,064 | 203 |
| Long-term provisions | <i>17</i> | 32,669 | 31,690 |
| Deferred tax liabilities | <i>30</i> | 978,693 | 479,765 |
| Other non-current liabilities | <i>33, 34</i> | 44,094 | 49,112 |
| Total Non-Current Liabilities | | 8,290,351 | 8,737,134 |
| Total Liabilities | | 15,399,474 | 15,181,233 |
| Shareholders Equity | | | |
| Share capital | <i>1, 21</i> | 44,639 | 44,639 |
| Capital surplus and others | <i>21, 22, 23, 24</i> | 196,281 | 199,779 |
| Retained earnings | <i>25</i> | 17,835,946 | 15,953,164 |
| Reserves | <i>26</i> | (234,727) | (226,183) |

| | | |
|--|---------------------|-------------------|
| Equity attributable to owners of the Parent Company | 17,842,139 | 15,971,399 |
| Non-controlling interests | 187,056 | 145,031 |
| Total Shareholders Equity | 18,029,195 | 16,116,430 |
| Total Liabilities and Shareholders Equity | ₩ 33,428,669 | 31,297,663 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 2017 and 2016

| <i>(In millions of won except for per share data)</i> | <i>Note</i> | 2017 | 2016 |
|--|-------------|------------------|------------------|
| Operating revenue: | 5,35 | | |
| Revenue | | ₩ 17,520,013 | 17,091,816 |
| Operating expenses: | 35 | | |
| Labor | | 1,966,156 | 1,869,763 |
| Commissions | | 5,486,263 | 5,376,726 |
| Depreciation and amortization | 5 | 3,097,466 | 2,941,886 |
| Network interconnection | | 875,045 | 954,267 |
| Leased line | | 342,240 | 394,412 |
| Advertising | | 522,753 | 438,453 |
| Rent | | 520,244 | 517,305 |
| Cost of products that have been resold | | 1,886,524 | 1,838,368 |
| Others | 27 | 1,286,696 | 1,224,892 |
| | | 15,983,387 | 15,556,072 |
| Operating profit | 5 | 1,536,626 | 1,535,744 |
| Finance income | 5,29 | 366,561 | 575,050 |
| Finance costs | 5,29 | (433,616) | (326,830) |
| Gain relating to investments in subsidiaries, associates and joint ventures, net | 5,11 | 2,245,732 | 544,501 |
| Other non-operating income | 5,28 | 31,818 | 66,303 |
| Other non-operating expenses | 5,28 | (343,872) | (298,629) |
| Profit before income tax | 5 | 3,403,249 | 2,096,139 |
| Income tax expense | 30 | 745,654 | 436,038 |
| Profit for the year | | 2,657,595 | 1,660,101 |
| Attributable to: | | | |
| Owners of the Parent Company | | ₩ 2,599,829 | 1,675,967 |
| Non-controlling interests | | 57,766 | (15,866) |
| Earnings per share | 31 | | |
| Basic and diluted earnings per share (in won) | | ₩ 36,582 | 23,497 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | 2017 | 2016 |
|--|-----------------|--------------------|------------------|
| Profit for the year | | ₩ 2,657,595 | 1,660,101 |
| Other comprehensive income (loss) | | | |
| Items that will never be reclassified to profit or loss, net of taxes: | | | |
| Remeasurement of defined benefit liabilities | <i>19</i> | 5,921 | (7,524) |
| Items that are or may be reclassified subsequently to profit or loss, net of taxes: | | | |
| Net change in unrealized fair value of available-for-sale financial assets | <i>26,29</i> | 158,440 | (223,981) |
| Net change in other comprehensive income of investments in associates and joint ventures | <i>11,26</i> | (141,008) | (9,939) |
| Net change in unrealized fair value of derivatives | <i>20,26,29</i> | 22,586 | (13,218) |
| Foreign currency translation differences for foreign operations | <i>26</i> | (46,952) | 7,331 |
| Other comprehensive loss for the year, net of taxes | | (1,013) | (247,331) |
| Total comprehensive income | | ₩ 2,656,582 | 1,412,770 |
| Total comprehensive income (loss) attributable to: | | | |
| Owners of the Parent Company | | ₩ 2,597,160 | 1,432,982 |
| Non-controlling interests | | 59,422 | (20,212) |
| <i>See accompanying notes to the consolidated financial statements.</i> | | | |

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

| <i>(In millions of won)</i> | Controlling Interest | | | | Sub-total | Non-controlling interests | Total equity |
|--------------------------------------|----------------------|--------------------------------------|-------------------|------------------|-------------------|---------------------------|-------------------|
| | Share capital | Capital surplus (deficit) and others | Retained earnings | Reserves | | | |
| Balance at January 1, 2016 | ₩ 44,639 | 189,510 | 15,007,627 | 9,303 | 15,251,079 | 123,017 | 15,374,096 |
| Total comprehensive income: | | | | | | | |
| Profit (loss) for the year | | | 1,675,967 | | 1,675,967 | (15,866) | 1,660,101 |
| Other comprehensive loss | | | (7,499) | (235,486) | (242,985) | (4,346) | (247,331) |
| | | | 1,668,468 | (235,486) | 1,432,982 | (20,212) | 1,412,770 |
| Transactions with owners: | | | | | | | |
| Annual dividends | | | (635,482) | | (635,482) | (300) | (635,782) |
| Interim dividends | | | (70,609) | | (70,609) | | (70,609) |
| Interest on hybrid bonds | | | (16,840) | | (16,840) | | (16,840) |
| Changes in ownership in subsidiaries | | 10,269 | | | 10,269 | 42,526 | 52,795 |
| | | 10,269 | (722,931) | | (712,662) | 42,226 | (670,436) |
| Balance at December 31, 2016 | ₩ 44,639 | 199,779 | 15,953,164 | (226,183) | 15,971,399 | 145,031 | 16,116,430 |
| Balance at January 1, 2017 | ₩ 44,639 | 199,779 | 15,953,164 | (226,183) | 15,971,399 | 145,031 | 16,116,430 |
| Total comprehensive income: | | | | | | | |
| Profit for the year | | | 2,599,829 | | 2,599,829 | 57,766 | 2,657,595 |
| Other comprehensive income (loss) | | | 5,875 | (8,544) | (2,669) | 1,656 | (1,013) |
| | | | 2,605,704 | (8,544) | 2,597,160 | 59,422 | 2,656,582 |

Transactions with owners:

| | | | | | | | |
|--------------------------------------|-----------------|----------------|-------------------|------------------|-------------------|----------------|-------------------|
| Annual dividends | (635,482) | | (635,482) | (281) | (635,763) | | |
| Interim dividends | (70,609) | | (70,609) | | (70,609) | | |
| Interest on hybrid bonds | (16,840) | | (16,840) | | (16,840) | | |
| Share option | 414 | | 414 | | 414 | | |
| Changes in ownership in subsidiaries | (3,912) | 9 | (3,903) | (17,116) | (21,019) | | |
| | (3,498) | (722,922) | (726,420) | (17,397) | (743,817) | | |
| Balance at December 31, 2017 | ₩ 44,639 | 196,281 | 17,835,946 | (234,727) | 17,842,139 | 187,056 | 18,029,195 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | 2017 | 2016 |
|---|-------------|------------------|------------------|
| Cash flows from operating activities: | | | |
| Cash generated from operating activities | | | |
| Profit for the year | | ₩ 2,657,595 | 1,660,101 |
| Adjustments for income and expenses | 37 | 2,096,764 | 3,039,561 |
| Changes in assets and liabilities related to operating activities | 37 | (261,468) | 13,764 |
| Sub-total | | 4,492,891 | 4,713,426 |
| Interest received | | 66,713 | 44,602 |
| Dividends received | | 106,674 | 98,267 |
| Interest paid | | (234,127) | (245,236) |
| Income tax paid | | (576,331) | (367,891) |
| Net cash provided by operating activities | | 3,855,820 | 4,243,168 |
| Cash flows from investing activities: | | | |
| Cash inflows from investing activities: | | | |
| Decrease in short-term financial instruments, net | | | 222,322 |
| Collection of short-term loans | | 216,700 | 238,980 |
| Decrease in long-term financial instruments | | 27 | 28 |
| Proceeds from disposals of long-term investment securities | | 129,726 | 555,519 |
| Proceeds from disposals of investments in associates and joint ventures | | 5,925 | 66,852 |
| Proceeds from disposals of property and equipment | | 29,368 | 22,549 |
| Proceeds from disposals of intangible assets | | 8,848 | 16,532 |
| Collection of long-term loans | | 6,205 | 1,960 |
| Decrease in deposits | | 24,550 | 14,894 |
| Proceeds from disposals of other non-current assets | | 1,185 | 728 |
| Proceeds from disposals of subsidiaries | | 30,132 | |
| Increase in cash due to merger | | 4,112 | |
| Receipt of government grants | | | 300 |
| Sub-total | | 456,778 | 1,140,664 |
| Cash outflows from investing activities: | | | |
| Increase in short-term financial instruments, net | | (156,012) | |
| Increase in short-term investment securities, net | | (28,975) | (6,334) |
| Increase in short-term loans | | (205,878) | (239,303) |
| Increase in long-term loans | | (5,869) | (32,287) |
| Increase in long-term financial instruments | | (2,034) | (342) |
| Acquisitions of long-term investment securities | | (19,328) | (30,949) |
| Acquisitions of investments in associates and joint ventures | | (193,100) | (130,388) |

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| | | |
|--|----------------------|--------------------|
| Acquisitions of property and equipment | (2,715,859) | (2,490,455) |
| Acquisitions of intangible assets | (145,740) | (635,387) |
| Increase in deposits | (26,377) | (12,943) |
| Increase in other non-current assets | (47) | (763) |
| Acquisitions of business, net of cash acquired | | (4,498) |
| Acquisitions of subsidiaries, net of cash acquired | (26,566) | (19,032) |
| Liquidation of subsidiary | (1,600) | (191) |
| Sub-total | (3,527,385) | (3,602,872) |
| Net cash used in investing activities | ₩ (3,070,607) | (2,462,208) |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

| <i>(In millions of won)</i> | <i>Note</i> | 2017 | 2016 |
|---|-------------|--------------------|--------------------|
| Cash flows from financing activities: | | | |
| Cash inflows from financing activities: | | | |
| Proceeds from short-term borrowings, net | ₩ | 127,386 | |
| Proceeds from issuance of debentures | | 973,291 | 776,727 |
| Proceeds from long-term borrowings | | 120,000 | 49,000 |
| Cash inflows from settlement of derivatives | | 188 | 251 |
| Cash inflows from capital increase by subsidiary | | 40,938 | 35,646 |
| Sub-total | | 1,261,803 | 861,624 |
| Cash outflows for financing activities: | | | |
| Decrease in short-term borrowings, net | | | (257,386) |
| Repayments of long-term accounts payable-other | | (305,476) | (122,723) |
| Repayments of debentures | | (842,733) | (770,000) |
| Repayments of long-term borrowings | | (32,701) | (33,387) |
| Cash outflows from settlement of derivatives | | (105,269) | |
| Payments of finance lease liabilities | | | (26) |
| Payments of dividends | | (706,091) | (706,091) |
| Payments of interest on hybrid bonds | | (16,840) | (16,840) |
| Transactions with non-controlling shareholders | | (79,311) | |
| Sub-total | | (2,088,421) | (1,906,453) |
| Net cash used in financing activities | | (826,618) | (1,044,829) |
| Net increase (decrease) in cash and cash equivalents | | (41,405) | 736,131 |
| Cash and cash equivalents at beginning of the year | | 1,505,242 | 768,922 |
| Effects of exchange rate changes on cash and cash equivalents | | (6,102) | 189 |
| Cash and cash equivalents at end of the year | | ₩ 1,457,735 | 1,505,242 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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 December 31, 2017, the Parent Company's total issued shares are held by the following shareholders:

| | Number of shares | Percentage of total shares issued(%) |
|---|---------------------|--|
| SK Holdings Co., Ltd. | 20,363,452 | 25.22 |
| National Pension Service | 7,392,350 | 9.16 |
| Institutional investors and other minority stockholders | 42,853,358 | 53.07 |
| Treasury shares | 10,136,551 | 12.55 |
| Total number of shares | 80,745,711 | 100.00 |

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

(2) List of subsidiaries

The list of subsidiaries as of December 31, 2017 and 2016 is as follows:

| | Subsidiary | Location | Primary business | Ownership (%)(*1) | |
|--------------|-------------------------|----------|----------------------------|-------------------|------------------|
| | | | | Dec. 31, 2017 | Dec. 31, 2016 |
| Subsidiaries | | | Telecommunication and MVNO | | |
| owned by | SK Telink Co., Ltd.(*2) | Korea | service | 100.0 | 85.9 |
| the Parent | | Korea | Internet website services | 100.0 | 64.5 |

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| Company | | | | | |
|---|----------------|---|-------|-------|--|
| SK Communications Co., Ltd. (*3) | | | | | |
| SK Broadband Co., Ltd | Korea | Telecommunication services | 100.0 | 100.0 | |
| | | Communications device retail business | 100.0 | 100.0 | |
| PS&Marketing Corporation | Korea | Customer center management service | 100.0 | 100.0 | |
| SERVICEACE Co., Ltd. | Korea | Customer center management service | 100.0 | 100.0 | |
| SERVICE TOP Co., Ltd. | Korea | Base station maintenance service | 100.0 | 100.0 | |
| Network O&S Co., Ltd. | Korea | Telecommunication service | 98.1 | 98.1 | |
| SK Planet Co., Ltd. | Korea | Manufacturing digital audio players and other portable media devices. | 45.9 | 48.9 | |
| IRIVER LIMITED (*4, 5) | Korea | Investment | | | |
| SK Telecom China Holdings Co., Ltd. | China | Investment | 100.0 | 100.0 | |
| SK Global Healthcare Business Group, Ltd. | Hong Kong | Investment | 100.0 | 100.0 | |
| SKT Vietnam PTE. Ltd. | Singapore | Telecommunication service | 73.3 | 73.3 | |
| SKT Americas, Inc. | USA | Information gathering and consulting | 100.0 | 100.0 | |
| YTK Investment Ltd. | Cayman Islands | Investment association | 100.0 | 100.0 | |
| Atlas Investment | Cayman Islands | Investment association | 100.0 | 100.0 | |
| Entrix Co., Ltd. (*6) | Korea | Cloud streaming services | | 100.0 | |
| SK techx Co., Ltd. | Korea | System software development and supply | 100.0 | 100.0 | |
| One Store Co., Ltd. | Korea | Telecommunication services | 65.5 | 65.5 | |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of December 31, 2017 and 2016 is as follows, Continued:

| | | | | Ownership (%)(*1) | | |
|--|--|------------------------|---|---|--------------------------|-------|
| | | Location | Primary business | Dec. 31, 2017 | Dec. 31, 2016 | |
| Subsidiaries owned by SK Planet Co., Ltd. | SK m&service Co., Ltd. | Korea | Data base and internet website service | 100.0 | 100.0 | |
| | (formerly, M&Service Co., Ltd.) | | | | | |
| | SK Planet Japan, K. K. (*5) | Japan | Digital contents sourcing service | 79.5 | 100.0 | |
| | SK Planet Global PTE. Ltd. | Singapore | Digital contents sourcing service | 100.0 | 100.0 | |
| | SKP GLOBAL HOLDINGS PTE. LTD. | Singapore | Investment | 100.0 | 100.0 | |
| | SKP America LLC. | USA | Digital contents sourcing service | 100.0 | 100.0 | |
| | shopkick Management Company, Inc. | USA | Investment | 100.0 | 100.0 | |
| | shopkick, Inc. | USA | Reward points-based in-store shopping app development | 100.0 | 100.0 | |
| | Planet11 E-commerce Solutions India Pvt. Ltd.(*6) | India | Electronic commerce platform service | | 99.0 | |
| | 11street (Thailand) Co., Ltd. | Thailand | Electronic commerce | 100.0 | 100.0 | |
| | Hello Nature Ltd. | Korea | Retail of agro-fisheries and livestock | 100.0 | 100.0 | |
| | Subsidiaries owned by IRIVER LIMITED | iriver Enterprise Ltd. | Hong Kong | Management of Chinese subsidiary | 100.0 | 100.0 |
| | | iriver Inc. | USA | Marketing and sales in North America | 100.0 | 100.0 |
| | iriver China Co., Ltd. | China | Sales and manufacturing MP3,4 in China | 100.0 | 100.0 | |
| | Dongguan iriver Electronics Co., Ltd. | China | Sales and manufacturing e-book in China | 100.0 | 100.0 | |
| | groovers JP Ltd. | Japan | Digital music contents sourcing and distribution service | 100.0 | 100.0 | |
| | S.M. LIFE DESIGN COMPANY JAPAN INC.(*6) | Japan | Selling of goods in Japan | 100.0 | | |
| | S.M. Mobile Communications JAPAN Inc.(*6) | Japan | Digital contents service | 100.0 | | |

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| | | | | | |
|--|---|----------------|--|----------------|-------|
| Subsidiaries owned by SK Telink Co., Ltd. | NSOK Co., Ltd. (formerly, Neosnetworks Co., Ltd.) (*7) | Korea | Guarding of facilities | 100.0 | 100.0 |
| Subsidiaries owned by SK techx Co., Ltd. | K-net Culture and Contents Venture Fund | Korea | Capital investing in startups | 59.0 | 59.0 |
| Subsidiaries owned by SK Broadband Co., Ltd. | Home & Service Co., Ltd (*6) SK stoa Co., Ltd. (*6) | Korea Korea | Operation of information and communication facility Other telecommunication retail business | 100.0 100.0 | |
| Others(*8) | 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 |
| | Stonebridge Cinema Fund (*6) | Korea | Capital investing in startups | | 60.0 |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of December 31, 2017 and 2016 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) On September 28, 2017, the board of directors of the Parent Company resolved to acquire the shares of SK Telink Co., Ltd. held by the non-controlling shareholders of SK Telink Co., Ltd. on December 14, 2017 at ₩270,583 per share in cash. The Parent Company paid ₩35,281 million in cash, in aggregate, and wholly owns SK Telink Co., Ltd. as of December 31, 2017.

(*3) On November 24, 2016, the board of directors of the Parent Company resolved to acquire all of the shares of SK Communications Co., Ltd. held by the non-controlling shareholders of SK Communications Co., Ltd. on February 7, 2017 at ₩2,814 per share in cash. The Parent Company paid ₩41,550 million in cash, in aggregate, and wholly owns SK Communications Co., Ltd. as of December 31, 2017.

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

(*5) The ownership interest changed due to the non-proportional capital increase during the year ended December 31, 2017.

(*6) Details of changes in consolidation scope for the year ended December 31, 2017 are presented in Note 1-(4).

(*7) During the year ended December 31, 2017, Neosnetworks Co., Ltd. changed its name to NSOK Co., Ltd.

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries

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

(In millions of won)

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

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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, 2016 is as follows:

(In millions of won)

| Subsidiary | As of December 31, 2016 | | | 2016 | |
|--|-------------------------|-------------------|--------------|-----------|---------------|
| | Total assets | Total liabilities | Total equity | Revenue | Profit (loss) |
| SK Telink Co., Ltd. | ₩ 440,956 | 122,741 | 318,215 | 406,930 | 61,585 |
| SK m&service Co., Ltd. (formerly, M&Service Co., Ltd.) | 107,768 | 56,596 | 51,172 | 173,816 | 4,958 |
| SK Communications Co., Ltd. | 128,233 | 31,592 | 96,641 | 58,154 | (20,411) |
| SK Broadband Co., Ltd. | 3,523,494 | 2,376,429 | 1,147,065 | 2,942,976 | 21,526 |
| PS&Marketing Corporation | 546,803 | 328,846 | 217,957 | 1,679,735 | 11,908 |
| SERVICEACE Co., Ltd. | 67,735 | 40,014 | 27,721 | 199,828 | 3,605 |
| SERVICE TOP Co., Ltd. | 59,004 | 39,121 | 19,883 | 186,740 | 3,971 |
| Network O&S Co., Ltd. | 69,774 | 35,798 | 33,976 | 218,917 | 3,755 |
| SK Planet Co., Ltd.(*1) | 1,935,663 | 834,151 | 1,101,512 | 1,177,323 | (30,959) |
| IRIVER LIMITED(*2) | 50,075 | 11,941 | 38,134 | 52,328 | (9,987) |
| SKP America LLC. | 439,209 | | 439,209 | | 1,226 |
| SK techx Co., Ltd. | 212,819 | 52,563 | 160,256 | 193,396 | 28,213 |
| One Store Co., Ltd. | 134,207 | 41,738 | 92,469 | 106,809 | (22,161) |
| shopkick Management Company, Inc. | 354,627 | | 354,627 | | (85) |
| shopkick, Inc. | 37,947 | 34,024 | 3,923 | 45,876 | (27,149) |

(*1) The separate financial information of SK Planet Co., Ltd. includes pre-merger income and expenses of Commerce Planet Co., Ltd. prior to the merger date of February 1, 2016.

(*2) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and five other subsidiaries of IRIVER LIMITED.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. Reporting Entity, Continued**(4) Changes in subsidiaries**

The list of subsidiaries that were newly included in consolidation during the year ended December 31, 2017 is as follows:

| Subsidiary | Reason |
|--|---------------------------------------|
| S.M. LIFE DESIGN COMPANY JAPAN INC. (Refer to Note 10) | Acquired by IRIVER LIMITED |
| S.M. Mobile Communications JAPAN Inc. (Refer to Note 10) | Acquired by IRIVER LIMITED |
| Home & Service Co., Ltd. | Established by SK Boradband Co., Ltd. |
| SK stoa Co., Ltd. | Established by SK Boradband Co., Ltd. |

The list of subsidiaries that were excluded from consolidation during the year ended December 31, 2017 is as follows:

| Subsidiary | Reason |
|---|---|
| Entrix Co., Ltd. | Merged into SK techx Co., Ltd. during the year ended December 31, 2017. |
| Planet11 E-commerce Solutions India Pvt. Ltd. | Disposed during the year ended December 31, 2017 |
| Stonebridge Cinema Fund | Liquidated during the year ended December 31, 2017. |

(5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2017 and 2016 are as follows. There were no dividends paid during the years ended December 31, 2017 and 2016 by subsidiaries of which non-controlling interests are significant.

(In millions of won)

| | K-net Culture and Contents Venture Fund | IRIVER LIMITED | One Store Co., Ltd. |
|--|--|-------------------|------------------------|
| Ownership of non-controlling interests (%) | 41.00 | 54.10 | 34.46 |
| | As of December 31, 2017 | | |
| Current assets | ₩ 625 | 74,873 | 76,810 |
| Non-current assets | 250,122 | 56,005 | 28,081 |

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| | | | |
|---|------------------|-------------|----------|
| Current liabilities | (35,900) | (9,563) | (38,547) |
| Non-current liabilities | | (7,641) | (1,327) |
| Net assets | 214,847 | 113,674 | 65,017 |
| Carrying amount of non-controlling interests | 88,087 | 63,382 | 22,405 |
| | | 2017 | |
| Revenue | ₩ | 69,452 | 115,596 |
| Profit (loss) for the year | 196,250 | (14,092) | (27,254) |
| Total comprehensive profit (loss) | 201,693 | (14,278) | (27,452) |
| Profit (loss) attributable to non-controlling interests | 80,463 | (7,438) | (9,392) |
| Net cash provided by (used in) operating activities | ₩ (7) | (7,553) | 13,912 |
| Net cash used in investing activities | (600) | (45,002) | (2,000) |
| Net cash provided by (used in) financing activities | | 64,571 | (7) |
| Net increase (decrease) in cash and cash equivalents | (607) | 12,016 | 11,905 |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. Reporting Entity, Continued

- (5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2017 and 2016 are as follows. There were no dividends paid during the years ended December 31, 2017 and 2016 by subsidiaries of which non-controlling interests are significant., Continued

(In millions of won)

| | SK Communications Co., Ltd. One Store Co., Ltd. | |
|--|--|----------|
| Ownership of non-controlling interests (%) | 35.46 | 34.46 |
| | As of December 31, 2016 | |
| Current assets | ₩ 81,806 | 90,414 |
| Non-current assets | 46,427 | 43,793 |
| Current liabilities | (30,098) | (40,969) |
| Non-current liabilities | (1,494) | (769) |
| Net assets | 96,641 | 92,469 |
| Carrying amount of non-controlling interests | 34,265 | 31,863 |
| | 2016 | |
| Revenue | ₩ 58,154 | 106,809 |
| Loss for the year | 20,411 | 22,161 |
| Total comprehensive loss | 20,841 | 22,402 |
| Loss attributable to non-controlling interests | 7,240 | 6,772 |
| Net cash used in operating activities | ₩ (4,891) | (4,447) |
| Net cash provided by (used in) investing activities | 3,625 | (20,796) |
| Net cash provided by financing activities | | 51,426 |
| Net increase (decrease) in cash and cash equivalents | (1,266) | 26,183 |

2. Basis of Presentation

- (1) Statement of compliance

These consolidated financial statements were prepared in accordance with Korean International Financial Reporting Standards (K-IFRS), as prescribed in the *Act on External Audits of Stock Companies in the Republic of Korea*.

The consolidated financial statements were authorized for issuance by the Board of Directors on February 2, 2018, which will be submitted for approval at the shareholders meeting to be held on March 21, 2018.

- (2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement of financial position:

derivative financial instruments measured at fair value;

financial instruments at fair value through profit or loss measured at fair value;

available-for-sale financial assets measured at fair value; and

liabilities(assets) for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Presentation, Continued

(3) Functional and presentation currency

Financial statements of Group entities within the Group are prepared in functional currency of each group entity, which is the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

(4) Use of estimates and judgments

The preparation of the consolidated 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in Note 4 for the following areas: consolidation: whether the Group has de facto control over an investee, and classification of lease.

2) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: allowance for doubtful accounts, estimated useful lives of property and equipment and intangible assets, impairment of goodwill, recognition of provision, measurement of defined benefit liabilities, and recognition of deferred tax assets (liabilities).

3) 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 an established policies and processes with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the finance executives.

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

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Presentation, Continued

(4) Use of estimates and judgments, Continued

3) Fair value measurement, Continued

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 34.

3. Changes in accounting policies

Except the following amendments to the standards that are effective for annual periods beginning on January 1, 2017, the accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

1) K-IFRS No. 1007, *Cash Flow Statements*

The Group adopted the amendments to K-IFRS No. 1007, which form a part of the IASB's broader disclosure in the period beginning on January 1, 2017. The amendment requires the Group to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group disclosed the reconciliation of the opening and closing balances of liabilities arising from financing activities including changes from financing cash flows; changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes

in fair values; and other changes in Note 37.

2) K-IFRS No. 1012, *Income Taxes*

The Group adopted the amendments to K-IFRS No. 1012 in the period beginning January 1, 2017. The amendments clarify the necessity to consider whether there are restrictions on tax laws on the sources of taxable profits which may be used for the reversal of deductible temporary difference. In addition, the amendments provide the guidance on how to estimate the probable future taxable profit and specify the circumstances where an asset can be recovered for more than its carrying amount. These amendments have no impact on the Group's consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies

The significant accounting policies applied by the Group in the preparation of its consolidated financial statements in accordance with K-IFRSs are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(1) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's operating segments have been determined to be each business unit, for which the Group generates separately identifiable financial information that is regularly reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance. The Group has four reportable segments which consist of cellular services, fixed-line telecommunication services, e-commerce services and others, as described in Note 5. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(2) Basis of consolidation

(i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Consideration transferred is generally measured at fair value, identical to the measurement of identifiable net assets acquired at fair value. The difference between the acquired company's fair value and the consideration transferred is accounted for goodwill. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received excluding costs to issue debt or equity securities recognized based on K-IFRS No. 1032 and 1039.

Consideration transferred does not include the amount settled in relation to the pre-existing relationship and the amount settled in relation to the pre-existing relationship is generally recognized through profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. If contingent consideration is not classified as equity, the Group subsequently recognizes changes in fair value of contingent consideration through profit or loss.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(2) Basis of consolidation, Continued

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in a Controlling Company's ownership interest in a subsidiary that do not result in the Controlling Company losing control of the subsidiary are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

(iv) Loss of control

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

(v) Interest in investees accounted for using the equity method

Interest in investees accounted for using the equity method composed of interest in associates and joint ventures. An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the net assets of the arrangement.

The investment in an associate and a joint venture is initially recognized at cost including transaction costs and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture after the date of acquisition.

(vi) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with investees accounted for using the equity method are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

(vii) Business combinations under common control

SK Holdings Co., Ltd. is the ultimate controlling entity of the Group. The assets and liabilities acquired under business combination under common control are recognized at the carrying amounts in the ultimate controlling shareholder's consolidated financial statements. The difference between consideration and carrying amount of net assets acquired is added to or subtracted from capital surplus and others.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and financial asset with maturities of three months or less from the acquisition date that are easily convertible to cash and subject to an insignificant risk of changes in their fair value.

(4) Inventories

Inventories are stated at the acquisition cost using the average method. During the period, a perpetual inventory system is used to track inventory quantities, which is adjusted to the physical inventory counts performed at the period end. When the net realizable value of inventories is less than the acquisition cost, the carrying amount is reduced to the net realizable value and any difference is charged to current operations as operating expenses.

(5) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets not at fair value through profit or loss are measured at their fair value plus transaction costs that are directly attributable to the acquisition of the asset.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial asset at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investment. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value with changes in fair value, net of any tax effect, recorded in other comprehensive income (OCI) in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(6) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designates derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency

risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting, Continued

(i) Hedge accounting, Continued

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes following loss events:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The Group can recognize impairment losses directly or by establishing an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(7) Impairment of financial assets, Continued

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss subsequently. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(8) Property and equipment

Property and equipment are initially measured at cost. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as a separate item if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized as other non-operating income (loss).

The estimated useful lives of the Group's property and equipment are as follows:

| | Useful lives (years) |
|------------------------------|----------------------|
| Buildings and structures | 15 ~ 40 |
| Machinery | 3 ~ 15 |
| Other property and equipment | 2 ~ 10 |

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in accounting estimate.

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For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(9) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period do not exceed the amount of borrowing costs incurred during that period.

(10) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, club memberships are expected to be available for use as there are no foreseeable limits to the periods. This intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Group's intangible assets are as follows:

| | Useful lives (years) |
|------------------------|----------------------|
| Frequency usage rights | 5 ~ 13 |
| Land usage rights | 5 |
| Industrial rights | 5, 10 |
| Development costs | 3 ~ 5 |
| Facility usage rights | 10, 20 |
| Customer relations | 3 ~ 7 |

Other

3 ~ 20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(10) Intangible assets, Continued

Expenditures on research activities are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(11) Government grants

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

(i) Grants related to assets

Government grants whose primary condition is that the Group purchases, constructs or otherwise acquires a long-term asset are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

(ii) Grants related to income

Government grants which are intended to compensate the Group for expenses incurred are deducted from the related expenses.

(12) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as a separate item if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 15~40 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

SK TELECOM CO., LTD. and Subsidiaries

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4. Significant Accounting Policies, Continued

(13) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss to the extent the carrying amount of the asset exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the business acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(14) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statement of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

SK TELECOM CO., LTD. and Subsidiaries

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4. Significant Accounting Policies, Continued

(14) Leases, Continued

(i) Finance leases, Continued

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased assets are impaired at the reporting date.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate of interest.

(15) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly

probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(16) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the issue of the financial liability are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the issue of the financial liability. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(17) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(17) Employee benefits, Continued

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans

At of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized at present value of defined benefit obligations net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Group recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

(v) Termination benefits

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring that involves the payment of termination benefits. If benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(18) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

(19) Transactions in foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(19) Transactions in foreign currencies, Continued

(ii) Foreign operations, Continued

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate at the reporting date.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(20) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its own shares, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are directly recognized in equity being as transaction with owners

(21) Hybrid bond

The Group recognizes a financial instrument issued by the Group as an equity instrument if it does not include contractual obligation to deliver financial assets including cash to the counter party.

(22) Share-based Payment

For equity-settled share-based payment transaction, if the fair value of the goods or services received cannot be reliably estimated, the Group measures their value indirectly by reference to the fair value of the equity instruments granted. Related expense, with a corresponding increase in capital surplus and others is recognized over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the

related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(23) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable. Returns, trade discounts and volume rebates are recognized as a reduction of revenue.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(23) Revenue, Continued

(i) Services rendered

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed.

Revenue from fixed-line services includes domestic and long-distance call charges, international phone connection charges, and broadband internet services. Such revenues are recognized as the related services are performed.

Revenue from other services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(ii) Goods sold

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Commission revenue

In connection with the commission revenue from e-commerce services, the Group has determined that it is acting as an agent due to the followings:

The Group does not bear inventory risk or have responsibility for the delivery goods;

All of the credit risks are borne by suppliers of goods though the Group collects the proceeds from end customers on behalf of the suppliers; and

The Group has no latitude in establishing prices regarding goods sold in e-commerce.

(iv) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programs is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Group performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(24) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on disposal of available-for-sale financial assets, changes in fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, changes in fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

(25) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Group pays income tax in accordance with the tax-consolidation system when the parent company and its subsidiaries are economically unified.

(i) Current tax

In accordance with the tax-consolidation system, the Parent Company calculates current taxes for the Parent Company and its wholly owned domestic subsidiaries and recognizes the income tax payable as current tax liabilities of the Parent Company. Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and includes interests and fines related to income taxes paid or payable. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group recognizes a deferred tax liability for all taxable temporary differences, except for the difference associated with investments in subsidiaries and associates that the Group is able to control the timing of the reversal of the

temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(25) Income taxes, Continued

(ii) Deferred tax, Continued

A deferred tax asset is recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Future taxable profit is dependent on the reversal of taxable temporary differences. If there are insufficient taxable temporary differences to recognize the deferred tax asset, the business plan of the Group and the reversal of existing temporary differences are considered in determining the future taxable profit.

The Group reviews the carrying amount of a deferred tax asset at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they are intended to be settled current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

(26) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if any.

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective

The following new standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Group has not early adopted the following new standards in preparing the accompanying consolidated financial statements.

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

K-IFRS No. 1109, published on September 25, 2015 which will replace the K-IFRS No. 1039 *Financial Instruments: Recognition and Measurement*, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group currently plans to apply K-IFRS No.1109 in the period beginning on January 1, 2018.

K-IFRS No. 1109 will be applied retrospectively with exemption allowing the Group not to restate comparative information for prior periods with respect to classification and measurement changes. The Group will recognize any difference on the measurement of financial assets and liabilities in the opening balance of retained earnings of the year beginning January 1, 2018. In the case of hedge accounting, the prospective application is allowed except for those specified in K-IFRS No. 1109 such as accounting for the time value of options and the forward element of forward contracts which requires retrospective application.

Key features of K-IFRS No. 1109 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment model based on changes in expected credit losses, and new approach to hedge qualification and methods for assessing hedge effectiveness.

To ensure smooth implementation of K-IFRS No.1109, the Group needs to assess the financial impact of adopting K-IFRS No. 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS No. 1109 on the Group's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

Based on the circumstances and information available as of December 31 2017, the Group preliminary assessed the financial impact on its consolidated financial statements resulting from the adoption of K-IFRS No. 1109. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available in subsequent periods.

i) Classification and measurement of financial assets

Classification of financial assets under K-IFRS No. 1109 is driven by the entity's business model for managing financial assets and their contractual cash flows. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models and contractual cash flows are as follows:

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For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

- 1) K-IFRS No. 1109, *Financial Instruments*, Continued
 - i) Classification and measurement of financial assets, Continued

| Business model assessment (*1) | Contractual cash flow characteristics | |
|--|--|-----------------------------------|
| | Solely payments of principal and interest | Others |
| Hold to collect contractual cash flows | Amortized cost(*2) | |
| Hold to collect contractual cash flows and sell financial assets | FVOCI- measured at fair value (*2) | FVTPL-measured at fair value (*3) |
| Hold to sell financial assets and others | FVTPL-measured at fair value | |

(*1) The business model will be assessed at portfolio level.

(*2) To eliminate or significantly reduce the accounting mismatch, the Group may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.

(*3) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option. This election will be made on an investment-by-investment basis.

As new classification requirements for financial assets under K-IFRS No. 1109 are more stringent than requirements under K-IFRS No. 1039, the adoption of the new standard may result in increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Group. As of December 31, 2017, the Group's financial assets consist of ₩6,176,575 million of loans and receivables, ₩934,390 million of available-for-sale financial assets, and ₩328,314 million of financial assets at fair value through profit or loss.

A financial asset is measured at amortized cost under K-IFRS No. 1109 if the asset is held by the Group to collect its contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Group has ₩6,176,575 million of loans and receivables measured at amortized cost.

Based on preliminary assessment, most of the Group's loans and receivables are held to collect their contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. Though some are held for collecting the asset's contractual cash flows and sale, management does not expect this to have a significant impact

due to the short term nature of the receivables.

A financial asset is measured at FVOCI under K-IFRS No. 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Group has ₩19,928 million of debt instruments classified as available-for-sale financial assets.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

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

i) Classification and measurement of financial assets, Continued

Most of the debt instruments held by the Group classified as available-for-sale financial assets are expected to be classified as financial assets measured at FVOCI upon adoption K-IFRS No. 1109 as at January 1, 2018. Therefore, management does not expect there to be a significant impact.

Under K-IFRS No. 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2017, the Group has ₩914,462 million of available-for-sale equity instruments.

As the Group plans to classify the equity instruments with long-term investment purposes to financial assets measured at FVOCI under K-IFRS No. 1109, the Group's preliminary assessment did not indicate any material impact on the Group's consolidated financial statements except no recycling of amounts from OCI to profit and loss is allowed.

All other financial assets are measured at FVTPL. As of December 31, 2017, the Group has ₩97,003 million of debt instruments classified as financial assets at FVTPL.

Most of the financial assets classified as FVTPL under K-IFRS No. 1039 of the Group are expected to be designated as financial assets measured at FVTPL under K-IFRS No. 1109. Therefore, the Group's preliminary assessment did not indicate any material impact on the Group's consolidated financial statements upon adoption of K-IFRS No. 1109 as at January 1, 2018.

ii) Classification and measurement of financial liabilities

Under K-IFRS No. 1109, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss.

Adoption of K-IFRS No. 1109 may result in decrease in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI.

As of December 31, 2017, the Group's total financial liability amounts to ~~₩~~12,725,704 million, among which the financial liabilities designated as FVTPL using fair value option amount to ~~₩~~60,278 million.

As of December 31, 2017, most of the financial liabilities designated as FVTPL of the Group have short-term maturities with no significant changes in their credit risks. The Group's preliminary assessment did not indicate any material impact on the Group's consolidated financial statements if K-IFRS No. 1109 were applied at December 31, 2017.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

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

iii) Impairment: financial assets and contract assets

The current impairment requirements under K-IFRS No. 1039 are based on an incurred loss model, where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, K-IFRS No. 1109 replaces the incurred loss model in K-IFRS No. 1039 with an expected credit loss model which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

Under K-IFRS No. 1109, the Group should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of K-IFRS No. 1039.

| | Stages (*1) | Loss allowances |
|---------|---|--|
| Stage 1 | No significant increase in credit risk since initial recognition (*2) | Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date. |
| Stage 2 | Significant increase in credit risk since initial recognition | Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial instrument. |
| Stage 3 | Objective evidence of credit risk impairment | |

(*1) Under K-IFRS No. 1115, *Revenue from Contracts with Customers* (see note 4 (27) (2)), for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under K-IFRS No. 1115, the Group may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Group may choose to recognize loss allowances at an amount equal to lifetime expected credit losses. The Group expects to perform the analysis on whether there was a significant increase in credit risk on

collective basis instead of on individual instrument basis. In addition, when information that is more forward-looking than past due status is not available without undue cost or effort, the Group expects to use past due information to determine whether there have been significant increases in credit risk since initial recognition.

(*2) The Group may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

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For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

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

iii) Impairment: financial assets and contract assets, Continued

K-IFRS No. 1109 allows the Group to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date. As of December 31, 2017, the Group has ₩6,176,575 million of debt instrument financial assets measured at amortized cost and ₩362,171 million as loss allowances for these assets. The Group's preliminary assessment did not indicate any material impact on the Group's consolidated financial statements upon adoption of K-IFRS No. 1109 on January 1, 2018.

iv) Hedge accounting

K-IFRS No. 1109 maintains the mechanics of hedge accounting from those in K-IFRS No. 1039. However, K-IFRS No. 1109 replaces existing rule-based requirements under K-IFRS No. 1039 that are complex and difficult to apply with principle based requirement focusing more on the Group's risk management purposes and procedures. Under K-IFRS No. 1109, more hedging instruments and hedged items are permitted and 80%-125% effectiveness requirement is removed.

By complying with the hedging rules in K-IFRS No. 1109, the Group may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS No. 1039 thereby reducing volatility in profit or loss. As of December 31, 2016, the Group recognized the total amount of ₩2,026,434 million as hedged liabilities that applied hedge accounting and changes in fair value of cash flow hedge in the amount of ₩73,828 million was recognized in OCI for the year ended December 31, 2017.

Upon initial application of K-IFRS No. 1109, the Group may choose as its accounting policy to continue to apply hedge accounting requirements under K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109.

The Group is yet to decide on its accounting policy whether to continuously apply the hedge accounting requirements of K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109 when initially applying K-IFRS No. 1109. The Group designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Group's hedging instruments as of December 31, 2017 satisfy the hedge requirements of retrospective testing (80~125%) under K-IFRS No. 1039, the

adoption of K-IFRS No. 1109 is not expected to have material impact on the Group's consolidated financial statements.

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For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

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

K-IFRS No. 1115, *Revenue from Contracts with Customers*, published on November 6, 2015 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRS No. 2113, *Customer Loyalty Programs*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate*, and K-IFRS No. 2118, *Transfers of Assets from Customers*. The Group plans to adopt K-IFRS No. 1115 on January 1, 2018. The Group plans to apply K-IFRS No. 1115 by recognizing the cumulative effect of initially applying the K-IFRS No. 1115 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the year beginning January 1, 2018. The Group elected to apply K-IFRS No. 1115 retrospectively only to contracts that are not completed contracts at the date of initial application (January 1, 2018) using the transition method permitted by K-IFRS No. 1115.

K-IFRS No. 1018 provides separate revenue recognition criteria by transaction type which include sale of goods, rendering of services, and use of entity assets by others yielding interest, royalties and dividends. However, K-IFRS No. 1115 introduces a five-step model for revenue recognition that focuses on the transfer of control rather than the transfer of risks and rewards. The steps in five-step model are as follows:

identification of the contract with a customer;

identification of the performance obligations in the contract;

determination of the transaction price;

allocation of the transaction price to the performance obligations in the contract; and

recognition of revenue when (or as) the entity satisfies a performance obligation.

The Group updated its accounting system and related controls based on the understanding of the revenue stream of the Group with the assistance of external information technology and accounting specialists. The Group is assessing the financial impact of the adoption of K-IFRS No. 1115 on its consolidated financial statements and plans to complete the assessment by March 31, 2018. The results of the assessment will be disclosed in the Group's condensed

consolidated interim financial statements for the three-month period ending March 31, 2018.

Based on the circumstances and information available as of December 31, 2017, the Group preliminarily assessed the financial impact on its consolidated financial statements resulting from the adoption of K-IFRS No. 1115. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available to use in subsequent periods.

i) Identification of performance obligations in the contract

A substantial portion of the Group's revenues are generated from provision of wireless telecommunications services. K-IFRS No. 1115 requires the Group to evaluate goods or services promised to customers to determine if they are performance obligations other than wireless telecommunications service that should be accounted for separately. The amount and timing of revenue recognition under K-IFRS No. 1105 may be different from those under K-IFRS No. 1018 depending on the conclusion over the existence of separately identifiable performance obligations and the timing of satisfying each performance obligation.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

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

i) Identification of performance obligations in the contract, Continued

In the case that the Group provides the wireless telecommunications services and a handset to one customer, the Group will allocate considerations from the customer between handset sale revenue and wireless telecommunications service revenue. The handset sales revenue is recognized when handset is sold and the wireless telecommunications service revenue is recognized as revenue over the period of the contract term as stated in the subscription contract.

ii) Allocate the transaction price to the separate performance obligations

In accordance with K-IFRS No. 1115, the Group should allocate the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price. The Group plans to use adjusted market assessment method for estimating the stand-alone selling price. However, in some circumstances, expected cost plus a margin approach will be used.

The Group is in the progress of assessing the financial impact of allocating the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price for the case where the Group provides the wireless telecommunications services and handset to one customer. Based on the preliminary assessment, the Group expects that wireless telecommunications service revenue will be decreased, while handset sale revenue will be increased upon adoption of K-IFRS No. 1115.

iii) Incremental costs to acquire a contract

The Group has exclusive contracts with its sales agents to sell the Group's wireless telecommunications services to subscribers. These agents receive commissions depending on the number of subscribers newly added and retained. The commissions paid to the agents constitute a significant portion of the Group's operating expenses. Currently, the portion of these commissions that would not have been incurred if there have been no binding contracts with the subscribers are expensed.

Under K-IFRS No. 1115, for the Group's incremental costs to acquire a subscription contract, the Group expects to capitalize such amounts and amortized over the expected subscription period estimated based on historical experience.

However, as a practical expedient, the Group plans to expense the incremental cost as incurred if the amortization period of the contract acquisition and fulfillment cost is considered to be not longer than one year.

As of December 31, 2017, the Group is assessing the impact of capitalizing the incremental costs associated with obtaining customer contracts. Based on the preliminary assessment, the Group expects commission expenses to decrease, while corresponding assets capitalized (incremental costs of obtaining a contract) and amortization expenses to be recognized and incurred, respectively.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

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

K-IFRS No. 1116, published on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. K-IFRS No. 1116 replaces existing leases guidance including K-IFRS No. 1017, *Leases*, K-IFRS No. 2104, *Determining whether an Arrangement contains a Lease*, K-IFRS No. 2015, *Operating Leases Incentives* and K-IFRS No. 2027, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

K-IFRS No. 1116, at the inception date of a contract and the first implementation of the standard, requires the Group to determine whether a contract is, or contains, a lease unless the Group applies the practical expedient for the existing lease contract at the date of adoption of the standard.

When accounting for lease, lessee and lessor should account for each lease component within the contract as a lease separately from non-lease components of the contract.

Lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. However, there are optional exemptions for short-term leases and leases of low value items. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessor accounting remains similar to the current standard K-IFRS No. 1017. For a sale and leaseback arrangement, K-IFRS No. 1116 requires the Group to apply the requirements for determining when a performance obligation is satisfied in K-IFRS No. 1115 to determine whether the transfer of an asset is accounted for as a sale of that asset. However, sale and leaseback arrangements entered into before the adoption of K-IFRS No. 1116 may not be reassessed.

i) Lease accounting for lessees

As a lessee, the Group can either apply the K-IFRS No. 1116 using a full retrospective approach; or modified retrospective approach. The full retrospective approach requires the Group to retrospectively apply the new standard to each prior reporting period presented, while modified retrospective approach requires the lessee to recognize the cumulative effect of initial application at the date of initial application of the new leases standard.

ii) Lease accounting for lessors

In case where the Group is an intermediate lessor, the Group should reassess subleases that were classified as operating leases applying K-IFRS No. 1017 and are ongoing at the date of initial application, whether each sublease should be classified as an operating lease or a finance lease applying K-IFRS No. 1116. For subleases that were classified as operating leases applying K-IFRS No. 1017 but finance leases applying K-IFRS No. 1116, the Group should account for such sublease as a new finance lease entered into at the date of initial application of K-IFRS No. 1116.

The Group plans to update its accounting system and related controls and complete the assessment of impact on its consolidated financial statements resulting from the adoption of K-IFRS No. 1116 by December 31, 2018.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

5. 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, which include online commerce services; 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 year ended December 31, 2017 is as follows:

(In millions of
won)

| | 2017 | | | | | | |
|--|------------------------------|--|--------------------------------|---------------|------------------|--------------------|--------------|
| | Cellular Services | Fixed-line telecommu- nication services | E-commerce Services | Others | Sub-total | Adjustments | Total |
| Total revenue | ₩ 14,873,543 | 3,586,887 | 1,091,903 | 788,836 | 20,341,169 | (2,821,156) | 17,520,013 |
| Inter-segment revenue | 1,611,408 | 862,736 | 47,732 | 299,280 | 2,821,156 | (2,821,156) | |
| External revenue | 13,262,135 | 2,724,151 | 1,044,171 | 489,556 | 17,520,013 | | 17,520,013 |
| Depreciation and amortization | 2,390,016 | 592,877 | 54,486 | 60,087 | 3,097,466 | | 3,097,466 |
| Operating profit (loss) | 1,714,078 | 167,515 | (267,829) | (77,138) | 1,536,626 | | 1,536,626 |
| Finance income and costs, net | | | | | | | (67,055) |
| Gain relating to investments in subsidiaries, associates and joint ventures, net | | | | | | | 2,245,732 |
| Other non-operating income and expense, net | | | | | | | (312,054) |
| Profit before income tax | | | | | | | 3,403,249 |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

5. Operating Segments, Continued

(2) Segment information for the year ended December 31, 2016 is as follows:

(In millions of won)

| | 2016 | | | | | | |
|--|------------------------------|--|--------------------------------|---------------|------------------|--------------------|--------------|
| | Cellular Services | Fixed-line telecommu- nication services | E-commerce Services | Others | Sub-total | Adjustments | Total |
| Total revenue | ₩ 14,635,720 | 3,349,905 | 1,177,323 | 726,374 | 19,889,322 | (2,797,506) | 17,091,816 |
| Inter-segment revenue | 1,630,811 | 698,712 | 176,007 | 291,976 | 2,797,506 | (2,797,506) | |
| External revenue | 13,004,909 | 2,651,193 | 1,001,316 | 434,398 | 17,091,816 | | 17,091,816 |
| Depreciation and amortization | 2,262,363 | 551,811 | 68,298 | 59,414 | 2,941,886 | | 2,941,886 |
| Operating profit (loss) | 1,799,127 | 132,459 | (365,194) | (30,648) | 1,535,744 | | 1,535,744 |
| Finance income and costs, net | | | | | | | 248,220 |
| Gain relating to investments in subsidiaries, associates and joint ventures, net | | | | | | | 544,501 |
| Other non-operating income and expense, net | | | | | | | (232,326) |
| Profit before income tax | | | | | | | 2,096,139 |

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 years ended December 31, 2017 and 2016.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

6. Restricted Deposits

Deposits which are restricted in use as of December 31, 2017 and 2016 are summarized as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|--------------------------|--------------------------|
| Short-term financial instruments(*) | ₩ 89,850 | 90,278 |
| Long-term financial instruments(*) | 1,222 | 937 |
| | ₩ 91,072 | 91,215 |

(*) Financial instruments include charitable trust fund established by the Group where profits from the fund are donated to charitable institutions. As of December 31, 2017, the funds cannot be withdrawn before maturity.

7. Trade and Other Receivables

(1) Details of trade and other receivables as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | Gross amount | December 31, 2017 Allowances for doubtful accounts | Carrying amount |
|-------------------------------------|---------------------|---|------------------------|
| Current assets: | | | |
| Accounts receivable trade | ₩ 2,365,270 | (239,263) | 2,126,007 |
| Short-term loans | 63,380 | (550) | 62,830 |
| Accounts receivable other | 1,336,247 | (75,412) | 1,260,835 |
| Accrued income | 3,979 | | 3,979 |
| Others | 3,927 | | 3,927 |
| | 3,772,803 | (315,225) | 3,457,578 |
| Non-current assets: | | | |
| Long-term loans | 97,635 | (46,761) | 50,874 |
| Long-term accounts receivable other | 287,048 | | 287,048 |
| Guarantee deposits | 292,590 | | 292,590 |
| Long-term accounts receivable trade | 12,933 | (185) | 12,748 |

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| | | |
|------------------------|-----------|-----------|
| 690,206 | (46,946) | 643,260 |
| ₩ 4,463,009 | (362,171) | 4,100,838 |

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SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

7. Trade and Other Receivables, Continued

(1) Details of trade and other receivables as of December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| | Gross amount | December 31, 2016 Allowances for doubtful accounts | Carrying amount |
|-------------------------------------|-----------------|--|--------------------|
| Current assets: | | | |
| Accounts receivable trade | ₩ 2,482,502 | (241,576) | 2,240,926 |
| Short-term loans | 59,526 | (547) | 58,979 |
| Accounts receivable other | 1,200,421 | (78,977) | 1,121,444 |
| Accrued income | 2,780 | | 2,780 |
| Others | 3,937 | | 3,937 |
| | 3,749,166 | (321,100) | 3,428,066 |
| Non-current assets: | | | |
| Long-term loans | 113,456 | (47,980) | 65,476 |
| Long-term accounts receivable other | 149,669 | | 149,669 |
| Guarantee deposits | 298,964 | | 298,964 |
| Long-term accounts receivable trade | 20,637 | (252) | 20,385 |
| | 582,726 | (48,232) | 534,494 |
| | ₩ 4,331,892 | (369,332) | 3,962,560 |

(2) Changes in allowances for doubtful accounts of trade and other receivables for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|------------------------|-----------|----------|
| Balance at January 1 | ₩ 369,332 | 344,016 |
| Bad debt expense | 40,377 | 78,132 |
| Write-offs | (70,802) | (79,891) |
| Other | 23,264 | 27,075 |
| Balance at December 31 | ₩ 362,171 | 369,332 |

- (3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | December 31, 2016 | |
|----------------------------------|---------------------|-------------------------|---------------------|-------------------------|
| | Accounts receivable | Other trade receivables | Accounts receivable | Other trade receivables |
| Neither overdue nor impaired | ₩ 1,585,714 | 1,930,261 | 1,715,966 | 1,617,349 |
| Overdue but not impaired | 29,304 | 3,113 | 41,613 | 5,663 |
| Impaired | 763,185 | 151,432 | 745,560 | 205,741 |
| | 2,378,203 | 2,084,806 | 2,503,139 | 1,828,753 |
| Allowances for doubtful accounts | (239,448) | (122,723) | (241,828) | (127,504) |
| | ₩ 2,138,755 | 1,962,083 | 2,261,311 | 1,701,249 |

The Group establishes allowances for doubtful accounts based on the likelihood of recoverability of trade and other receivables based on their aging at the end of the period, past customer default experience, customer credit status, and economic and industrial factors.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

7. Trade and Other Receivables, Continued

(4) The aging of overdue but not impaired accounts receivable as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | December 31, 2016 | |
|--------------------|---------------------|-------------------------|---------------------|------------------------|
| | Accounts receivable | Other trade receivables | Accounts receivable | Other tradereceivables |
| Less than 1 month | ₩ 7,150 | 2,679 | 11,543 | 2,838 |
| 1 ~ 3 months | 1,663 | 44 | 9,144 | 140 |
| 3 ~ 6 months | 1,576 | 124 | 4,643 | 1 |
| More than 6 months | 18,915 | 266 | 16,283 | 2,684 |
| | ₩ 29,304 | 3,113 | 41,613 | 5,663 |

8. Inventories

Details of inventories as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | | December 31, 2016 | | |
|----------------------------|-------------------|------------|-----------------|-------------------|------------|-----------------|
| | Acquisition cost | Write-down | Carrying amount | Acquisition cost | Write-down | Carrying amount |
| Merchandise | ₩ 251,463 | (7,488) | 243,975 | 232,871 | (6,913) | 225,958 |
| Finished goods | 1,889 | (557) | 1,332 | 1,931 | (363) | 1,568 |
| Work in process | 1,906 | (956) | 950 | 2,895 | (347) | 2,548 |
| Raw materials and supplies | 29,395 | (3,249) | 26,146 | 31,141 | (1,369) | 29,772 |
| | ₩ 284,653 | (12,250) | 272,403 | 268,838 | (8,992) | 259,846 |

9. Investment Securities

(1) Details of short-term investment securities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|-----------------------------|--------------------------|--------------------------|
| Beneficiary certificates(*) | ₩ 144,386 | 107,364 |

(*) The income distributable in relation to beneficiary certificates as of December 31, 2017 were accounted for as accrued income.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

9. Investment Securities, Continued

(2) Details of long-term investment securities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---------------------------------|-------------------|-------------------|
| Equity securities: | | |
| Marketable equity securities(*) | ₩ 589,202 | 526,363 |
| Unlisted equity securities etc. | 277,877 | 295,403 |
| | 867,079 | 821,766 |
| Debt securities: | | |
| Investment bonds | 19,928 | 6,755 |
| | ₩ 887,007 | 828,521 |

(*) During the year ended December 31, 2016, the Group sold 3,793,756 shares of Loen Entertainment, Inc. to Kakao Corp. in exchange for 1,357,367 shares of Kakao Corp. and ₩218,037 million in cash. In connection with the sale of Loen Entertainment shares, the Group recognized gain on disposal of long-term investment securities amounting to ₩314,745 million.

The Group recognized gain on disposal amounting to ₩138,779 million as the Group disposed its entire marketable equity securities of POSCO Co., Ltd. for ₩305,110 million of cash during the year ended December 31, 2016.

In addition, the Group sold 1,357,367 shares of Kakao Corp. in exchange for ₩112,649 million in cash during the year ended December 31, 2017. In connection with the sale of Kakao Corp. shares, the Group recognized loss on disposal of long-term investment securities amounting to ₩35,468 million.

10. Business Combination

(1) 2017

1) Acquisition of S.M. LIFE DESIGN COMPANY JAPAN INC. by IRIVER LIMITED

On September 1, 2017, IRIVER LIMITED, a subsidiary of the Parent Company, acquired all of the S.M. LIFE DESIGN COMPANY JAPAN INC. s shares from S.M. ENTERTAINMENT JAPAN, Inc. in order to enter overseas business and enhance its competitiveness with the consideration of ₩30,000 in cash. The Group recognized the difference between the consideration paid and the fair value of net assets acquired amounting to ₩21,748 million as goodwill. Subsequent to the acquisition, S.M. LIFE DESIGN COMPANY JAPAN INC. recognized revenues and net profit of amounting to ₩6,365 million and ₩1,244 million, respectively, in 2017.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

10. Business Combination, Continued

(1) 2017, Continued

2) Merger of SM mobile communications Co., Ltd. by IRIVER LIMITED

On October 1, 2017, IRIVER LIMITED merged SM mobile communications Co., Ltd. in order to enter contents business and enhance competitiveness of its device business. As a result of merger, IRIVER LIMITED obtained controls over S.M. Mobile Communications JAPAN Inc. which was wholly owned by SM mobile communications Co., Ltd. The consideration transferred was measured at the fair value of the shares transferred based on the merger ratio set on October 1, 2017. The Group recognized the difference between the consideration and the fair value of net assets amounting to ₩13,473 million as goodwill. Subsequent to the consummation of the merger, S.M. Mobile Communications JAPAN Inc. recognized no revenue with ₩103 million of net loss in 2017.

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

(In millions of won)

| | S.M. LIFE DESIGN COMPANY JAPAN INC. | S.M. Mobile Communications JAPAN Inc. |
|---|--|--|
| Considerations paid: | | |
| Cash and cash equivalents | ₩ 30,000 | |
| Shares of IRIVER LIMITED | | 24,650 |
| Assets and liabilities acquired: | | |
| Cash and cash equivalents | ₩ 3,434 | 4,112 |
| Trade and other receivables | 1,471 | 237 |
| Inventories | 1,879 | |
| Property and equipment | 4 | 311 |
| Intangible assets | 6,677 | 7,445 |
| Other assets | | 41 |
| Trade and other payables | (2,563) | (815) |
| Deferred tax liabilities | (2,324) | |
| Other liabilities | (326) | (154) |
| Net assets | ₩ 8,252 | 11,177 |

(2) 2016

During the year ended December 31, 2016, the Parent Company distributed its entire ownership interests in Neosnetworks Co., Ltd. to SK Telink Co., Ltd., a subsidiary of the Parent Company, as contribution in kind. Neosnetworks Co., Ltd. became a wholly owned subsidiary of SK Telink Co., Ltd. As this transaction is a business combination under common control, SK Telink Co., Ltd. recognized the book value of the assets and liabilities of Neosnetworks Co., Ltd. in its financial statements. There is no effect on the assets and liabilities of the consolidated financial statements.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

11. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | Country | December 31, 2017 | | December 31, 2016 | |
|--|----------------|-------------------|-----------------|-------------------|-----------------|
| | | Ownership (%) | Carrying amount | Ownership (%) | Carrying amount |
| Investments in associates: | | | | | |
| SK China Company Ltd.(*1) | China | 27.3 | ₩ 526,099 | 9.6 | ₩ 46,354 |
| Korea IT Fund(*2) | Korea | 63.3 | 257,003 | 63.3 | 263,850 |
| KEB HanaCard Co., Ltd.(*3) | Korea | 15.0 | 280,988 | 15.0 | 265,798 |
| NanoEnTek, Inc. | Korea | 28.5 | 38,718 | 28.5 | 39,514 |
| SK Industrial Development China Co., Ltd.(*1) | Hong Kong | | | 21.0 | 74,717 |
| SK Technology Innovation Company | Cayman Islands | 49.0 | 42,511 | 49.0 | 47,488 |
| HappyNarae Co., Ltd. (*4) | Korea | 45.0 | 21,873 | 42.5 | 17,236 |
| SK hynix Inc. | Korea | 20.1 | 8,130,000 | 20.1 | 6,132,122 |
| SK MENA Investment B.V. | Netherlands | 32.1 | 13,853 | 32.1 | 15,451 |
| SKY Property Mgmt. Ltd.(*1) | Virgin Island | | | 33.0 | 263,225 |
| S.M. Culture & Contents Co., Ltd. (*5) | Korea | 23.4 | 64,966 | | |
| Xian Tianlong Science and Technology Co., Ltd. | China | 49.0 | 25,891 | 49.0 | 25,880 |
| Daehan Kanggun BcN Co., Ltd. and others | | | 96,479 | | 115,181 |
| Sub-total | | | 9,498,381 | | 7,306,816 |
| Investments in joint ventures: | | | | | |
| Dogus Planet, Inc.(*6) | Turkey | 50.0 | 13,991 | 50.0 | 20,081 |
| PT XL Planet Digital(*7) | Indonesia | | | 50.0 | 27,512 |
| Finnq Co. Ltd.(*8) | Korea | 49.0 | 16,474 | 49.0 | 24,174 |
| Celcom Planet and others | | | 9,592 | | 25,740 |
| Sub-total | | | 40,057 | | 97,507 |
| Total | | | ₩ 9,538,438 | | ₩ 7,404,323 |

- (*1) During the year ended December 31, 2017, the Group contributed its shares in SKY Property Mgmt. Ltd. and SK Industrial Development China Co., Ltd., both the equity method investees of the Group, to SK China Company Ltd., and participated in SK China Company Ltd. s rights issue amounting to USD 100,000,000, which resulted in Group s acquiring 8,101,884 and 2,107,037 shares of SK China Company Ltd., respectively.
- (*2) Investment in Korea IT Fund was classified as investment in associates as the Group does not have control over Korea IT Fund under the contractual agreement with other shareholders.
- (*3) This investment was 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.
- (*4) The Group acquired 40,000 shares of HappyNarae Co., Ltd. at ₩17,212 per share during the year ended December 31, 2017.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

11. Investments in Associates and Joint Ventures, Continued

(1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2017 and 2016 are as follows, Continued:

(*5) During the year ended December 31, 2017, the Group subscribed to a third-party allocation of new shares of 22,033,898 by S.M. Culture & Contents Co., Ltd. at ₩65,341 million in cash.

(*6) The investment is held by SK Planet Co., Ltd.

(*7) PT XL Planet Digital was disposed during the year ended December 31, 2017.

(*8) Investment in Finng Co., Ltd. was classified as investment in joint venture as the Group has joint control pursuant to the agreement with the other shareholders.

(2) The market price of investments in listed associates as of December 31, 2017 and 2016 are as follows:

(In millions of won, except for share data)

| | December 31, 2017 | | | December 31, 2016 | | |
|-----------------------------------|---------------------------------|------------------|------------|---------------------------------|------------------|------------|
| | Market value per share (in won) | Number of shares | Fair value | Market value per share (in won) | Number of shares | Fair value |
| NanoEnTek, Inc. | ₩ 5,950 | 6,960,445 | 41,415 | 5,020 | 6,960,445 | 34,941 |
| SK hynix Inc. | 76,500 | 146,100,000 | 11,176,650 | 44,700 | 146,100,000 | 6,530,670 |
| S.M. Culture & Contents Co., Ltd. | 2,700 | 22,033,898 | 59,492 | | | |

(3) The financial information of significant associates as of and for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | As of December 31, 2017 | | | |
|----------------|-------------------------|----------------------------|---------------|---------------------------|
| | SK hynix Inc. (*) | KEB HanaCard Co., Ltd. (*) | Korea IT Fund | SK China Company Ltd. (*) |
| Current assets | ₩ 17,310,444 | 7,339,492 | 144,874 | 729,872 |

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| | | | | |
|-------------------------|------------|-----------|---------|-----------|
| Non-current assets | 28,108,020 | 220,258 | 260,920 | 1,031,647 |
| Current liabilities | 8,116,133 | 1,181,746 | | 81,161 |
| Non-current liabilities | 3,481,412 | 4,861,842 | | 64,717 |

2017

| | | | | |
|-----------------------------------|------------|-----------|--------|--------|
| Revenue | 30,109,434 | 1,519,607 | 11,743 | 69,420 |
| Profit for the year | 10,642,219 | 106,352 | 1,916 | 11,492 |
| Other comprehensive income (loss) | (422,042) | (984) | 4,108 | 27,190 |
| Total comprehensive income | 10,220,177 | 105,368 | 6,024 | 38,682 |

(*) The financial information of SK hynix Inc., KEB HanaCard Co., Ltd., and SK China Company Ltd. are consolidated financial information.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

11. Investments in Associates and Joint Ventures, Continued

- (3) The financial information of significant associates as of and for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| | As of December 31, 2016 | | | |
|-----------------------------------|-------------------------|------------------------------------|----------------------------|------------------------|
| | SK hynix Inc.(*) | KEB HanaCard Co., Ltd.(*) | SKY Property Mgmt. Ltd. | Korea IT Fund(*) |
| Current assets | ₩ 9,838,982 | 6,868,387 | 181,469 | 166,349 |
| Non-current assets | 22,377,044 | 239,758 | 458,690 | 250,257 |
| Current liabilities | 4,160,849 | 1,219,327 | 12,423 | |
| Non-current liabilities | 4,031,647 | 4,476,979 | 45,136 | |
| | 2016 | | | |
| Revenue | 17,197,975 | 1,413,077 | 64,894 | 28,839 |
| Profit for the year | 2,960,483 | 75,595 | 52,404 | 23,469 |
| Other comprehensive income (loss) | 28,844 | (154) | (14,188) | (8,506) |
| Total comprehensive income | 2,989,327 | 75,441 | 38,216 | 14,963 |

- (*) The financial information of SK hynix Inc., KEB HanaCard Co., Ltd., and SK China Company Ltd. are consolidated financial information.

- (4) The condensed financial information of joint ventures as of and for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | Dogus Planet, Inc. Finnq Co., Ltd. | |
|--|------------------------------------|--------|
| | As of December 31, 2017 | |
| Current assets | ₩ 39,656 | 32,232 |
| Cash and cash equivalents | 25,818 | 4,590 |
| Non-current assets | 21,159 | 15,610 |
| Current liabilities | 32,622 | 5,685 |
| Accounts payable, other payables and provision | 2,743 | 2,290 |
| Non-current liabilities | 212 | 13,862 |

| | 2017 | |
|-------------------------------|-------------|----------|
| Revenue | 82,791 | |
| Depreciation and amortization | (6,152) | (1,077) |
| Interest income | 781 | 532 |
| Interest expense | (4) | (276) |
| Loss for the year | (4,535) | (15,699) |
| Total comprehensive loss | (4,535) | (15,699) |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

11. Investments in Associates and Joint Ventures, Continued

- (4) The condensed financial information of joint ventures as of and for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| | Dogus Planet, Inc. | PT XL Planet Digital | Finnq Co., Ltd. |
|--|-----------------------------------|---------------------------------|------------------------|
| | As of December 31, 2016 | | |
| Current assets | ₩ 46,433 | 20,077 | 48,699 |
| Cash and cash equivalents | 45,839 | 14,985 | 48,408 |
| Non-current assets | 20,218 | 50,765 | 673 |
| Current liabilities | 26,417 | 14,513 | 138 |
| Accounts payable, other payables and provision | 1,971 | 10,306 | 15 |
| Non-current liabilities | 72 | 1,305 | 784 |
| | | 2016 | |
| Revenue | 53,864 | 9,492 | |
| Depreciation and amortization | (5,299) | (940) | (12) |
| Interest income | 394 | 267 | 182 |
| Interest expense | (2,139) | | |
| Income tax benefit | | 51 | |
| Loss for the year | (22,017) | (49,438) | (829) |
| Total comprehensive loss | (22,017) | (49,438) | (829) |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

11. Investments in Associates and Joint Ventures, Continued

(5) Reconciliations of financial information of significant associates to carrying amounts of investments in associates in the consolidated financial statements as of December 31, 2017 and 2016 are as follows:

(In millions of won)

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

(In millions of won)

| | Net assets | Ownership interests (%) | December 31, 2016 | | |
|-----------------------------|--------------|-------------------------|--|-------------------------------|-----------------|
| | | | Net assets attributable to the ownership interests | Cost-book value differentials | Carrying amount |
| Associates: | | | | | |
| SK hynix Inc.(*1,2) | ₩ 24,016,955 | 20.1 | 4,970,267 | 1,161,855 | 6,132,122 |
| KEB HanaCard Co., Ltd. | 1,411,839 | 15.0 | 211,776 | 54,022 | 265,798 |
| SKY Property Mgmt. Ltd.(*1) | 576,785 | 33.0 | 190,339 | 72,886 | 263,225 |
| Korea IT Fund | 416,606 | 63.3 | 263,850 | | 263,850 |

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

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

11. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | Beginning balance | Acquisition and disposition | Share of profit (loss) | 2017 Other compre- hensive income (loss) | Impair- ment loss | Other increase (decrease) | Ending balance |
|---|----------------------|-----------------------------------|------------------------------|---|-------------------------|---------------------------------|-------------------|
| Investments in associates | | | | | | | |
| SK China Company Ltd.(*1) | ₩ 46,354 | 113,803 | 2,707 | (36,783) | | 400,018 | 526,099 |
| Korea IT Fund(*2) | 263,850 | | (8,815) | 3,371 | | (1,403) | 257,003 |
| KEB HanaCard Co., Ltd. | 265,798 | | 15,494 | (304) | | | 280,988 |
| NanoEnTek, Inc. | 39,514 | | (733) | (63) | | | 38,718 |
| SK Industrial Development China Co., Ltd.(*1) | 74,717 | | 5,154 | (1,092) | | (78,779) | |
| SK Technology Innovation Company | 47,488 | | 433 | (5,410) | | | 42,511 |
| HappyNarae Co., Ltd. | 17,236 | 688 | 3,929 | 20 | | | 21,873 |
| SK hynix Inc.(*2) | 6,132,122 | | 2,175,887 | (90,349) | | (87,660) | 8,130,000 |
| SK MENA Investment B.V. | 15,451 | | 131 | (1,729) | | | 13,853 |
| SKY Property Mgmt. Ltd. (*1) | 263,225 | | 2,362 | 1,141 | | (266,728) | |
| S.M. Culture & Contents Co., Ltd. | | 65,341 | (375) | | | | 64,966 |
| Xian Tianlong Science and Technology Co., Ltd. | 25,880 | | 11 | | | | 25,891 |
| Daehan Kanggun BcN Co., Ltd. and others(*2) | 115,181 | (1,306) | (6,924) | (2,723) | (1,311) | (6,438) | 96,479 |
| Sub-total | 7,306,816 | 178,526 | 2,189,261 | (133,921) | (1,311) | (40,990) | 9,498,381 |
| Investments in joint ventures | | | | | | | |
| Dogus Planet, Inc. | 20,081 | 2,162 | (2,267) | (5,985) | | | 13,991 |
| PT XL Planet Digital(*3) | 27,512 | (18,864) | (8,648) | | | | |
| Finnq Co., Ltd | 24,174 | | (7,691) | (9) | | | 16,474 |

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| | | | | | | | |
|--------------------------|------------------------|-----------------|-----------------|----------------|---------|----------------|---------------|
| Celcom Planet and others | 25,740 | | (6,228) | (833) | | (9,087) | 9,592 |
| Sub-total | 97,507 | (16,702) | (24,834) | (6,827) | | (9,087) | 40,057 |
| Total | ₩ 7,404,323 | 161,824 | 2,164,427 | (140,748) | (1,311) | (50,077) | 9,538,438 |

(*1) Other increase (decrease) is due to merger of SK China Company Ltd., SK Industrial Development China Co., Ltd. and SKY Property Mgmt. Ltd.

(*2) Dividends received from the associates are deducted from the carrying amount during the year ended December 31, 2017.

(*3) During the year ended December 31, 2017, the Group disposed the shares of PT XL Planet Digital and recognized loss on disposal of ~~₩~~27,900 million.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

11. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| | Beginning balance | Acquisition and disposition | Share of profit (loss) | 2016 Other comprehensive income (loss) | Impairment loss | Other increase (decrease) | Ending balance |
|---|----------------------|-----------------------------------|------------------------------|--|--------------------|---------------------------------|-------------------|
| Investments in associates | | | | | | | |
| SK China Company Ltd. | ₩ 43,814 | | 2,257 | 283 | | | 46,354 |
| Korea IT Fund(*1) | 260,456 | | 14,864 | (5,388) | | (6,082) | 263,850 |
| KEB HanaCard Co., Ltd. | 254,177 | | 11,658 | (37) | | | 265,798 |
| Candle Media Co., Ltd. | 20,144 | (18,860) | (673) | (611) | | | |
| NanoEnTek, Inc. | 45,008 | | (3,950) | (1,544) | | | 39,514 |
| SK Industrial Development China Co., Ltd. | 86,324 | | (6,298) | (5,309) | | | 74,717 |
| SK Technology Innovation Company | 45,891 | | 162 | 1,435 | | | 47,488 |
| HappyNarae Co., Ltd. | 17,095 | | 240 | (99) | | | 17,236 |
| SK hynix Inc.(*1) | 5,624,493 | | 572,086 | 8,593 | | (73,050) | 6,132,122 |
| SK MENA Investment B.V. | 14,929 | | 63 | 459 | | | 15,451 |
| SKY Property Mgmt. Ltd. | 251,166 | | 16,066 | (4,007) | | | 263,225 |
| Xian Tianlong Science and Technology Co., Ltd. | 25,767 | | 113 | | | | 25,880 |
| Daehan Kanggun BeN Co., Ltd. and others | 161,058 | (26,798) | (13,179) | 754 | (6,972) | 318 | 115,181 |
| Sub-total | 6,850,322 | (45,658) | 593,409 | (5,471) | (6,972) | (78,814) | 7,306,816 |
| Investments in joint ventures | | | | | | | |
| Dogus Planet, Inc. | 15,118 | 18,722 | (11,008) | (2,751) | | | 20,081 |
| PT. Melon Indonesia(*2) | 4,339 | (3,488) | 918 | (1,769) | | | |
| PT XL Planet Digital | 23,108 | 29,123 | (24,719) | | | | 27,512 |
| Finnq Co., Ltd | | 24,580 | (406) | | | | 24,174 |

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| | | | | | | | |
|--------------------------|-------------|---------|----------|---------|---------|----------|-----------|
| Celcom Planet and others | 3,406 | 43,769 | (21,435) | | | | 25,740 |
| Sub-total | 45,971 | 112,706 | (56,650) | (4,520) | | | 97,507 |
| Total | ₩ 6,896,293 | 67,048 | 536,759 | (9,991) | (6,972) | (78,814) | 7,404,323 |

(*1) Dividends received from the associate are deducted from the carrying amount during the year ended December 31, 2016.

(*2) During the year ended December 31, 2016, the Group disposed of all shares of PT. Melon Indonesia and recognized gain on disposal of ₩11,634 million.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

11. Investments in Associates and Joint Ventures, Continued

- (7) The Group discontinued the application of equity method to the following investees due to their carrying amounts being reduced to zero. The details of cumulative unrecognized equity method losses as of December 31, 2017 are as follows:

| <i>(In millions of won)</i> | Unrecognized loss(profit) | | Unrecognized change in equity | |
|---|----------------------------------|-------------------|--------------------------------------|-------------------|
| | Year ended | Cumulative | Year ended | Cumulative |
| | December 31, | loss | December 31, | loss |
| | 2017 | | 2017 | |
| Wave City Development Co., Ltd. | ₩(1,190) | 2,100 | | |
| Daehan Kanggun BcN Co., Ltd. and others | (5,475) | 5,316 | | 365 |
| | ₩(6,665) | 7,416 | | 365 |

12. Property and Equipment

- (1) Property and equipment as of December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | December 31, 2017 | | | |
|-----------------------------|--------------------------|---------------------------------|------------------------------------|------------------------|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Carrying amount |
| Land | ₩ 862,861 | | | 862,861 |
| Buildings | 1,638,749 | (756,099) | | 882,650 |
| Structures | 866,909 | (488,334) | | 378,575 |
| Machinery | 30,343,739 | (23,262,762) | (1,179) | 7,079,798 |
| Other | 1,722,441 | (1,188,893) | (2,491) | 531,057 |
| Construction in progress | 409,941 | | | 409,941 |
| | ₩ 35,844,640 | (25,696,088) | (3,670) | 10,144,882 |

(In millions of won)

| | December 31, 2016 | | | |
|--------------------------|--------------------------|---------------------------------|------------------------------------|------------------------|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Carrying amount |
| Land | ₩ 835,909 | | | 835,909 |
| Buildings | 1,604,863 | (704,891) | | 899,972 |
| Structures | 812,010 | (453,055) | | 358,955 |
| Machinery | 29,705,088 | (22,667,047) | (1,991) | 7,036,050 |
| Other | 1,701,794 | (1,138,303) | (457) | 563,034 |
| Construction in progress | 680,292 | | | 680,292 |
| | ₩ 35,339,956 | (24,963,296) | (2,448) | 10,374,212 |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

12. Property and Equipment, Continued

(2) Changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | | | | | | | | Ending balance |
|--------------------------|-------------------|-------------|----------|-------------|--------------|------------|----------------------|-------|----------------|
| | Beginning balance | Acquisition | Disposal | Transfer(*) | Depreciation | Impairment | Business combination | Other | |
| Land | ₩ 835,909 | 13,093 | (4,449) | 18,308 | | | | | 862,861 |
| Buildings | 899,972 | 5,098 | (477) | 29,614 | (51,557) | | | | 882,650 |
| Structures | 358,955 | 46,614 | (74) | 8,386 | (35,306) | | | | 378,575 |
| Machinery | 7,036,050 | 656,731 | (41,692) | 1,644,045 | (2,214,524) | (778) | | (34) | 7,079,798 |
| Other | 563,034 | 720,431 | (9,252) | (597,404) | (143,261) | (2,234) | 315 | (572) | 531,057 |
| Construction in progress | 680,292 | 1,317,389 | (4,172) | (1,583,560) | | | | (8) | 409,941 |
| | ₩ 10,374,212 | 2,759,356 | (60,116) | (480,611) | (2,444,648) | (3,012) | 315 | (614) | 10,144,882 |

(*) Includes reclassification to intangible assets.

(In millions of won)

| | 2016 | | | | | | | Ending balance |
|--------------------------|-------------------|-------------|----------|-------------|--------------|------------|--|----------------|
| | Beginning balance | Acquisition | Disposal | Transfer(*) | Depreciation | Impairment | | |
| Land | ₩ 812,947 | 2,464 | (3,514) | 24,012 | | | | 835,909 |
| Buildings | 911,129 | 4,637 | (9,176) | 43,910 | (50,528) | | | 899,972 |
| Structures | 344,221 | 33,802 | (33) | 15,145 | (34,180) | | | 358,955 |
| Machinery | 7,342,009 | 660,629 | (45,672) | 1,234,737 | (2,152,725) | (2,928) | | 7,036,050 |
| Other | 473,438 | 807,047 | (6,052) | (568,644) | (142,700) | (55) | | 563,034 |
| Construction in progress | 487,512 | 1,154,424 | (9,710) | (951,934) | | | | 680,292 |
| | ₩ 10,371,256 | 2,663,003 | (74,157) | (202,774) | (2,380,133) | (2,983) | | 10,374,212 |

(*) Includes reclassification to intangible assets.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

13. Goodwill

(1) Goodwill as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Goodwill related to acquisition of Shinsegi Telecom, Inc. | ₩ 1,306,236 | 1,306,236 |
| Goodwill related to acquisition of SK Broadband Co., Ltd. | 358,443 | 358,443 |
| Other goodwill | 250,338 | 267,773 |
| | ₩ 1,915,017 | 1,932,452 |

(2) Details of the impairment testing of Goodwill as of December 31, 2017 is as follows:

Goodwill is allocated to the following CGUs for the purpose of impairment testing.

goodwill related to Shinsegi Telecom, Inc.(*1): cellular services;
 goodwill related to SK Broadband Co., Ltd.(*2): fixed-line telecommunication services; and
 other goodwill: e-commerce and other.

(*1) Goodwill related to acquisition of Shinsegi Telecom, Inc.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.6% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 0.4% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group's long-term wireless telecommunication business growth rate. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

(*2) Goodwill related to acquisition of SK Broadband Co., Ltd.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 5.1% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 1.0% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group's long-term wireless telecommunication business growth rate. Management of the Group does not expect the total

carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

13. Goodwill, Continued

(3) Details of the changes in goodwill for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|-------------------|--------------------|------------------|
| Beginning balance | ₩ 1,932,452 | 1,908,590 |
| Acquisition | 35,221 | 19,974 |
| Impairment loss | (33,441) | |
| Other | (19,215) | 3,888 |
| | ₩ 1,915,017 | 1,932,452 |

Accumulated impairment losses as of December 31, 2017 and 2016 are ₩50,710 million and ₩17,269 million, respectively.

14. Intangible Assets

(1) Intangible assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | | |
|------------------------|-----------------------------|-------------------------------------|-----------------------------------|----------------------------|
| | Acquisition cost | Accumulated amortization | Accumulated impairment | Carrying amount |
| Frequency usage rights | ₩ 4,843,955 | (2,667,015) | | 2,176,940 |
| Land usage rights | 65,841 | (50,091) | | 15,750 |
| Industrial rights | 166,082 | (54,735) | | 111,347 |
| Development costs | 140,460 | (134,828) | (1,529) | 4,103 |
| Facility usage rights | 153,438 | (116,987) | | 36,451 |
| Customer relations | 20,796 | (16,761) | | 4,035 |
| Club memberships(*1) | 108,382 | | (34,768) | 73,614 |
| Other(*2) | 3,911,749 | (2,733,485) | (13,539) | 1,164,725 |
| | ₩ 9,410,703 | (5,773,902) | (49,836) | 3,586,965 |

(In millions of won)

| | December 31, 2016 | | | |
|------------------------|-----------------------------|-------------------------------------|-----------------------------------|----------------------------|
| | Acquisition cost | Accumulated amortization | Accumulated impairment | Carrying amount |
| Frequency usage rights | ₩ 4,843,955 | (2,263,127) | | 2,580,828 |
| Land usage rights | 65,148 | (44,314) | | 20,834 |
| Industrial rights | 160,897 | (39,697) | | 121,200 |
| Development costs | 141,727 | (136,446) | (410) | 4,871 |
| Facility usage rights | 151,906 | (110,118) | | 41,788 |
| Customer relations | 19,742 | (13,090) | | 6,652 |
| Club memberships(*1) | 113,161 | | (39,122) | 74,039 |
| Other(*2) | 3,315,921 | (2,386,992) | (2,787) | 926,142 |
| | ₩ 8,812,457 | (4,993,784) | (42,319) | 3,776,354 |

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

14. Intangible Assets, Continued

(1) Intangible assets as of December 31, 2017 and 2016 are as follows, Continued:

(*1) Club memberships are classified as intangible assets with indefinite useful life and are not amortized.

(*2) Other intangible assets primarily consist of computer software and usage rights to a research facility which the Group built and donated, and the Group is given rights-to-use for a definite number of years in turn.

(2) Details of the changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | | | | | | | | |
|------------------------|-------------------|-------------|----------|---------------|--------------|-----------------|--------------------------|---------|----------------|
| | Beginning balance | Acquisition | Disposal | Transfer (*1) | Amortization | Impairment (*2) | Business combination(*3) | Others | Ending balance |
| Frequency usage rights | ₩ 2,580,828 | | | | (403,888) | | | | 2,176,940 |
| Land usage rights | 20,834 | 3,689 | (972) | 200 | (8,001) | | | | 15,750 |
| Industrial rights | 121,200 | 2,677 | (28) | (5,635) | (6,870) | | 4 | (1) | 111,347 |
| Development costs | 4,871 | 3,813 | (9) | (793) | (2,660) | (1,119) | | | 4,103 |
| Facility usage rights | 41,788 | 2,805 | (36) | 129 | (8,235) | | | | 36,451 |
| Customer relations | 6,652 | 1,054 | | | (3,671) | | | | 4,035 |
| Club memberships | 74,039 | 5,023 | (3,452) | 122 | | (769) | | (1,349) | 73,614 |
| Other | 926,142 | 127,396 | (19,698) | 503,277 | (369,546) | (16,605) | 14,118 | (359) | 1,164,725 |
| | ₩ 3,776,354 | 146,457 | (24,195) | 497,300 | (802,871) | (18,493) | 14,122 | (1,709) | 3,586,965 |

- (*1) Includes reclassification from advance payments and property and equipment.
- (*2) The Group recognized the difference between recoverable amount and the carrying amount of club memberships amounting to ₩18,493 million as impairment loss for the year ended December 31, 2017.
- (*3) Includes intangible assets acquired as a result of IRIVER LIMINTED s purchase and merge of S.M. LIFE DESIGN COMPANY INC. and SM mobile communications Co., Ltd. during the year ended December 31, 2017.

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

14. Intangible Assets, Continued

(2) Details of the changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| | Beginning balance | Acquisition | Disposal | 2016 | | | Ending balance |
|-------------------------------|----------------------|-------------|----------|------------------|-------------------|-------------------------|-------------------|
| | | | | Transfer (*2) | Amortiza- tion | Impair- ment (*3) | |
| Frequency usage rights(*1) | ₩ 1,103,517 | 1,810,076 | | | (332,765) | | 2,580,828 |
| Land usage rights | 26,576 | 5,338 | (1,921) | | (9,159) | | 20,834 |
| Industrial rights | 116,542 | 6,226 | (148) | 5,004 | (6,424) | | 121,200 |
| Development costs | 7,472 | 1,404 | | 338 | (3,933) | (410) | 4,871 |
| Facility usage rights | 48,019 | 2,181 | (50) | 231 | (8,593) | | 41,788 |
| Customer relations | 7,175 | 499 | | | (4,051) | 3,029 | 6,652 |
| Club memberships | 91,507 | 7,983 | (7,624) | | | (17,827) | 74,039 |
| Other | 903,976 | 141,045 | (20,306) | 228,110 | (323,397) | (3,286) | 926,142 |
| | ₩ 2,304,784 | 1,974,752 | (30,049) | 233,683 | (688,322) | (21,523) | 3,776,354 |

(*1) During the year ended December 31, 2016, the Parent Company acquired the frequency right for bandwidth blocs in the 2.6 GHz band for ₩1,330,100 million at the spectrum auction held by the Ministry of Science, ICT and Future Planning (MSIP) of Korea and made the initial payment in accordance with the terms of the agreement in August 2016. The remaining consideration will be paid on an annual installment basis for 10 years from August 2016. In addition, the Parent Company extended frequency usage rights for 2.1 GHz band for ₩568,500 million with the initial payment made to MSIP during the year ended December 31, 2016. The remaining consideration will be paid on an annual installment basis for 5 years from December 2016.

(*2) Includes reclassification from advance payments and property and equipment.

(*3) The Group recognized the difference between recoverable amount and the carrying amount of intangible assets, amounting to ₩21,523 million as impairment loss for the year ended December 31, 2016.

(3) Research and development expenditures recognized as expense for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|---|-------------|-------------|
| Research and development costs expensed as incurred | ₩ 395,276 | 344,787 |

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

14. Intangible Assets, Continued

(4) Details of frequency usage rights as of December 31, 2017 are as follows:

(In millions of won)

| | Amount | Description | Commencement of amortization | Completion of amortization |
|----------------|-------------------|---|------------------------------------|-------------------------------|
| 800MHz license | ₩ 141,904 | Frequency usage rights relating to CDMA and LTE service | Jul. 2011 | Jun. 2021 |
| 1.8GHz license | 502,480 | Frequency usage rights relating to LTE service | Sept. 2013 | Dec. 2021 |
| WiBro license | 2,957 | WiBro service | Mar. 2012 | Mar. 2019 |
| 2.6GHz license | 1,092,770 | Frequency usage rights relating to LTE service | Sept. 2016 | Dec. 2026 |
| 2.1GHz license | 436,829 | Frequency usage rights relating to W-CDMA and LTE service | Dec. 2016 | Dec. 2021 |
| | ₩2,176,940 | | | |

15. Borrowings and Debentures

(1) Short-term borrowings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | Lender | Annual interest rate (%) | December 31, 2017 | December 31, 2016 |
|-----------------------|---------------|--------------------------------|----------------------|----------------------|
| Short-term borrowings | Shinhan Bank | 2.85 | ₩ 30,000 | |
| | Woori Bank | 2.88 | | 2,614 |
| Commercial paper | KEB Hana Bank | 1.67 | 50,000 | |
| Bank overdraft | KEB Hana Bank | 3.17 | 30,000 | |
| | Shinhan Bank | 3.38 | 20,000 | |

₩ 130,000 2,614

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

15. Borrowings and Debentures, Continued

(2) Long-term borrowings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| Lender | Annual interest rate (%) | Maturity | December 31, 2017 | December 31, 2016 |
|------------------------------------|---|-----------------|------------------------------|------------------------------|
| Korea Development Bank(*1) | 3.20 | Mar. 31, 2020 | ₩ 30,000 | |
| KEB Hana Bank | 3.18 | Feb. 28, 2019 | 40,000 | |
| Kookmin Bank | 1.29 | Mar. 15, 2017 | | 500 |
| Kookmin Bank | 1.95 | Mar. 15, 2018 | 717 | 3,583 |
| Korea Development Bank(*2) | 1.99 | Jul. 30, 2019 | 22,750 | 35,750 |
| Korea Development Bank(*2) | 1.99 | Jul. 30, 2019 | 5,833 | 9,167 |
| Korea Development Bank(*2) | 2.27 | Dec. 20, 2021 | 49,000 | 49,000 |
| Korea Development Bank(*2) | 2.37 | Dec. 21, 2022 | 50,000 | |
| Export Kreditnamnden(*3) | 1.70 | Apr. 29, 2022 | 55,471 | 76,493 |
| | | | (USD 51,775) | (USD 63,296) |
| Sub-total | | | 253,771 | 174,493 |
| Less present value discount | | | (954) | (1,586) |
| | | | 252,817 | 172,907 |
| Less current installments | | | (41,331) | (33,191) |
| | | | ₩ 211,486 | 139,716 |

(*1) SK Planet Co., Ltd., one of the subsidiaries of the Parent Company entered into a floating-to-fixed interest rate swap agreement to hedge the interest rate risk.

(*2) SK Broadband Co., Ltd., one of the subsidiaries of the Parent Company entered into a floating-to-fixed interest rate swap agreement to hedge the interest rate risk.

(*3) The long-term borrowings are to be repaid by installments on an annual basis from 2014 to 2022.

(3) Debentures as of December 31, 2017 and 2016 are as follows:

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

15. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2017 and 2016 are as follows:

(In millions of won, thousands of U.S. dollars and thousands of other currencies)

| | | | Annual interest | December 31, | December 31, |
|----------------------------------|-----------------------------------|----------|-----------------|--------------|--------------|
| | Purpose | Maturity | rate (%) | 2017 | 2016 |
| Unsecured corporate bonds | Other fund | 2018 | 5.00 | ₩ 200,000 | 200,000 |
| Unsecured corporate bonds | Operating fund | 2021 | 4.22 | 190,000 | 190,000 |
| Unsecured corporate bonds | Operating and refinancing fund | 2019 | 3.24 | 170,000 | 170,000 |
| Unsecured corporate bonds | | 2022 | 3.30 | 140,000 | 140,000 |
| Unsecured corporate bonds | | 2032 | 3.45 | 90,000 | 90,000 |
| Unsecured corporate bonds | Operating fund | 2023 | 3.03 | 230,000 | 230,000 |
| Unsecured corporate bonds | | 2033 | 3.22 | 130,000 | 130,000 |
| Unsecured corporate bonds | | 2019 | 3.30 | 50,000 | 50,000 |
| Unsecured corporate bonds | | 2024 | 3.64 | 150,000 | 150,000 |
| Unsecured corporate bonds(*1) | | 2029 | 4.72 | 60,278 | 59,600 |
| Unsecured corporate bonds | Refinancing fund | 2019 | 2.53 | 160,000 | 160,000 |
| Unsecured corporate bonds | | 2021 | 2.66 | 150,000 | 150,000 |
| Unsecured corporate bonds | | 2024 | 2.82 | 190,000 | 190,000 |
| Unsecured corporate bonds | Operating and refinancing fund | 2022 | 2.40 | 100,000 | 100,000 |
| Unsecured corporate bonds | | 2025 | 2.49 | 150,000 | 150,000 |
| Unsecured corporate bonds | | 2030 | 2.61 | 50,000 | 50,000 |
| Unsecured corporate bonds | Operating fund | 2018 | 1.89 | 90,000 | 90,000 |
| Unsecured corporate bonds | | 2025 | 2.66 | 70,000 | 70,000 |
| Unsecured corporate bonds | | 2030 | 2.82 | 90,000 | 90,000 |
| Unsecured corporate bonds | Operating and refinancing fund | 2018 | 2.07 | 80,000 | 80,000 |
| Unsecured corporate bonds | | 2025 | 2.55 | 100,000 | 100,000 |
| Unsecured corporate bonds | | 2035 | 2.75 | 70,000 | 70,000 |
| Unsecured corporate bonds | Operating fund | 2019 | 1.65 | 70,000 | 70,000 |
| Unsecured corporate bonds | | 2021 | 1.80 | 100,000 | 100,000 |
| Unsecured corporate bonds | | 2026 | 2.08 | 90,000 | 90,000 |
| Unsecured corporate bonds | | 2036 | 2.24 | 80,000 | 80,000 |
| Unsecured corporate bonds | | 2019 | 1.62 | 50,000 | 50,000 |
| Unsecured corporate bonds | | 2021 | 1.71 | 50,000 | 50,000 |
| Unsecured corporate bonds | | 2026 | 1.97 | 120,000 | 120,000 |

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| | | | | | |
|-------------------------------|--------------------------------|------|------|---------|---------|
| Unsecured corporate bonds | | 2031 | 2.17 | 50,000 | 50,000 |
| Unsecured corporate bonds | Refinancing fund | 2020 | 1.93 | 60,000 | |
| Unsecured corporate bonds | | 2022 | 2.17 | 120,000 | |
| Unsecured corporate bonds | | 2027 | 2.55 | 100,000 | |
| Unsecured corporate bonds | Operating and refinancing fund | 2032 | 2.65 | 90,000 | |
| Unsecured corporate bonds | Operating fund | 2020 | 2.39 | 100,000 | |
| Unsecured corporate bonds | Operating and refinancing fund | 2022 | 2.63 | 80,000 | |
| Unsecured corporate bonds | Refinancing fund | 2027 | 2.84 | 100,000 | |
| Unsecured corporate bonds(*2) | Operating fund | 2017 | 4.28 | | 100,000 |
| Unsecured corporate bonds(*2) | | 2017 | 3.27 | | 120,000 |
| Unsecured corporate bonds(*2) | | 2019 | 3.49 | 210,000 | 210,000 |
| Unsecured corporate bonds(*2) | | 2019 | 2.76 | 130,000 | 130,000 |
| Unsecured corporate bonds(*2) | | 2018 | 2.23 | 50,000 | 50,000 |
| Unsecured corporate bonds(*2) | | 2020 | 2.49 | 160,000 | 160,000 |
| Unsecured corporate bonds(*2) | | 2020 | 2.43 | 140,000 | 140,000 |
| Unsecured corporate bonds(*2) | | 2020 | 2.18 | 130,000 | 130,000 |
| Unsecured corporate bonds(*2) | | 2019 | 1.58 | 50,000 | 50,000 |

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For the years ended December 31, 2017 and 2016

15. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2017 and 2016 are as follows, Continued:

(In millions of won, thousands of U.S. dollars and thousands of other currencies)

| | Purpose | Maturity | Annual interest rate (%) | December 31, 2017 | December 31, 2016 |
|--------------------------------------|--------------------------------|----------|--------------------------|-------------------|-------------------|
| Unsecured corporate bonds(*2) | Operating and refinancing fund | 2021 | 1.77 | 120,000 | 120,000 |
| Unsecured corporate bonds(*2) | Operating fund | 2022 | 2.26 | 150,000 | |
| Unsecured corporate bonds(*2) | Refinancing fund | 2022 | 2.34 | 30,000 | |
| Unsecured corporate bonds(*2) | Operating and refinancing fund | 2022 | 2.70 | 140,000 | |
| Unsecured corporate bonds(*3) | Operating fund | 2017 | 3.48 | | 20,000 |
| Convertible bonds(*4) | | 2019 | 1.00 | 5,558 | |
| Unsecured global bonds | | 2027 | 6.63 | 428,560 | 483,400 |
| | | | | (USD 400,000) | (USD 400,000) |
| Unsecured private Swiss bonds | | 2017 | 1.75 | | 354,399 |
| | | | | | (CHF 300,000) |
| | | | | | (CHF 300,000) |
| Unsecured global bonds | | 2018 | 2.13 | 749,980 | 845,950 |
| | | | | (USD 700,000) | (USD 700,000) |
| Unsecured corporate Australian bonds | | 2017 | 4.75 | | 261,615 |
| | | | | | (AUD 300,000) |
| Floating rate notes(*5) | | | | 321,420 | 362,550 |
| | | 2020 | 3M Libor + 0.88 | (USD 300,000) | (USD 300,000) |

| | | | | |
|--|------|------|--------------------------|--------------------------|
| Foreign global bonds(*2) | 2018 | 2.88 | 321,420 (USD 300,000) | 362,550 (USD 300,000) |
| Sub-total | | | 7,107,216 | 7,220,064 |
| Less discounts on bonds | | | (21,029) | (25,858) |
| | | | 7,086,187 | 7,194,206 |
| Less current installments of bonds | | | (1,489,617) | (855,276) |
| | | | ₩ 5,596,570 | 6,338,930 |

(*1) The Group eliminated a measurement inconsistency of accounting profit or loss between the bonds and related derivatives by designating the structured bonds as financial liabilities at fair value through profit or loss. The carrying amount of financial liabilities designated at fair value through profit or loss exceeds the principal amount required to pay at maturity by ₩10,278 million as of December 31, 2017.

(*2) Unsecured corporate bonds were issued by SK Broadband Co., Ltd.

(*3) Unsecured corporate bonds were issued by PS&Marketing Corporation.

(*4) During the year ended December 31, 2017, the Parent Company sold the convertible bonds issued by IRIVER LIMITED to third parties.

(*5) As of December 31, 2017, 3M LIBOR rate is 1.69%.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

16. Long-term Payables Other

(1) Long-term payables other as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Payables related to acquisition of frequency usage rights | ₩ 1,328,630 | 1,602,943 |
| Other(*) | 18,133 | 21,647 |
| | ₩ 1,346,763 | 1,624,590 |

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

(2) As of December 31, 2017 and 2016, details of long-term payables other which consist of payables related to the acquisition of frequency usage rights are as follows (See Note 14):

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Long-term payables other | ₩ 1,710,255 | 2,013,122 |
| Present value discount on long-term payables other | (79,874) | (108,406) |
| | 1,630,381 | 1,904,716 |
| Less current installments of long-term payables other | (301,751) | (301,773) |
| Carrying amount at December 31 | ₩ 1,328,630 | 1,602,943 |

(3) The repayment schedule of the principal amount of long-term payables other related to acquisition of frequency usage rights as of December 31, 2017 is as follows:

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(In millions of won)

| | Amount |
|-------------------|---------------|
| Less than 1 year | ₩ 302,867 |
| 1~3 years | 605,734 |
| 3~5 years | 402,624 |
| More than 5 years | 399,030 |
| | ₩ 1,710,255 |

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

17. Provisions

Changes in provisions for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | For the year ended December 31, 2017 | | | | | As of December 31, 2017 | | |
|--|--------------------------------------|----------|-------------|----------|-------|-------------------------|---------|-------------|
| | Beginning balance | Increase | Utilization | Reversal | Other | Ending balance | Current | Non-current |
| Provision for installment of handset subsidy | ₩ 24,710 | 2 | (8,898) | (11,940) | | 3,874 | 3,874 | |
| Provision for restoration | 64,679 | 12,066 | (2,517) | (1,006) | 45 | 73,267 | 40,598 | 32,669 |
| Emission allowance | 2,788 | 4,663 | (518) | (2,283) | | 4,650 | 4,650 | |
| Other provisions | 5,740 | 952 | (3,757) | | | 2,935 | 2,935 | |
| | ₩ 97,917 | 17,683 | (15,690) | (15,229) | 45 | 84,726 | 52,057 | 32,669 |

(In millions of won)

| | For the year ended December 31, 2016 | | | | | As of December 31, 2016 | | |
|--|--------------------------------------|----------|-------------|----------|-------|-------------------------|---------|-------------|
| | Beginning balance | Increase | Utilization | Reversal | Other | Ending balance | Current | Non-current |
| Provision for installment of handset subsidy | ₩ 5,670 | 37,530 | (18,490) | | | 24,710 | 19,939 | 4,771 |
| Provision for restoration | 59,954 | 6,677 | (1,082) | (913) | 43 | 64,679 | 37,760 | 26,919 |
| Emission allowance | 1,477 | 1,480 | (169) | | | 2,788 | 2,788 | |
| Other provisions | 3,104 | 3,237 | (601) | | | 5,740 | 5,740 | |
| | ₩ 70,205 | 48,924 | (20,342) | (913) | 43 | 97,917 | 66,227 | 31,690 |

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

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

18. Leases

In 2012, the Group disposed a portion of its property and equipment and investment property, and entered into lease agreements with respect to those assets. These sale and leaseback transactions were accounted for as operating leases. The Group entered into operating lease agreements and sublease agreements in relation to rented office space and the expected future lease payments and lease revenues as of December 31, 2017 are as follows:

(In millions of won)

| | Minimum lease payments | Revenues |
|------------------|-------------------------------|-----------------|
| Less than 1 year | ₩ 49,289 | 1,926 |
| 1~5 years | 101,872 | 916 |
| | ₩ 151,161 | 2,842 |

19. Defined Benefit Liabilities(Assets)

(1) Details of defined benefit liabilities(assets) as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | ₩ 679,625 | 595,667 |
| Fair value of plan assets | (663,617) | (555,175) |
| Defined benefit assets(*) | (45,952) | (30,247) |
| Defined benefit liabilities | 61,960 | 70,739 |

(*) 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) Principal actuarial assumptions as of December 31, 2017 and 2016 are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|--------------------------|--------------------------|
| Discount rate for defined benefit obligations | 2.58%~4.03% | 1.90%~2.96% |
| Expected rate of salary increase | 3.08%~5.93% | 2.49%~6.09% |

Discount rate for defined benefit obligation is determined based on market yields of high-quality corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of salary increase is determined based on the Group's historical promotion index, inflation rate and salary increase ratio.

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

19. Defined Benefit Liabilities(Assets), Continued

(3) Changes in defined benefit obligations for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | For the year ended December 31 | |
|----------------------------------|---|-------------|
| | 2017 | 2016 |
| Beginning balance | ₩ 595,667 | 525,269 |
| Current service cost | 125,526 | 114,528 |
| Interest cost | 15,991 | 13,441 |
| Remeasurement | | |
| - Demographic assumption | (287) | 677 |
| - Financial assumption | (20,731) | (2,462) |
| - Adjustment based on experience | 11,561 | 6,229 |
| Benefit paid | (60,883) | (55,350) |
| Others | 12,781 | (6,665) |
| Ending balance | ₩ 679,625 | 595,667 |

(4) Changes in plan assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|-------------------|-------------|-------------|
| Beginning balance | ₩ 555,175 | 426,413 |
| Interest income | 13,821 | 9,826 |
| Remeasurement | (5,540) | (6,320) |
| Contributions | 155,834 | 159,687 |
| Benefit paid | (60,006) | (34,247) |
| Others | 4,333 | (184) |
| Ending balance | ₩ 663,617 | 555,175 |

The Group expects to make a contribution of ₩146,086 million to the defined benefit plans in 2018.

- (5) 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 years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|----------------------|------------------|----------------|
| Current service cost | ₩ 125,526 | 114,528 |
| Net interest cost | 2,170 | 3,615 |
| | ₩ 127,696 | 118,143 |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

19. Defined Benefit Liabilities(Assets), Continued

(6) Details of plan assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--|--------------------------|--------------------------|
| Equity instruments | ₩ 15,567 | 13,640 |
| Debt instruments | 134,710 | 95,359 |
| Short-term financial instruments, etc. | 513,340 | 446,176 |
| | ₩ 663,617 | 555,175 |

(7) As of December 31, 2017, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

(In millions of won)

| | 0.5% Increase | 0.5% Decrease |
|-------------------------------|----------------------|----------------------|
| Discount rate | ₩ (24,702) | 26,808 |
| Expected salary increase rate | 26,988 | (25,138) |

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

A weighted average duration of defined benefit obligations as of December 31, 2017 is 8.17 years.

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20. Derivative Instruments

(1) Currency and interest rate swap contracts under cash flow hedge accounting as of December 31, 2017 are as follows:

(In millions of won and thousands of foreign currencies)

| Borrowing date | Hedging Instrument(Hedged item) | Hedged risk | Financial institution | Duration of contract |
|-----------------------|---|--|--|-------------------------------|
| Jul. 20, 2007 | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000) | Foreign currency risk | Morgan Stanley and four other banks | Jul. 20, 2007 ~ Jul. 20, 2027 |
| Nov. 1, 2012 | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000) | Foreign currency risk | Standard Chartered and eight other banks | Nov. 1, 2012 ~ May. 1, 2018 |
| Mar. 7, 2013 | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000) | Foreign currency risk and interest rate risk | DBS bank | Mar. 7, 2013 ~ Mar. 7, 2020 |
| Oct. 29, 2013 | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000) | Foreign currency risk | Korea Development Bank and others | Oct. 29, 2013 ~ Oct. 26, 2018 |
| Dec. 16, 2013 | Fixed-to-fixed cross currency swap (U.S. dollar borrowing amounting to USD 51,775) | Foreign currency risk | Deutsche bank | Dec.16, 2013 ~ Apr. 29, 2022 |
| Dec. 20, 2016 | Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 49,000) | Interest rate risk | Korea Development Bank | Dec. 20, 2016 ~ Dec. 20, 2021 |
| Jan. 30, 2017 | Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 28,583) | Interest rate risk | Korea Development Bank | Nov. 10, 2016 ~ Jul. 30, 2019 |
| Mar. 31, 2017 | Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 30,000) | Interest rate risk | Korea Development Bank | Mar. 31, 2017 - Mar. 31, 2020 |
| Dec. 21, 2017 | Floating-to-fixed interest rate swap (Korean won borrowing amounting to | Interest rate risk | Korea Development | Dec. 5, 2017 - Dec. 21, 2022 |

KRW 50,000)

Bank

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For the years ended December 31, 2017 and 2016

20. Derivative Instruments, Continued

(2) As of December 31, 2017, details of fair values of the above derivatives recorded in assets or liabilities are as follows:

(In millions of won and thousands of foreign currencies)

| Hedging instrument(Hedged item) | Cash flow hedge | Held for trading | Embedded derivatives | Fair value |
|---|-----------------------|---------------------|-------------------------|-------------------|
| Non-current assets: | | | | |
| Redeemable convertible preferred shares issued by Bluehole INC. | ₩ | | 222,257 | 222,257 |
| Structured bond(face value of KRW 50,000) | | 9,054 | | 9,054 |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000) | 21,554 | | | 21,554 |
| Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 49,000) | 307 | | | 307 |
| Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 28,583) | 43 | | | 43 |
| Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 50,000) | (2) | | | (2) |
| Total assets | | | | ₩ 253,213 |
| Current liabilities: | | | | |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000) | ₩ (27,791) | | | (27,791) |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000) | (615) | | | (615) |
| Non-current liabilities: | | | | |
| Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000) | (7,613) | | | (7,613) |
| Fixed-to-fixed long-term borrowings (U.S. dollar borrowing amounting to USD 51,775) | (3,106) | | | (3,106) |
| Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 30,000) | (345) | | | (345) |
| Total liabilities | | | | ₩ (39,470) |

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21. Share Capital and Capital Surplus and Others

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 December 31, 2017 and 2016 are as follows:

(In millions of won, except for share data)

| | December 31, 2017 | December 31, 2016 |
|-----------------------------|--------------------------|--------------------------|
| Number of issued shares(*1) | 80,745,711 | 80,745,711 |
| Share capital | | |
| Common share | ₩ 44,639 | 44,639 |
| Capital surplus and others: | | |
| Paid-in surplus | 2,915,887 | 2,915,887 |
| Treasury shares(Note 22) | (2,260,626) | (2,260,626) |
| Hybrid bonds(Note 23) | 398,518 | 398,518 |
| Share option(Note 24) | 414 | |
| Others(*2) | (857,912) | (854,000) |
| | ₩ 196,281 | 199,779 |

(*1) In 2002 and 2003, the Parent Company retired treasury shares with reduction of retained earnings before appropriation. As a result, the Parent Company's outstanding shares have decreased without change in share capital.

(*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.

There were no changes in share capital during the years ended December 31, 2017 and 2016 and details of shares outstanding as of December 31, 2017 and 2016 are as follows:

| <i>(In shares)</i> | 2017 | | | 2016 | | |
|--------------------|--------------------------|----------------------------|-------------------------------|--------------------------|----------------------------|-------------------------------|
| | Issued shares | Treasury shares | Outstanding shares | Issued shares | Treasury shares | Outstanding shares |
| Shares outstanding | 80,745,711 | 10,136,551 | 70,609,160 | 80,745,711 | 10,136,551 | 70,609,160 |

22. Treasury Shares

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The Parent Company acquired treasury shares to provide share dividends, merge with Shinsegi Telecom, Inc. and SK IMT Co, Ltd., increase shareholder value and stabilize its share prices.

Treasury shares as of December 31, 2017 and 2016 are as follows:

(In millions of won, shares)

| | December 31, 2017 | December 31, 2016 |
|------------------|--------------------------|--------------------------|
| Number of shares | 10,136,551 | 10,136,551 |
| Acquisition cost | ₩ 2,260,626 | 2,260,626 |

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

23. Hybrid Bonds

Hybrid bonds classified as equity as of December 31, 2017 are as follows:

(In millions of won)

| | Type | Issuance date | Maturity(*1) | Annual interest rate(%)(*2) | Amount |
|----------------------|------------------------------------|---------------|--------------|-----------------------------|-----------|
| Private hybrid bonds | Unsecured subordinated bearer bond | June 7, 2013 | June 7, 2073 | 4.21 | ₩ 400,000 |
| Issuance costs | | | | | (1,482) |
| | | | | | ₩ 398,518 |

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.

(*1) The Parent Company has a right to extend the maturity under the same terms at issuance without any notice or announcement. The Parent Company also has the right to defer interest payment at its sole discretion.

(*2) Annual interest rate is calculated as yield rate of 5 year national bonds plus premium. According to the step-up clause, additional premium of 0.25% and 0.75%, respectively, after 10 years and 25 years from the issuance date are applied.

24. Share option

(1) At the shareholders meeting held on March 24, 2017, the Parent Company established a share option program that entitles key management personnel the option to purchase common shares of the Parent Company. The terms and conditions related to the grants of the share options under the share option program are as follows:

| | Series | | |
|------------------------------|------------------------------------|---------|---------|
| | 1-1 | 1-2 | 1-3 |
| Grant date | March 24, 2017 | | |
| Types of shares to be issued | 66,504 of registered common shares | | |
| Grant method | Reissue of treasury shares | | |
| Number of shares (in shares) | 22,168 | 22,168 | 22,168 |
| Exercise price (in won) | 246,750 | 266,490 | 287,810 |

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| | | | |
|--------------------|---|---|---|
| Exercise period | Mar. 25, 2019 ~ Mar. 24, 2022 | Mar. 25, 2020 ~ Mar. 24, 2023 | Mar. 25, 2021 ~ Mar. 24, 2024 |
| Vesting conditions | 2 years service from the grant date | 3 years service from the grant date | 4 years service from the grant date |

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24. Share option, Continued

- (2) Share compensation expense recognized during the year ended December 31, 2017 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

| <i>(In millions of won)</i> | Share compensation expense | |
|---|---------------------------------------|-------|
| During the year ended December 31, 2017 | ₩ | 414 |
| In subsequent periods | | 977 |
| | ₩ | 1,391 |

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

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

25. Retained Earnings

- (1) Retained earnings as of December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Appropriated: | | |
| Legal reserve | ₩ 22,320 | 22,320 |
| Reserve for research & manpower development | | 60,001 |

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| | | |
|------------------------------------|--------------|------------|
| Reserve for business expansion | 10,171,138 | 9,871,138 |
| Reserve for technology development | 3,071,300 | 2,826,300 |
| | 13,264,758 | 12,779,759 |
| Unappropriated | 4,571,188 | 3,173,405 |
| | ₩ 17,835,946 | 15,953,164 |

(2) Legal reserve

The Korean Commercial Act requires the Parent Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to share capital.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

26. Reserves

(1) Details of reserves, net of taxes, as of December 31, 2017 and 2016 are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| <i>(In millions of won)</i> | | |
| Valuation gain on available-for-sale financial assets | ₩ 168,211 | 12,534 |
| Other comprehensive loss of investments in associates | (320,060) | (179,167) |
| Valuation loss on derivatives | (73,828) | (96,418) |
| Foreign currency translation differences for foreign operations | (9,050) | 36,868 |
| | ₩ (234,727) | (226,183) |

(2) Changes in reserves for the years ended December 31, 2017 and 2016 are as follows:

| | 2017 | | | | |
|------------------------------|---|--|--------------------------------------|--|--------------|
| <i>(In millions of won)</i> | Valuation gain (loss) on available-for-sale financial assets | Other comprehensive loss of investments in associates | Valuation loss on derivatives | Foreign currency translation differences for foreign operations | Total |
| Balance at January 1, 2017 | ₩ 12,534 | (179,167) | (96,418) | 36,868 | (226,183) |
| Changes, net of taxes | 155,677 | (140,893) | 22,590 | (45,918) | (8,544) |
| Balance at December 31, 2017 | ₩ 168,211 | (320,060) | (73,828) | (9,050) | (234,727) |

| | 2016 | | | | |
|-----------------------------|---------------------------------|------------------------------------|--------------------------------------|---|--------------|
| <i>(In millions of won)</i> | Valuation gain (loss) on | Other comprehensive loss of | Valuation loss on derivatives | Foreign currency translation differences | Total |
| | | | | | |

| | available-for-sale financial assets | investments in associates | | for foreign operations | |
|------------------------------|--|--|----------|-----------------------------------|-----------|
| Balance at January 1, 2016 | ₩ 232,316 | (169,520) | (83,200) | 29,707 | 9,303 |
| Changes, net of taxes | (219,782) | (9,647) | (13,218) | 7,161 | (235,486) |
| Balance at December 31, 2016 | ₩ 12,534 | (179,167) | (96,418) | 36,868 | (226,183) |

- (3) Changes in valuation gain on available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--|-------------|-------------|
| Balance at January 1 | ₩ 12,534 | 232,316 |
| Amount recognized as other comprehensive income during the year, net of taxes | 132,586 | 4,606 |
| Amount reclassified through profit or loss, net of taxes | 23,091 | (224,388) |
| Balance at December 31 | ₩ 168,211 | 12,534 |

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For the years ended December 31, 2017 and 2016

26. Reserves, Continued

(4) Changes in valuation loss on derivatives for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--|-------------|-------------|
| Balance at January 1 | ₩(96,418) | (83,200) |
| Amount recognized as other comprehensive loss during the year, net of taxes | 17,965 | (12,213) |
| Amount reclassified through profit or loss, net of taxes | 4,625 | (1,005) |
| Balance at December 31 | ₩(73,828) | (96,418) |

27. Other Operating Expenses

Details of other operating expenses for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--|-------------|-------------|
| Other Operating Expenses: | | |
| Communication | ₩ 27,973 | 31,196 |
| Utilities | 299,825 | 277,497 |
| Taxes and dues | 27,819 | 35,020 |
| Repair | 333,101 | 326,076 |
| Research and development | 395,276 | 344,787 |
| Training | 32,853 | 33,303 |
| Bad debt for accounts receivable trade | 34,584 | 37,820 |
| Travel | 24,095 | 25,263 |
| Supplies and other | 111,170 | 113,930 |
| | ₩ 1,286,696 | 1,224,892 |

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28. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--|-------------|-------------|
| Other Non-operating Income: | | |
| Gain on disposal of property and equipment and intangible assets | ₩ 13,991 | 6,908 |
| Others | 17,827 | 59,395 |
| | ₩ 31,818 | 66,303 |
| Other Non-operating Expenses: | | |
| Impairment loss on property and equipment, and intangible assets | ₩ 54,946 | 24,506 |
| Loss on disposal of property and equipment and intangible assets | 60,086 | 63,797 |
| Donations | 112,634 | 96,633 |
| Bad debt for accounts receivable other | 5,793 | 40,312 |
| Loss on impairment of investment assets | 9,003 | 24,033 |
| Others | 101,410 | 49,348 |
| | ₩ 343,872 | 298,629 |

29. Finance Income and Costs

(1) Details of finance income and costs for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|-------------|-------------|
| Finance Income: | | |
| Interest income | ₩ 76,045 | 54,353 |
| Gain on sale of accounts receivable -trade | 18,548 | 18,638 |
| Dividends | 12,416 | 19,161 |
| Gain on foreign currency transactions | 13,676 | 14,186 |
| Gain on foreign currency translations | 7,110 | 5,085 |
| Gain on disposal of long-term investment securities | 4,890 | 459,349 |
| Gain on valuation of derivatives | 223,943 | 4,132 |

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| | | |
|---|-----------|---------|
| Gain relating to financial liability at fair value through profit or loss | | 121 |
| Gain relating to financial assets at fair value through profit or loss | 33 | 25 |
| Reversal of impairment loss on available-for-sale financial assets | 9,900 | |
| | ₩ 366,561 | 575,050 |

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For the years ended December 31, 2017 and 2016

29. Finance Income and Costs, Continued

(1) Details of finance income and costs for the years ended December 31, 2017 and 2016 are as follows, Continued:

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|------------------|----------------|
| Finance Costs: | | |
| Interest expense | ₩ 299,100 | 290,454 |
| Loss on sale of accounts receivable trade | 9,682 | |
| Loss on foreign currency transactions | 19,263 | 16,765 |
| Loss on foreign currency translations | 8,419 | 3,991 |
| Loss on disposal of long-term investment securities | 36,024 | 2,919 |
| Loss on settlement of derivatives | 10,031 | 3,428 |
| Loss relating to financial liability at fair value through profit or loss | 678 | 4,018 |
| Other finance costs | 35,900 | |
| Impairment loss on long-term investment securities | 14,519 | 5,255 |
| | ₩ 433,616 | 326,830 |

(2) Details of interest income included in finance income for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--|-----------------|---------------|
| Interest income on cash equivalents and short-term financial instruments | ₩ 28,130 | 20,203 |
| Interest income on installment receivables and others | 47,915 | 34,150 |
| | ₩ 76,045 | 54,353 |

(3) Details of interest expenses included in finance costs for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--------------------------------|-------------|-------------|
| Interest expense on borrowings | ₩ 11,774 | 7,962 |
| Interest expense on debentures | 228,568 | 239,560 |
| Others | 58,758 | 42,932 |

₩ 299,100 290,454

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29. Finance Income and Costs, Continued

(4) Finance income and costs by category of financial instruments for the years ended December 31, 2017 and 2016 are as follows. Bad debt expense (reversal of allowance for doubtful accounts) for accounts receivable trade, loans and receivables are presented and explained separately in Note 7.

(i) Finance income and costs

| <i>(In millions of won)</i> | 2017 | | 2016 | |
|--|----------------|---------------|----------------|---------------|
| | Finance income | Finance costs | Finance income | Finance costs |
| Financial Assets: | | | | |
| Financial assets at fair value through profit or loss | ₩ 223,976 | | 4,157 | 2,791 |
| Available-for-sale financial assets | 30,598 | 86,445 | 484,300 | 8,174 |
| Loans and receivables | 111,677 | 37,040 | 86,256 | 15,810 |
| Derivatives designated as hedging instruments | | | | 637 |
| Sub-total | 366,251 | 123,485 | 574,713 | 27,412 |
| Financial Liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | 678 | 121 | 4,018 |
| Financial liabilities measured at amortized cost | 310 | 299,422 | 216 | 295,400 |
| Derivatives designated as hedging instruments | | 10,031 | | |
| Sub-total | 310 | 310,131 | 337 | 299,418 |
| | ₩ 366,561 | 433,616 | 575,050 | 326,830 |

(ii) Other comprehensive income (loss)

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|-----------|-----------|
| Financial Assets: | | |
| Available-for-sale financial assets | ₩ 158,440 | (223,981) |
| Derivatives designated as hedging instruments | 1,554 | (172) |
| Sub-total | 159,994 | (224,153) |
| Financial Liabilities: | | |

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| | | |
|---|---------------|-----------------|
| Derivatives designated as hedging instruments | 21,032 | (13,046) |
| Sub-total | 21,032 | (13,046) |
| | 181,026 | (237,199) |

(5) Details of impairment losses for financial assets for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|-------------------------------------|-------------|-------------|
| Available-for-sale financial assets | ₩ 14,519 | 5,255 |
| Accounts receivable trade | 34,584 | 37,820 |
| Other receivables | 5,793 | 40,312 |
| | ₩ 54,896 | 83,387 |

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30. Income Tax Expense

(1) Income tax expenses for the years ended December 31, 2017 and 2016 consist of the following:

| <i>(In millions of won)</i> | 2017 | 2016 |
|------------------------------------|-------------|-------------|
| Current tax expense | | |
| Current year | ₩ 424,773 | 473,543 |
| Current tax of prior years(*) | (105,158) | (11,925) |
| | 319,615 | 461,618 |
| Deferred tax expense | | |
| Changes in net deferred tax assets | 426,039 | (25,580) |
| Income tax expense | ₩ 745,654 | 436,038 |

(*) Current tax of prior years are mainly composed of the income tax refund due to a change in the interpretation of the tax authority in relation to the income tax previously recognized by the Group.

(2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2017 and 2016 is attributable to the following:

| <i>(In millions of won)</i> | 2017 | 2016 |
|---|-------------|-------------|
| Income taxes at statutory income tax rate | ₩ 823,124 | 506,804 |
| Non-taxable income | (40,080) | (38,989) |
| Non-deductible expenses | 31,285 | 52,648 |
| Tax credit and tax reduction | (34,300) | (29,484) |
| Changes in unrecognized deferred taxes | 31,857 | (84,276) |
| Income tax refund | (110,209) | 27,599 |
| Changes in tax rate etc. (*) | 43,977 | 1,736 |
| Income tax expense | ₩ 745,654 | 436,038 |

(*)

Based on the amendment to Korean Tax Law that was enacted in 2017, the income tax rate for taxable income in excess of ₩300,000 million is changed from 24.2% to 27.5%, which will be effective from January 1, 2018. As a result, the Group remeasured deferred tax assets and liabilities as a result of this rate change.

Tax rates applied for the above taxable income for the years ended December 31, 2017 and 2016 are corporate income tax rates applied to taxable income in the Republic of Korea, in which the Parent Company is located.

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For the years ended December 31, 2017 and 2016

30. Income Tax Expense, Continued

- (3) Deferred taxes directly charged to (credited from) equity for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|--|-------------------|---------------|
| Valuation gain (loss) on available-for-sale financial assets | ₩ (55,883) | 82,993 |
| Share of other comprehensive income of associates | (260) | 2 |
| Valuation gain (loss) on derivatives | (3,019) | 4,454 |
| Remeasurement of defined benefit liabilities | 1,618 | 3,174 |
| | ₩ (57,544) | 90,623 |

- (4) Details of the changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | Beginning | 2017 Deferred tax expense (income) | 2017 Directly charged to (credited from) equity | Others | Ending |
|---|------------------|---|--|---------------|---------------|
| Deferred tax assets (liabilities) related to temporary differences: | | | | | |
| Allowance for doubtful accounts | ₩ 61,911 | 5,091 | | | 67,002 |
| Accrued interest income | (616) | (1,851) | | | (2,467) |
| Available-for-sale financial assets | 101,472 | 8,192 | (55,883) | | 53,781 |
| Investments in subsidiaries, associates and joint ventures | (476,098) | (461,271) | (260) | | (937,629) |
| Property and equipment (depreciation) | (253,323) | 17,980 | | | (235,343) |
| Provisions | 7,448 | (5,136) | | | 2,312 |
| Retirement benefit obligation | 35,505 | 1,237 | 1,618 | | 38,360 |
| Valuation gain on derivatives | 28,975 | | (3,019) | | 25,956 |
| Gain or loss on foreign currency translation | 19,369 | 2,562 | | | 21,931 |
| Reserve for research and manpower development | (4,775) | 2,388 | | | (2,387) |
| Goodwill | 3,105 | (938) | | | 2,167 |
| Others | 34,911 | (29,248) | | (2,324) | 3,339 |

| | | | | | |
|---|------------------------|-----------|----------|---------|-----------|
| | (442,116) | (460,994) | (57,544) | (2,324) | (962,978) |
| Deferred tax assets related to unused tax loss carryforwards and tax credit carryforwards | | | | | |
| Tax loss carryforwards | 37,462 | 34,955 | | | 72,417 |
| | ₩ (404,654) | (426,039) | (57,544) | (2,324) | (890,561) |

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30. Income Tax Expense, Continued

(4) Details of the changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| | | 2016 | | |
|---|-------------|-------------------------------|--|-----------|
| | Beginning | Deferred tax expense (income) | Directly charged to (credited from) equity | Ending |
| Deferred tax assets (liabilities) related to temporary differences: | | | | |
| Allowance for doubtful accounts | ₩ 59,957 | 1,954 | | 61,911 |
| Accrued interest income | (2,567) | 1,951 | | (616) |
| Available-for-sale financial assets | 30,365 | (11,886) | 82,993 | 101,472 |
| Investments in subsidiaries, associates and joint ventures | (355,273) | (120,827) | 2 | (476,098) |
| Property and equipment (depreciation) | (327,572) | 74,249 | | (253,323) |
| Provisions | 2,485 | 4,963 | | 7,448 |
| Retirement benefit obligation | 28,327 | 4,004 | 3,174 | 35,505 |
| Valuation gain on derivatives | 24,521 | | 4,454 | 28,975 |
| Gain or loss on foreign currency translation | 19,517 | (148) | | 19,369 |
| Reserve for research and manpower development | (7,162) | 2,387 | | (4,775) |
| Goodwill | 3,713 | (608) | | 3,105 |
| Unearned revenue (activation fees) | 2,065 | (2,065) | | |
| Others | (23,782) | 58,693 | | 34,911 |
| | (545,406) | 12,667 | 90,623 | (442,116) |
| Deferred tax assets related to unused tax loss carryforwards and tax credit carryforwards | | | | |
| Tax loss carryforwards | 24,549 | 12,913 | | 37,462 |
| | ₩ (520,857) | 25,580 | 90,623 | (404,654) |

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30. Income Tax Expense, Continued

- (5) Details of temporary differences, unused tax loss carryforwards and unused tax credits carryforwards which are not recognized as deferred tax assets, in the consolidated statements of financial position as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--|--------------------------|--------------------------|
| Allowance for doubtful accounts | ₩ 88,521 | 165,935 |
| Investments in subsidiaries, associates and joint ventures | 168,268 | 228,025 |
| Other temporary differences | 425,653 | 320,260 |
| Unused tax loss carryforwards | 921,309 | 755,050 |
| Unused tax credit carryforwards | 4,092 | 1,211 |

- (6) The amount of unused tax loss carryforwards and unused tax credit carryforwards which are not recognized as deferred tax assets as of December 31, 2017 are expiring within:

(In millions of won)

| | Unused tax loss carryforwards | Unused tax credit carryforwards |
|-------------------|--------------------------------------|--|
| Less than 1 year | ₩ | 869 |
| 1 ~ 2 years | 7,686 | 101 |
| 2 ~ 3 years | 358,237 | 119 |
| More than 3 years | 555,386 | 3,003 |
| | ₩ | 921,309 |
| | 4,092 | 4,092 |

31. Earnings per Share

- (1) Basic earnings per share

- 1) Basic earnings per share for the years ended December 31, 2017 and 2016 are calculated as follows:

(In millions of won, shares)

| | 2017 | 2016 |
|---|-------------|-------------|
| Basic earnings per share attributable to owners of the Parent Company: | | |
| Profit attributable to owners of the Parent Company | ₩ 2,599,829 | 1,675,967 |
| Interest on hybrid bonds | (16,840) | (16,840) |
| Profit for the period available for common shares | 2,582,989 | 1,659,127 |
| Weighted average number of common shares outstanding | 70,609,160 | 70,609,160 |
| Basic earnings per share (in won) | ₩ 36,582 | 23,497 |

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31. Earnings per Share, Continued

(1) Basic earnings per share, Continued

- 2) The weighted average number of common shares outstanding for the years ended December 31, 2017 and 2016 are calculated as follows:

(In shares)

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Issued common shares at January 1 | 80,745,711 | 80,745,711 |
| Effect of treasury shares | (10,136,551) | (10,136,551) |
| Weighted average number of common shares outstanding at December 31 | 70,609,160 | 70,609,160 |

(2) Diluted earnings per share

For the years ended December 31, 2017 and 2016, diluted earnings per share are the same as basic earnings per share as there are no dilutive potential common shares.

32. Dividends

(1) Details of dividends declared

Details of dividend declared for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won, except for face value and share data)

| Year | Dividend type | Number of shares outstanding | Face value (in won) | Dividend ratio | Dividends |
|-------------|---------------------------|-------------------------------------|----------------------------|-----------------------|------------------|
| 2017 | Cash dividends (interim) | 70,609,160 | 500 | 200% | ₩ 70,609 |
| | Cash dividends (year-end) | 70,609,160 | 500 | 1,800% | 635,482 |
| | | | | | ₩ 706,091 |

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| | | | | | |
|------|---------------------------|------------|-----|--------|-----------|
| 2016 | Cash dividends (interim) | 70,609,160 | 500 | 200% | ₩ 70,609 |
| | Cash dividends (year-end) | 70,609,160 | 500 | 1,800% | 635,482 |
| | | | | | ₩ 706,091 |

(2) Dividends yield ratio

Dividends yield ratios for the years ended December 31, 2017 and 2016 are as follows:

(In won)

| Year | Dividend type | Dividend per share | Closing price at year-end | Dividend yield ratio |
|-------------|----------------------|---------------------------|----------------------------------|-----------------------------|
| 2017 | Cash dividends | 10,000 | 267,000 | 3.75% |
| 2016 | Cash dividends | 10,000 | 224,000 | 4.46% |

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33. Categories of Financial Instruments

(1) Financial assets by category as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | | | Total |
|----------------------------------|--|---|----------------------------------|---|--------------|
| | Financial assets at fair value through profit or loss | Available- for-sale financial assets | Loans and receivables | Derivatives hedging instrument | |
| Cash and cash equivalents | ₩ | | 1,457,735 | | 1,457,735 |
| Financial instruments | | | 618,002 | | 618,002 |
| Short-term investment securities | 97,003 | 47,383 | | | 144,386 |
| Long-term investment securities | | 887,007 | | | 887,007 |
| Accounts receivable trade | | | 2,138,755 | | 2,138,755 |
| Loans and other receivables(*) | | | 1,962,083 | | 1,962,083 |
| Derivative financial assets | 231,311 | | | 21,902 | 253,213 |
| | ₩ 328,314 | 934,390 | 6,176,575 | 21,902 | 7,461,181 |

(In millions of won)

| | December 31, 2016 | | | | Total |
|----------------------------------|--|---|----------------------------------|---|--------------|
| | Financial assets at fair value through profit or loss | Available- for-sale financial assets | Loans and receivables | Derivatives hedging instrument | |
| Cash and cash equivalents | ₩ | | 1,505,242 | | 1,505,242 |
| Financial instruments | | | 469,705 | | 469,705 |
| Short-term investment securities | | 107,364 | | | 107,364 |
| Long-term investment securities | | 828,521 | | | 828,521 |
| Accounts receivable trade | | | 2,261,311 | | 2,261,311 |
| Loans and other receivables(*) | | | 1,701,249 | | 1,701,249 |
| Derivative financial assets | 7,368 | | | 207,402 | 214,770 |
| | ₩ 7,368 | 935,885 | 5,937,507 | 207,402 | 7,088,162 |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

33. Categories of Financial Instruments, Continued

(1) Financial assets by category as of December 31, 2017 and 2016 are as follows, Continued:

(*) Details of loans and other receivables as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|--------------------------|--------------------------|
| Short-term loans | ₩ 62,830 | 58,979 |
| Accounts receivable other | 1,260,835 | 1,121,444 |
| Accrued income | 3,979 | 2,780 |
| Other current assets | 3,927 | 3,937 |
| Long-term loans | 50,874 | 65,476 |
| Long-term accounts receivable-other | 287,048 | 149,669 |
| Guarantee deposits | 292,590 | 298,964 |
| | ₩ 1,962,083 | 1,701,249 |

(2) Financial liabilities by category as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | | | |
|---------------------------------------|---|---|---------------------------------------|--------------|
| | Financial liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Derivatives hedging instrument | Total |
| Accounts payable trade | ₩ 351,711 | | | 351,711 |
| Derivative financial liabilities | | | 39,470 | 39,470 |
| Borrowings | | 382,817 | | 382,817 |
| Debentures(*1) | 60,278 | 7,025,909 | | 7,086,187 |
| Accounts payable other and others(*2) | | 4,865,519 | | 4,865,519 |
| | ₩ 60,278 | 12,625,956 | 39,470 | 12,725,704 |

*(In millions of won)***December 31, 2016**

| | Financial liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Derivatives hedging instrument | Total |
|---------------------------------------|---|---|---------------------------------------|--------------|
| Accounts payable trade | ₩ 402,445 | | | 402,445 |
| Derivative financial liabilities | | | 87,153 | 87,153 |
| Borrowings | | 175,521 | | 175,521 |
| Debentures(*1) | 59,600 | 7,134,606 | | 7,194,206 |
| Accounts payable other and others(*2) | | 4,842,734 | | 4,842,734 |
| | ₩ 59,600 | 12,555,306 | 87,153 | 12,702,059 |

(*1) Bonds classified as financial liabilities at fair value through profit or loss as of December 31, 2017 and 2016 are structured bonds and they were designated as financial liabilities at fair value through profit or loss in order to eliminate a measurement inconsistency with the related derivatives.

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

33. Categories of Financial Instruments, Continued

(2) Financial liabilities by category as of December 31, 2017 and 2016 are as follows, Continued:

(*2) Details of accounts payable other and others as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|---|--------------------------|--------------------------|
| Accounts payable other | ₩ 1,867,074 | 1,767,799 |
| Withholdings | 1,736 | 1,525 |
| Accrued expenses | 1,327,906 | 1,125,816 |
| Current portion of long-term payables other | 302,703 | 301,773 |
| Long-term payables other | 1,346,763 | 1,624,590 |
| Other non-current liabilities | 19,337 | 21,231 |
| | ₩ 4,865,519 | 4,842,734 |

34. 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, interest rates and equity prices. 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, available-for-sale financial assets, accounts receivable trade and other. Financial liabilities consist of accounts payable trade and other, borrowings, and debentures.

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.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

34. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(i) Currency risk, Continued

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2017 are as follows:

(In millions of won, thousands of foreign currencies)

| | Assets | | Liabilities | |
|--------|--------------------|----------------|--------------------|----------------|
| | Foreign currencies | Won equivalent | Foreign currencies | Won equivalent |
| USD | 124,901 | ₩ 133,836 | 1,817,808 | ₩ 1,947,599 |
| EUR | 15,669 | 20,044 | 63 | 80 |
| JPY | 596,059 | 5,658 | 169,729 | 1,611 |
| Others | | 530 | | 195 |
| | | ₩ 160,068 | | ₩ 1,949,485 |

In addition, the Group has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures. (Refer to Note 20)

As of December 31, 2017, a hypothetical change in exchange rates by 10% would have increase (reduce) the Group's income before income tax as follows:

(In millions of won)

| | If increased by 10% | If decreased by 10% |
|--------|---------------------|---------------------|
| USD | ₩ 5,590 | (5,590) |
| EUR | 1,997 | (1,997) |
| JPY | 405 | (405) |
| Others | 34 | (34) |

| | | |
|---|-------|---------|
| ₩ | 8,026 | (8,026) |
|---|-------|---------|

(ii) Equity price risk

The Group has listed and non-listed equity securities for its liquidity management and operating purpose. As of December 31, 2017, available-for-sale equity instruments measured at fair value amount to ₩734,487 million.

(iii) Interest rate risk

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

Accordingly, 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.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

34. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(iii) Interest rate risk, Continued

As of December 31, 2017, the floating-rate borrowings and bonds of the Group are ₩228,300 million and ₩321,420 million, respectively, and the Group has entered into interest rate swap agreements, as described in Note 20, for all floating-rate rate borrowings and debentures to hedge interest rate risk.

If the interest rate increases (decreases) 1% with all other variables held constant, income before income taxes for the year ended December 31, 2017, would change by ₩707 million in relation to floating-rate borrowings that are exposed to interest rate risk.

2) Credit risk

The maximum credit exposure as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|-------------------------------------|--------------------|------------------|
| Cash and cash equivalents | ₩ 1,457,416 | 1,505,082 |
| Financial instruments | 618,002 | 469,705 |
| Available-for-sale financial assets | 19,928 | 6,755 |
| Accounts receivable trade | 2,138,755 | 2,261,311 |
| Loans and other receivables | 1,962,083 | 1,701,249 |
| Derivative financial assets | 30,956 | 214,770 |
| | ₩ 6,227,140 | 6,158,872 |

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

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

The Group establishes an allowance for doubtful account that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Also, the Group's credit risk can arise due to 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 December 31, 2017.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

34. Financial Risk Management, Continued

(1) Financial risk management, Continued

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 December 31, 2017 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 | ₩ 351,711 | 351,711 | 351,711 | | |
| Borrowings(*1) | 382,817 | 397,776 | 177,910 | 219,866 | |
| Debentures(*1) | 7,086,187 | 8,230,952 | 1,682,206 | 3,675,178 | 2,873,568 |
| Accounts payable other and others(*2) | 4,865,519 | 5,030,105 | 3,519,489 | 1,093,611 | 417,005 |
| | ₩ 12,686,234 | 14,010,544 | 5,731,316 | 4,988,655 | 3,290,573 |

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

(*1) Includes interest payables.

(*2) The Group provides with USD 12,240,000 of payment guarantees for Celcom Planet, one of the joint ventures of the Group, in relation to its borrowings. The contractual cash flows for accounts payable other and others include the maximum amount that the Group is required to pay in connection with the guarantees.

As of December 31, 2017, 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 | ₩ 21,902 | 17,118 | 7,446 | 28,075 | (18,403) |
| Liabilities | (39,470) | (40,220) | (28,960) | (11,260) | |
| | ₩ (17,568) | (23,102) | (21,514) | 16,815 | (18,403) |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

34. 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, 2016.

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

Debt-equity ratio as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| | December 31, 2017 | December 31, 2016 |
|--------------------|----------------------------------|------------------------------|
| Total liabilities | ₩ 15,399,474 | 15,181,233 |
| Total equity | 18,029,195 | 16,116,430 |
| Debt-equity ratios | 85.41% | 94.20% |

(3) Fair value

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

(In millions of won)

| | Carrying amount | December 31, 2017 | | | Total |
|---|----------------------------|--------------------------|----------------|----------------|--------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets that are measured at fair value | | | | | |
| Financial assets at fair value through profit or loss | ₩ 328,314 | | 106,057 | 222,257 | 328,314 |
| Derivative financial assets | 21,902 | | 21,902 | | 21,902 |
| Available-for-sale financial assets | 734,487 | 589,202 | 47,383 | 97,902 | 734,487 |
| | ₩ 1,084,703 | 589,202 | 175,342 | 320,159 | 1,084,703 |

Financial liabilities that are measured at fair value

| | | | | |
|--|---|--------|--------|--------|
| Financial liabilities at fair value through profit or loss | ₩ | 60,278 | 60,278 | 60,278 |
| Derivative financial liabilities | | 39,470 | 39,470 | 39,470 |
| | ₩ | 99,748 | 99,748 | 99,748 |

Financial liabilities that are not measured at fair value

| | | | | |
|--------------------------|---|-----------|-----------|-----------|
| Borrowings | ₩ | 382,817 | 383,748 | 383,748 |
| Debentures | | 7,025,909 | 7,325,370 | 7,325,370 |
| Long-term payables other | | 1,649,466 | 1,766,451 | 1,766,451 |
| | ₩ | 9,058,192 | 9,475,569 | 9,475,569 |

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

34. 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, 2016 are as follows:

(In millions of won)

| | December 31, 2016 | | | | |
|--|----------------------------|----------------|----------------|----------------|--------------|
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets that are measured at fair value | | | | | |
| Financial assets at fair value through profit or loss | ₩ 7,368 | | 7,368 | | 7,368 |
| Derivative financial assets | 207,402 | | 207,402 | | 207,402 |
| Available-for-sale financial assets | 741,285 | 526,363 | 107,364 | 107,558 | 741,285 |
| | ₩ 956,055 | 526,363 | 322,134 | 107,558 | 956,055 |
| Financial liabilities that are measured at fair value | | | | | |
| Financial liabilities at fair value through profit or loss | ₩ 59,600 | | 59,600 | | 59,600 |
| Derivative financial liabilities | 87,153 | | 87,153 | | 87,153 |
| | ₩ 146,753 | | 146,753 | | 146,753 |
| Financial liabilities that are not measured at fair value | | | | | |
| Borrowings | ₩ 175,521 | | 177,600 | | 177,600 |
| Debentures | 7,134,606 | | 7,568,361 | | 7,568,361 |
| Long-term payables other | 1,926,363 | | 2,103,788 | | 2,103,788 |
| | ₩ 9,236,490 | | 9,849,749 | | 9,849,749 |

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

Available-for-sale financial assets amounting to ₩199,903 million and ₩194,600 million as of December 31, 2017 and December 31, 2016, respectively, are measured at cost in accordance with K-IFRS No. 1039 since they are equity instruments which do not have quoted price in an active market for the identical instruments and for which fair value cannot be reliably measured using other valuation methods.

Fair value of the financial instruments that are traded in an active market (available-for-sale financial assets, financial liabilities at fair value through profit or loss, etc.) 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. Fair value of available-for-sale securities is determined using the market approach methods and financial assets through profit or loss are measured using the option pricing model. In addition, derivative financial contracts and long-term liabilities are measured using the discounted present value methods. Inputs used to such valuation methods include swap rate, interest rate, and risk premium, and the Group performs valuation using the inputs which are consistent with natures of assets and liabilities measured.

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

34. 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, 2016 are as follows, Continued:

Interest rates used by the Group for the fair value measurement as of December 31, 2017 are as follows:

| | Interest rate |
|---------------------------|----------------------|
| Derivative instruments | 1.54% ~ 2.67% |
| Borrowings and debentures | 2.48% ~ 2.55% |
| Long-term payables other | 2.23% ~ 2.60% |

- 3) There have been no transfers from Level 2 to Level 1 in 2017 and changes of financial assets classified as Level 3 for the year ended December 31, 2017 are as follows:

(In millions of won)

| | Balance at beginning | Valuation | Transfer | Other compre- hensive loss | Disposal | Balance at ending |
|--|---------------------------------|------------------|-----------------|---|-----------------|------------------------------|
| Financial assets at fair value through profit or loss(*) | ₩ | 222,257 | | | | 222,257 |
| Available-for-sale financial assets | 107,558 | | 3,938 | (8,942) | (4,652) | 97,902 |

(*) The Group holds redeemable convertible preferred shares issued by Bluehole INC. The conversion rights attached to the investments are bifurcated from the host contract as embedded derivatives and the Group recognized ₩222,257 million as financial assets at FVTPL and gain on valuation of derivatives, respectively, as of and during the year ended December 31, 2017. The host contract was recognized as available-for-sale financial assets of ₩15,342 million measured by discounting the amount of collection at maturity including the principal, guaranteed interests, and dividend. The fair value of the conversion rights were measured using the binomial option pricing model by considering inputs such as expected volatility, exercise price, and common share price. The major inputs used and their correlations with the fair value measurements are as follows.

Correlations between inputs

| Significant non-observable inputs | and fair value measurements |
|--|--|
| Value of common shares | If the value of common share increases (decreases), Fair value will increase (decrease) |
| Exercise price | If the exercise price increases (decreases), Fair value will decrease (increase) |
| Discount rate | If the discount rate increases (decreases), Fair value will decrease (increase) |
| Volatility | If the share price volatility increases (decreases), Fair value will increase (decrease) |

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

34. Financial Risk Management, Continued

(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2017 and 2016 are as follows:

(In millions of won)

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

(In millions of won)

| | | | | 2016 | | | |
|--------------------------|------------------|--|---------------|---|--|-----------------------|------------|
| | | Gross financial instruments recognized | Amount offset | Net financial instruments presented on the statements of financial position | Relevant amount not offset on the statements of financial position | Financial instruments | Net amount |
| Financial assets: | | | | | | | |
| Derivatives(*) | | ₩ 87,566 | | 87,566 | (87,153) | | 413 |
| Accounts receivable | trade and others | 114,135 | (103,852) | 10,283 | | | 10,283 |

| | | | | | |
|-----------------------------------|-----------|-----------|--------|----------|--------|
| | ₩ 201,701 | (103,852) | 97,849 | (87,153) | 10,696 |
| Financial liabilities: | | | | | |
| Derivatives(*) | ₩ 87,153 | | 87,153 | (87,153) | |
| Accounts payable other and others | 103,852 | (103,852) | | | |
| | ₩ 191,005 | (103,852) | 87,153 | (87,153) | |

(*) 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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For the years ended December 31, 2017 and 2016

35. Related Parties and Others

(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 40 others |
| Others | The Ultimate Controlling Entity's subsidiaries and associates, etc. |

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

(2) Compensation for the key management

The Parent Company considers registered directors who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|--------------------------------|-------------|-------------|
| Salaries | ₩ 2,169 | 1,645 |
| Defined benefits plan expenses | 258 | 424 |
| Share option | 414 | |
| | ₩ 2,841 | 2,069 |

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.

SK TELECOM CO., LTD. and Subsidiaries

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35. Related Parties and Others, Continued

(3) Transactions with related parties for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| Scope | Company | 2017 | | | |
|-----------------------------|---|------------------------------|------------------------------|---------------------------------------|---------------------|
| | | Operating revenue and others | Operating expense and others | Acquisition of property and equipment | Collection of loans |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1) | ₩ 25,049 | 600,600 | 283,556 | |
| Associates | F&U Credit information Co., Ltd. | 3,431 | 52,150 | 153 | |
| | HappyNarae Co., Ltd. | 3,025 | 29,276 | 68,472 | |
| | SK hynix Inc(*2) | 123,873 | 251 | | |
| | KEB HanaCard Co., Ltd. | 17,873 | 15,045 | | |
| | Others(*3) | 10,720 | 33,389 | 940 | 204 |
| | | 158,922 | 130,111 | 69,565 | 204 |
| Others | SK Engineering & Construction Co., Ltd. | 5,865 | 1,077 | | |
| | SK Networks Co., Ltd. | 21,694 | 1,220,251 | 671 | |
| | SK Networks Services Co., Ltd. | 510 | 96,949 | 6,346 | |
| | SK Telesys Co., Ltd. | 417 | 51,394 | 152,659 | |
| | SK TNS Co., Ltd. | 137 | 37,051 | 494,621 | |
| | SK Energy Co., Ltd. | 8,505 | 779 | | |
| | SK Gas Co., Ltd. | 2,727 | 4 | | |
| | SK Innovation Co., Ltd. | 7,639 | 950 | | |
| | SK Shipping Co., Ltd. | 3,183 | 35 | | |
| | Ko-one energy service Co., Ltd | 5,164 | 44 | | |
| | SK infosec Co., Ltd. | 1,185 | 52,634 | 15,648 | |
| | SKC INFRA SERVICE Co., Ltd. | 19 | 46,900 | 47,163 | |
| | Others | 18,233 | 28,209 | 17 | |
| | | 75,278 | 1,536,277 | 717,125 | |
| Total | | ₩ 259,249 | 2,266,988 | 1,070,246 | 204 |

- (*1) Operating expense and others include ~~₩~~203,635 million of dividends paid by the Parent Company.
- (*2) Operating revenue and others include ~~₩~~87,660 million of dividends received from SK Hynix Inc. which was deducted from the investment in associates.
- (*3) Operating revenue and others include ~~₩~~6,597 million of dividends received from the Korea IT Fund.

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017 and 2016

35. Related Parties and Others, Continued

(3) Transactions with related parties for the years ended December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| Scope | Company | 2016 | | | | Collection of loans |
|-----------------------------|---|------------------------------|------------------------------|---------------------------------------|-------|---------------------|
| | | Operating revenue and others | Operating expense and others | Acquisition of property and equipment | Loans | |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1) | ₩ 23,104 | 652,855 | 235,502 | | |
| Associates | F&U Credit information Co., Ltd. | 2,865 | 47,905 | | | |
| | HappyNarae Co., Ltd. | 304 | 15,506 | 38,984 | | |
| | SK hynix Inc.(*2) | 100,861 | 306 | | | |
| | KEB HanaCard Co., Ltd. | 19,730 | 14,804 | | | |
| | Others(*3) | 8,018 | 21,853 | 1,573 | 1,100 | 3,194 |
| | | 131,778 | 100,374 | 40,557 | 1,100 | 3,194 |
| Others | SK Engineering & Construction Co., Ltd. | 5,916 | 1,739 | 10,694 | | |
| | SK Networks Co., Ltd. | 13,756 | 1,131,567 | | | |
| | SK Networks Services Co., Ltd. | 1,248 | 94,906 | 6,793 | | |
| | SK Telesys Co., Ltd. | 419 | 52,488 | 142,605 | | |
| | SK TNS Co., Ltd. | 109 | 48,192 | 387,496 | | |
| | SK Energy Co., Ltd. | 7,670 | 834 | | | |
| | SK Gas Co., Ltd. | 2,500 | 4 | | | |
| | SK Innovation Co., Ltd. | 9,757 | 915 | 1,080 | | |
| | SK Shipping Co., Ltd. | 5,435 | | | | |
| | Ko-one energy service Co., Ltd | 6,005 | 46 | | | |
| | SK infosec Co., Ltd. | 230 | 53,068 | 19,882 | | |
| | SKC INFRA SERVICE Co., Ltd. | 43 | 30,663 | 32,141 | | |
| | Others | 13,437 | 17,626 | 246 | | |
| | | 66,525 | 1,432,048 | 600,937 | | |
| Total | | ₩ 221,407 | 2,185,277 | 876,996 | 1,100 | 3,194 |

- (*1) Operating expense and others include W203,635 million of dividends paid by the Parent Company.
- (*2) Operating revenue and others include W73,050 million of dividends paid by the associate which was deducted from the investment in associates.
- (*3) Operating revenue and others include W6,082 million of dividends received from the Korea IT Fund.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

35. Related Parties and Others, Continued

(4) Account balances with related parties as of December 31, 2017 and 2016 are as follows:

(In millions of won)

| Scope | Company | December 31, 2017 | | |
|-----------------------------|--|-------------------|--|---|
| | | Loans | Accounts receivable trade and others | Accounts payable other and others |
| Ultimate Controlling Entity | SK Holdings Co., Ltd. | ₩ | 2,068 | 148,066 |
| Associates | HappyNarae Co., Ltd. | | 15 | 6,865 |
| | F&U Credit information Co., Ltd. | | 21 | 1,612 |
| | SK hynix Inc. | | 2,803 | 94 |
| | Wave City Development Co., Ltd. | | 38,412 | |
| | Daehan Kanggun BcN Co., Ltd.(*) | 22,147 | | |
| | KEB HanaCard Co., Ltd. | | 1,427 | 11,099 |
| | S.M. Culture & Contents Co., Ltd. | | 448 | 8,963 |
| | Xian Tianlong Science and Technology Co., Ltd. | 7,032 | | |
| | Others | 611 | 2,272 | 1,164 |
| | | | 29,790 | 45,398 |
| Other | SK Engineering & Construction Co., Ltd. | | 2,033 | 69 |
| | SK Networks. Co., Ltd. | | 3,050 | 267,297 |
| | SK Networks Services Co., Ltd. | | 15 | 9,522 |
| | SK Telesys Co., Ltd. | | 36 | 58,346 |
| | SK TNS Co., Ltd. | | 3 | 140,311 |
| | SK Innovation Co., Ltd. | | 4,112 | 599 |
| | SK Energy Co., Ltd. | | 2,965 | 582 |
| | SK Gas Co., Ltd. | | 1,941 | 9 |
| Others | | 2,998 | 27,318 | |
| | | | 17,153 | 504,053 |

| | | | |
|-------|----------|--------|---------|
| Total | ₩ 29,790 | 64,619 | 681,916 |
|-------|----------|--------|---------|

(*) The Parent Company has recognized allowances for doubtful accounts on the entire balance of loans to Daehan Kanggun BcN Co., Ltd as of December 31,2017.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

35. Related Parties and Others, Continued

(4) Account balances with related parties as of December 31, 2017 and 2016 are as follows, Continued:

(In millions of won)

| Scope | Company | Loans | December 31, 2016 | | |
|--------------------------------|--|---|---|---|--------|
| | | | Accounts receivable Accounts receivable - trade and others | Accounts payable -Accounts payable other and others | |
| Ultimate Controlling Entity | SK Holdings Co., Ltd. | ₩ | 3,519 | 149,574 | |
| Associates | HappyNarae Co., Ltd. | | 18 | 21,063 | |
| | F&U Credit information Co., Ltd. | | 34 | 1,328 | |
| | SK hynix Inc. | | 22,379 | 92 | |
| | Wave City Development Co., Ltd. | | 38,412 | | |
| | Daehan Kanggun BcN Co., Ltd.(*) | 22,147 | | | |
| | KEB HanaCard Co., Ltd. | | 1,619 | 7,676 | |
| | Xian Tianlong Science and Technology Co., Ltd. | 8,287 | | | |
| | Others | 813 | 4,191 | 945 | |
| | | | 31,247 | 66,653 | 31,104 |
| | Other | SK Engineering & Construction Co., Ltd. | | 1,808 | 4,975 |
| SK Networks. Co., Ltd. | | | 3,254 | 247,728 | |
| SK Networks Services Co., Ltd. | | | 13 | 13,913 | |
| SK Telesys Co., Ltd. | | | 20 | 24,918 | |
| SK TNS Co., Ltd. | | | 3 | 68,276 | |
| SK Innovation Co., Ltd. | | | 1,350 | 892 | |
| SK Energy Co., Ltd. | | | 1,213 | 113 | |
| SK Gas Co., Ltd. | | | 1,769 | 9 | |
| Others | | | 2,783 | 30,209 | |
| | | | 12,213 | 391,033 | |
| Total | | ₩ 31,247 | 82,385 | 571,711 | |

- (*) The Parent Company has recognized allowances for doubtful accounts on the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as of December 31,2016.

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

- (6) As of December 31, 2017, the Group provides with USD 12,240,000 of payment guarantees for the borrowings of the Celcom Planet, the joint ventures of the Group.

- (7) There were additional investments in associates and joint ventures during the year ended December 31, 2017 and 2016 as presented in Note 11.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

36. 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 ₩4,144 million as of December 31, 2017.

SK Broadband Co., Ltd., has guaranteed for employees' borrowings relating to employee stock ownership program and provided short-term financial instruments amounting to ₩300 million as collateral as of December 31, 2017.

(2) Legal claims and litigations

As of December 31, 2017 the Group is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. In connection with those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

(3) Accounts receivables from sale of handsets

The sales agents of the Parent Company sell handsets to the Parent Company's subscribers on an installment basis. During the year ended December 31, 2017, the Parent Company entered into a comprehensive agreement to purchase the accounts receivables from handset sales with agents and to transfer the accounts receivables from handset sales to special purpose companies which were established with the purpose of liquidating receivables, respectively.

The accounts receivables from sale of handsets amounting to ₩1,111,614 million as of December 31, 2017, which the Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable-other and long-term accounts receivable-other.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

37. Statements of Cash Flows

- (1) Adjustments for income and expenses from operating activities for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|---|-------------|-------------|
| Interest income | ₩ (76,045) | (54,353) |
| Dividend | (12,416) | (19,161) |
| Gain on foreign currency translation | (7,110) | (5,085) |
| Gain on disposal of long-term investment securities | (4,890) | (459,349) |
| Gain on valuation of derivatives | (223,943) | (4,132) |
| Gain on sale of accounts receivable trade | (18,548) | (18,638) |
| Gain relating to investments in associates and joint ventures, net | (2,245,732) | (544,501) |
| Gain on disposal of property and equipment and intangible assets | (13,991) | (6,908) |
| Gain relating to financial assets at fair value through profit or loss | (33) | (25) |
| Gain related to financial liabilities at fair value through profit or loss | | (121) |
| Reversal of impairment loss on available-for-sale financial assets | (9,900) | |
| Other income | (1,129) | (2,123) |
| Interest expenses | 299,100 | 290,454 |
| Loss on foreign currency translation | 8,419 | 3,991 |
| Loss on disposal of long-term investment securities | 36,024 | 2,919 |
| Other finance costs | 14,519 | 5,255 |
| Loss on settlement of derivatives | 10,031 | 3,428 |
| Loss on sale of accounts receivable trade | 9,682 | |
| Income tax expense | 745,654 | 436,038 |
| Expense related to defined benefit plan | 127,696 | 118,143 |
| Share option | 414 | |
| Depreciation and amortization | 3,247,519 | 3,068,558 |
| Bad debt expense | 34,584 | 37,820 |
| Loss on disposal of property and equipment and intangible assets | 60,086 | 63,797 |
| Impairment loss on property and equipment and intangible assets | 54,946 | 24,506 |
| Loss relating to financial liabilities at fair value through profit or loss | 678 | 4,018 |

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| | | |
|---|-------------|-----------|
| Bad debt for accounts receivable other | 5,793 | 40,312 |
| Loss on impairment of investment assets | 9,003 | 24,033 |
| Other expenses | 46,353 | 30,685 |
| | ₩ 2,096,764 | 3,039,561 |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

37. Statements of Cash Flows, Continued

(2) Changes in assets and liabilities from operating activities for the years ended December 31, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | 2017 | 2016 |
|-------------------------------------|--------------------|---------------|
| Accounts receivable trade | ₩ 46,144 | 88,549 |
| Accounts receivable other | (159,960) | (446,286) |
| Accrued income | 14 | 445 |
| Advance payments | (1,269) | 47,615 |
| Prepaid expenses | (28,362) | (30,311) |
| Value-Added Tax refundable | (3,080) | (4,587) |
| Inventories | (17,958) | 798 |
| Long-term accounts receivable other | (137,979) | (147,117) |
| Guarantee deposits | 14,696 | 4,844 |
| Accounts payable trade | (26,151) | 75,585 |
| Accounts payable other | 134,542 | 316,464 |
| Advanced receipts | (13,470) | 37,429 |
| Withholdings | (13,041) | 107,516 |
| Deposits received | (4,916) | (2,153) |
| Accrued expenses | 116,065 | 173,072 |
| Value-Added Tax payable | 7,505 | (4,072) |
| Unearned revenue | (339) | (36,209) |
| Provisions | (20,488) | 20,235 |
| Long-term provisions | (2,449) | 4,115 |
| Plan assets | (95,828) | (125,440) |
| Retirement benefit payment | (60,883) | (55,350) |
| Others | 5,739 | (11,378) |
| | ₩ (261,468) | 13,764 |

(3) Significant non-cash transactions for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

| | 2017 | 2016 |
|---|-------------|-------------|
| Increase of accounts payable other related to acquisition of property and equipment and intangible assets | ₩ 44,214 | 1,511,913 |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

37. Statements of Cash Flows, Continued

(4) Reconciliation of liabilities arising from financing activities for the year ended December 31, 2017 is as follows:

(In millions of won)

| | January 1, 2017 | Cash flows | Exchange rate changes | Fair value changes | Other changes | December 31, 2017 |
|---|--------------------|---------------|--------------------------|-----------------------|------------------|----------------------|
| Non-cash transactions | | | | | | |
| Total liabilities from financing activities | | | | | | |
| Short-term borrowings | ₩ 2,614 | 127,386 | | | | 130,000 |
| Long-term borrowings | 172,906 | 87,299 | (7,898) | | 510 | 252,817 |
| Debentures | 7,194,207 | 130,558 | (245,456) | | 6,878 | 7,086,187 |
| Long-term payables other | 1,918,024 | (305,476) | | | 28,533 | 1,641,081 |
| Derivative financial liabilities | 87,153 | (105,269) | 13,281 | 39,267 | 5,038 | 39,470 |
| Derivative financial assets | (214,770) | 188 | 922 | (40,235) | 682 | (253,213) |
| | ₩ 9,160,134 | (65,314) | (239,151) | (968) | 41,641 | 8,896,342 |
| Other cash flows from financing activities | | | | | | |
| Payments of cash dividends | ₩ | (706,091) | | | | |
| Payments of interest on hybrid bond | | (16,840) | | | | |
| Cash received from transfer of interests in subsidiaries to non-controlling interests | | (38,373) | | | | |
| | | (761,304) | | | | |
| Total | ₩ | (826,618) | | | | |