

SK TELECOM CO LTD  
Form 6-K  
December 14, 2017  
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**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 DECEMBER 2017**  
**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)**

(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): 82-

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QUARTERLY BUSINESS REPORT

(From January 1, 2017 to September 30, 2017)

THIS IS A SUMMARY OF THE QUARTERLY 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.

**Table of Contents****I. COMPANY OVERVIEW****1. Company Overview**

The Company's quarterly business report for the nine months ended September 30, 2017 includes the following consolidated subsidiaries:

| <b>Name</b>                             | <b>Date of Establishment</b> | <b>Principal Business</b>   | <b>Total Assets as of Dec. 31, 2016 (millions of Won)</b> | <b>Material Subsidiary*</b> |
|---|------------------------------|---|---|-----------------------------|
| SK Telink Co., Ltd.                     | Apr. 9, 1998                 | Telecommunication services and satellite broadcasting services      | 440,956   | Material                    |
| SK M&Service Co., Ltd.                  | Feb. 10, 2000                | Online information services   | 107,768   | Material                    |
| SK Communications Co., Ltd.             | Sept. 19, 1996               | Internet portal and other Internet information services             | 128,233   | Material                    |
| SK Broadband Co., Ltd.                  | Sept. 5, 1997                | Fixed-line telecommunication services, multimedia and IPTV services | 3,523,494   | Material                    |
| K-net Culture and Contents Venture Fund | Nov. 24, 2008                | Investment partnership  | 13,514  |                             |
| PS&Marketing Co., Ltd.                  | Apr. 3, 2009                 | Sale of telecommunication devices                                   | 546,803   | Material                    |
| Service Ace Co., Ltd.                   | Jul. 1, 2010                 | Customer center management services                                 | 67,735  |                             |
| Service Top Co., Ltd.                   | Jul. 1, 2010                 | Customer center management services                                 | 59,004  |                             |
| Network O&S Co., Ltd.                   | Jul. 1, 2010                 | Network maintenance services  | 69,774  |                             |
| SK Planet Co., Ltd.                     | Oct. 1, 2011                 | Telecommunication and platform services                             | 1,935,663   | Material                    |
| NSOK Co., Ltd.                          | Jun. 12, 2008                | Security system services  | 65,025  |                             |
| Iriver Ltd.                             | Jul. 12, 2000                | Audio device manufacturing  | 54,063  |                             |
| Iriver Enterprise Ltd.                  | Jan. 14, 2014                | Management of Chinese subsidiary                                    | 4,059   |                             |
| Iriver Inc.                             | Feb. 15, 2007                | North America marketing and sales                                   | 2,722   |                             |
| Iriver China Co., Ltd.                  | Jun 24, 2004                 | Electronic device manufacturing                                     | 4,119   |                             |
| DongGuan Iriver Electronics Co., Ltd.   | Jul. 6, 2006                 | Electronic device manufacturing                                     | 127   |                             |
| groovers Japan Co. Ltd.                 | Feb. 25, 2015                | Contents and information distribution                               | 1,466   |                             |
| SK Telecom China Holdings Co., Ltd.     | Jul. 12, 2007                | Investment (holding company)  | 39,289  |                             |
|   | Sept. 14, 2012               | Investment (SPC)  | 44,755  |                             |

|   |               |   |         |          |
|---|---------------|---|---------|----------|
| SK Global Healthcare Business Group, Ltd. |               |   |         |          |
| SK Planet Japan, K. K.                    | Mar. 14, 2012 | Digital contents sourcing services                        | 4,026   |          |
| SKT Vietnam PTE., Ltd.                    | Apr. 5, 2000  | Telecommunication services                                | 4,664   |          |
| SK Planet Global PTE, LTD.                | Aug. 4, 2012  | Digital contents sourcing services                        | 357     |          |
| SKP GLOBAL HOLDINGS PTE, LTD.             | Aug. 10, 2012 | Investment (holding company)                              | 47,507  |          |
| SKT Americas, Inc.                        | Dec. 29, 1995 | Information collection and management consulting services | 48,369  |          |
| SKP America LLC                           | Jan. 27, 2012 | Digital contents sourcing services                        | 439,209 | Material |
| YTK Investment Ltd.                       | Jul. 1, 2010  | Investment  | 16,826  |          |

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| <b>Name</b>                                    | <b>Date of Establishment</b> | <b>Principal Business</b>                            | <b>Total Assets as of Dec. 31, 2016 (millions of Won)</b> | <b>Material Subsidiary*</b> |
|--|------------------------------|--|---|-----------------------------|
| Atlas Investment                               | Jun. 24, 2011                | Investment   | 79,477  | Material                    |
| SK Telecom Innovation Fund, L.P.               | Jan. 15, 2016                | Investment   | 36,031  |                             |
| SK Telecom China Fund I L.P.                   | Sept. 14, 2011               | Investment   | 22,182  |                             |
| Entrix Co., Ltd.                               | July 1, 2015                 | Telecommunication services                           | 20,360  |                             |
| SK TechX Co., Ltd.                             | Mar. 1, 2016                 | Telecommunication services                           | 212,819   | Material                    |
| Onestore Co., Ltd.                             | Mar. 1, 2016                 | Contents distribution                                | 134,207   | Material                    |
| Shopkick Management Company, Inc.              | Oct. 9, 2014                 | Investment   | 354,627   | Material                    |
| Shopkick, Inc.                                 | Jun. 1, 2009                 | Mileage based e-commerce application development     | 37,947  |                             |
| Planet 11 E-commerce Solutions India Pvt. Ltd. | Sept. 1, 2014                | E-commerce management                                | 1,604   |                             |
| 11 street (Thailand) Co., Ltd.                 | Apr. 5, 2016                 | E-commerce   | 17,886  |                             |
| HelloNature Co., Ltd.                          | Jan. 5, 2012                 | B2C organic food e-commerce                          | 548   |                             |
| Home&Service Co., Ltd.                         | June 5, 2017                 | Information and telecommunication system maintenance | 45,692  |                             |
| S.M. Life Design Company Japan Inc.            | June 25, 2008                | Japanese goods business                              | 11,114  |                             |

∅ 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 nine months ended September 30, 2017 are set forth below.

| <b>Change</b> | <b>Name</b>                         | <b>Remarks</b>                              |
|---------------|-------------------------------------|---|
| Additions     | Home&Service Co., Ltd.              | Newly established by SK Broadband Co., Ltd. |
|               | S.M. Life Design Company Japan Inc. | Newly acquired by Iriver Ltd.               |
| Exclusions    | 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>

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### **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 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 11th Street, an e-commerce platform service that connects various sellers and purchasers through its online and mobile platforms, Shocking Deal, a mobile commerce curation service and BENEPIA, a customized benefits and rewards service platform. In addition, the Company has rapidly grown into a top tier player in Turkey, Indonesia and Malaysia 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, Syrup Table 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 advertising business area, the Company is engaged in advertisement production, promotion services and research and consulting services. The Company offers differentiated services utilizing a combination of big data, research-driven insight, sophisticated communication strategies, innovative and creative strategies, optimized media execution and powerful promotions. Surpassing the role of a conventional advertising agency, the Company helps businesses create new value.

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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 provides integrated Internet portal services through NATE and instant messaging services through NATE-ON. In the mobile internet service business area, the Company provides portal-based services and Cymera, which is a camera application. In the portal service business area, key sources of revenue are display advertising, search engine-based advertising, and contents and other services.

See II-1. Business Overview for more information.

**Table of Contents****E. Credit Ratings**

## (1) Corporate bonds

| <b>Credit rating date</b> | <b>Subject of rating</b> | <b>Credit rating</b> | <b>Credit rating entity<br/>(Credit rating range)</b> | <b>Rating classification</b> |
|---------------------------|--------------------------|----------------------|---|------------------------------|
| 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               |

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|                   |                |     |                                   |                |
|-------------------|----------------|-----|-----------------------------------|----------------|
|                   | Corporate bond |     |                                   |                |
| 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 |
| April 12, 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<br>(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        |

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| <b>Credit rating date</b> | <b>Subject of rating</b> | <b>Credit rating</b> | <b>Credit rating entity<br/>(Credit rating range)</b> | <b>Rating<br/>classification</b> |
|---------------------------|--------------------------|----------------------|---|----------------------------------|
| 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                   |

\* 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

| <b>Date of credit rating</b> | <b>Subject of rating</b>         | <b>Credit rating of securities</b> | <b>Credit rating company</b>      | <b>Rating type</b> |
|------------------------------|----------------------------------|------------------------------------|-----------------------------------|--------------------|
| June 4, 2012                 | Bonds denominated in Swiss Franc | A3                                 | Moody's Investors Service         | Current rating     |
| June 6, 2012                 | Bonds denominated in Swiss Franc | A-                                 | Fitch Inc.                        | Current rating     |
| June 7, 2012                 | Bonds denominated in Swiss Franc | A-                                 | Standard & Poor's Rating Services | Current rating     |
| October 24, 2012             |                                  | A-                                 | Fitch Inc.                        | Current rating     |

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|                  |                                      |    |                                      |                |
|------------------|--------------------------------------|----|--------------------------------------|----------------|
|                  | Bonds denominated in<br>U.S. dollars |    |                                      |                |
| October 24, 2012 | Bonds denominated in<br>U.S. dollars | A3 | Moody's Investors Service            | Current rating |
| October 24, 2012 | Bonds denominated in<br>U.S. dollars | A- | Standard & Poor's Rating<br>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).

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### **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.

#### **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.

#### **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.

#### **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.



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(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

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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 September 30, 2017, the Company has a 65.5% interest in Onestore.

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(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 Finnq 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 September 30, 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.

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(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 is expected to take place on December 14, 2017, upon which exchange SK Telink will become 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.



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**[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.

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(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.

ø 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.

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(2) New Establishment of groovers Japan Co. Ltd. ( groovers Japan )  
On February 25, 2015, Iriver newly established its overseas subsidiary, groovers Japan, for the purpose of strengthening new business opportunities in Japan.

(3) 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.

**[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).

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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).

**(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 subscriberships 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 subscriberships, 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 September 30, 2017)

(Unit: in shares)

**Share type**

|  | <b>Common shares</b> | <b>Preferred<br/>shares</b> | <b>Total</b> |
|--|----------------------|-----------------------------|--------------|
| <b>I. Total number of authorized shares</b>        | 220,000,000          |                             | 220,000,000  |
| <b>II. Total number of shares issued to date</b>   | 89,278,946           |                             | 89,278,946   |
| <b>III. Total number of shares retired to date</b> | 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  |                      |                             |              |
| <b>IV. Total number of shares (II-III)</b>         | 80,745,711           |                             | 80,745,711   |
| <b>V. Number of treasury shares</b>                | 10,136,551           |                             | 10,136,551   |
| <b>VI. Number of shares outstanding (IV-V)</b>     | 70,609,160           |                             | 70,609,160   |



**Table of Contents****B. Treasury Shares**

## (1) Acquisitions and dispositions of treasury shares

(As of September 30, 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              | 10,136,551   |              |             | 10,136,551           |
|  |  | Preferred shares           |              |              |             |                      |
|  |  | Common shares              |              |              |             |                      |
|  | Direct over-the-counter acquisition            | Preferred shares           |              |              |             |                      |
|  | Tender offer                                   | Common shares              |              |              |             |                      |
|  |  | Preferred shares           |              |              |             |                      |
|  | Sub-total                                      | Common shares              | 10,136,551   |              |             | 10,136,551           |
|  |  | Preferred shares           |              |              |             |                      |
|  | Acquisition through trust and other agreements | Common shares              |              |              |             |                      |
|  |  | Preferred shares           |              |              |             |                      |
| Other acquisition  | Held by trustee                                | Common shares              |              |              |             |                      |
|  | Held in actual stock                           | Preferred shares           |              |              |             |                      |
| Total  | Sub-total                                      | Common shares              |              |              |             |                      |
|  |  | Preferred shares           |              |              |             |                      |
|  | Common shares                                  | 10,136,551                 |              |              | 10,136,551  |                      |
|  | Preferred shares                               |                            |              |              |             |                      |

**4. Status of Voting Rights**

(As of September 30 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 |                  |                 |

|  |                 |            |
|--|-----------------|------------|
| <b>Shares with reestablished voting rights (E)</b>                                 | Common share    |            |
|  | Preferred share |            |
| <b>The number of shares with exercisable voting rights (F = A - B - C - D + E)</b> | Common share    | 70,609,160 |
|  | Preferred share |            |

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**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 404<sup>th</sup> Board of Directors Meeting on July 28, 2017.

**Table of Contents****B. Dividends for the Last Three Fiscal Years**

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

**As of and for the three  
months ended****September 30, As of and for the year ended and for the year ended**

| <b>Classification</b>                                  | <b>2017</b> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|--|-------------|--------------------------|--------------------------|
| Par value per share (Won)                              | 500         | 500                      | 500                      |
| (Consolidated) Net income                              | 2,009,849   | 1,675,967                | 1,518,604                |
| Net income per share (Won)                             | 28,345      | 23,497                   | 20,988                   |
| Total cash dividend                                    | 70,609      | 706,091                  | 708,111                  |
| Total stock dividends<br>(Consolidated)                |             |                          |                          |
| Percentage of cash dividend to<br>available income (%) | 3.5         | 42.1                     | 46.6                     |
| Cash dividend yield ratio (%)                          | 0.4         | 4.3                      | 4.6                      |
| Stock dividend yield ratio (%)                         |             |                          |                          |
| Cash dividend per share<br>(Won)                       | 1,000       | 10,000                   | 10,000                   |
| Stock dividend per share<br>(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.

**Table of Contents****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.

| <b>Classification</b> | <b>Company name</b>               | <b>Description of business</b>   |
|-----------------------|-----------------------------------|--|
|                       | SK Telecom Co., Ltd.              | Wireless voice and data telecommunications services via digital wireless networks  |
| <b>Wireless</b>       | 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  |
|                       | SK Broadband Co., Ltd.            | High-speed Internet, TV, telephone, commercial data and other fixed-line services and management of the transmission system for online digital contents                      |
| <b>Fixed-line</b>     |                                   | 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 |
|                       | SK Planet Co., Ltd.               | Various platform services such as 11th Street, Syrup, OK Cashbag in the commerce area  |
| <b>Other business</b> | 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   |
|                       | 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.

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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 74.8% as of September 30, 2017.

**B. Growth Potential**

(Unit: in 1,000 persons)

| Classification        |                   | As of September 30, | As of         |               |
|-----------------------|-------------------|---------------------|---------------|---------------|
|                       |                   | 2017                | December 31,  | 2015          |
| Number of subscribers | SK Telecom        | 26,748              | 26,428        | 25,928        |
|                       | Others (KT, LGU+) | 28,104              | 27,018        | 26,088        |
|                       | MVNO              | 7,393               | 6,841         | 5,921         |
|                       | <b>Total</b>      | <b>62,245</b>       | <b>60,287</b> | <b>57,937</b> |

\* Source: Wireless subscriber data from the Ministry of Science and ICT ( MSIT ) as of September 30, 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)

| Classification                | As of September 30, | As of December 31, |       |       |
|-------------------------------|---------------------|--------------------|-------|-------|
|                               | 2017                | 2016               | 2015  | 2014  |
| Mobile communication services | 48.45               | 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 the third quarter of 2017, the Company recorded Won 4.4 trillion in revenue and Won 392.4 billion in operating income on a consolidated basis and Won 3.2 trillion in revenue and Won 420.7 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.



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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 the third quarter of 2017, the average monthly churn rate was 1.4%. The number of subscribers (including MVNO subscribers) as of September 30, 2017, was 30.2 million, an increase of approximately 170,000 since June 30, 2017. In particular, the number of smartphone subscribers as of September 30, 2017, was 22.7 million, an increase of approximately 320,000 since December 31, 2016, propelled by 22.6 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 20 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 a mobile network operator (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.

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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 September 30, | As of December 31, |        |
|------------------------|----------------------|---------------------|--------------------|--------|
|                        |                      | 2017                | 2016               | 2015   |
| Fixed-line Subscribers | High-speed Internet  | 21,114              | 20,556             | 20,025 |
|                        | Fixed-line telephone | 15,260              | 15,746             | 16,341 |
|                        | IPTV (real-time)     | 13,314              | 11,850             | 10,992 |

\* Source: MSIT website.

\* Number of IPTV subscribers as of September 30, 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.

(Unit: in percentages)

| Classification  | As of September 30, | As of December 31, |      |
|---|---------------------|--------------------|------|
|   | 2017                | 2016               | 2015 |
| High-speed Internet (including resales)                                 | 25.6                | 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 September 30, 2017, was calculated using the average number of subscribers for the first six months of 2017.

#### **E. Business Overview and Competitive Strengths**

For the nine months ended September 30, 2017, we recorded Won 2,212 billion in revenue, Won 89.3 billion in operating income and Won 10.8 billion in profit for the period for our fixed-line business. Our revenue increased by 1.2% in the third quarter of 2017 to Won 760 billion compared to the same period in 2016, primarily due to an increase in the number of IPTV subscribers and an increase in sales of paid-for contents. We recorded Won 29.8 billion in operating income. While operating income for the third quarter of 2017 decreased compared to the previous quarter due to increases in marketing expense and commission fees, our revenue increased compared to the previous quarter due to the steady growth of revenue from our IPTV business as a result of increases in IPTV subscribers and platform sales, as well as increased sales from our high-speed internet business and our expanded fixed-line network. Without the effect of one-time costs associated with the establishment of Home&Service in the previous quarter, we achieved a net profit for the quarter as well as the nine months ended September 30, 2017. As of September 30, 2017, the number of subscribers to each of our high-speed internet, fixed-line telephones (including VoIP) and IPTV services was 5.40 million, 4.16 million and 4.29 million, respectively.

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In comparison to the previous quarter, net additions of our high-speed internet and IPTV subscribers increased by 75% to 59,000 and 20% to 117,000, respectively, primarily due to the launch of Home&Service, which revitalized our marketing capacity by expanding new distribution channels and strengthening customer retention. In addition, sales from high-end products such as Giga and UHD accounted for more than 25% and 40%, respectively, of our respective subscriber based, contributing to a shift towards a stronger high-tier subscriber base.

Our IPTV business has continued to grow due to increases in the number of subscribers and the average revenue per subscriber, which are key performance indicators. In particular, the number of subscribers of the mobile media platform Oksusu increased by 630,000 to a total of 8.1 million in the third quarter of 2017. We plan to continue to strengthen the competitiveness of our fixed-line and wireless media platforms by launching new products and services while furthering our efforts for contents differentiation by developing original contents and launching major overseas channels.

In our corporate business, revenues for the third quarter of 2017 increased slightly compared to the previous quarter, while the proportion of revenues from our Core & Growth business continues to grow.

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.

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### **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 11<sup>th</sup> Street, Syrup and OK Cashbag, thereby ultimately increasing its enterprise value.

#### **(1) Commerce business**

11th Street, 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, 11th Street 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 11th Street'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 Indonesia, an open market service was launched in March 2014 through collaboration with PT XL Axiata Tbk, a wireless telecommunications company in Indonesia. 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. 11th Street 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.



**Table of Contents****(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. 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 16.1% in the instant messenger market in Korea with 2.5 million net users during the month of September 2017. Nate, the Company's Internet search portal service, realized a page-view market share of 4.0% as of September 30, 2017. (Source: Korean Click, based on fixed-line access)

**2. Updates on Major Products and Services**

(Unit: in millions of Won and percentages)

| <b>Business</b>   | <b>Major Companies</b>  | <b>Item</b>   | <b>Major Trademarks</b>                                   | <b>Consolidated Sales Amount (ratio)</b> |
|-------------------|---|---|---|--|
| <b>Wireless</b>   | SK Telecom Co., Ltd.,<br>PS&Marketing Co., Ltd.,<br>Network O&S Co., Ltd. | Mobile communication service,<br>wireless data service,<br>ICT service      | T, Band Data and others                                   | 9,876,835 (76%)                          |
| <b>Fixed-line</b> | SK Broadband Co., Ltd.,<br>SK Telink Co., Ltd.                            | Fixed-line phone,<br>high speed Internet,<br>data and network lease service | B tv , 00700<br>international call,<br>7Mobile and others | 2,019,808 (16%)                          |
| <b>Other</b>      | SK Planet Co., Ltd.,<br>SK TechX Co., Ltd.                                | Internet portal service and<br>e-commerce                                   | 11th Street, OK<br>Cashbag, NATE,<br>Onestore and others  | 1,126,054 (8%)                           |

Onestore Co., Ltd.,  
SK Communications Co., Ltd.,

M&Service Co., Ltd.,

SKP America, LLC,

Shopkick Mgmt. Co., Ltd.

Total

13,022,697 (100%)

**[Wireless Business]**

As of September 30, 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.

**Table of Contents****[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 September 30, 2017, broadband Internet and TV services comprised 62.4% of SK Broadband's revenue, 12.8% of telephony services, 23.2% of corporate data services and 1.6% of 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.

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

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

(Unit: in 100 millions of Won)

| <b>Business</b> | <b>Classification</b>        | <b>Investment period</b>                | <b>Subject of investment</b> | <b>Investment effect</b>                                       | <b>Expected investment amount</b> | <b>Amount already invested</b> | <b>Future investment</b> |
|-----------------|------------------------------|---|------------------------------|--|-----------------------------------|--------------------------------|--------------------------|
| Network/Common  | Upgrade/<br>New installation | Nine months ended<br>September 30, 2017 | Network, systems and others  | Capacity increase and quality improvement; systems improvement | 20,000                            | 10,046                         |                          |
| Total           |                              |   |                              |  | 20,000*                           | 10,046                         |                          |

\* 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  |        | Expected investment for each year |                  |                  | Investment effect   |
|----------------|-----------------------------|--------|-----------------------------------|------------------|------------------|---|
|                | Asset type                  | Amount | 2017                              | 2018             | 2019             |   |
| Network/Common | Network, systems and others | 20,000 | 20,000                            | To be determined | To be determined | Upgrades to the existing services and expanded provision of services including wideband LTE-A |
| Total          |                             | 20,000 | 20,000                            | To be determined | To be determined |   |

**[Fixed-line Business]**

### A. Investment in Progress

For the nine months ended September 30, 2017, the Company spent Won 465.6 billion for capital expenditures as set out below, including the investment of Won 163.3 billion to expand subscriber networks. The Company expects to spend additional amounts to strengthen the competitiveness of its infrastructure and media platform.

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(Unit: in 100 millions of Won)

| Business            | Classification               | Investment period                          | Subject of investment                  | Investment effect                                      | Amount already invested | Future investment |
|---------------------|------------------------------|--|--|--|-------------------------|-------------------|
| High-speed Internet |                              |  |  | Expand subscriber networks and facilities              | 1,861                   |                   |
| Telephone           |                              |  |  |  | 48                      |                   |
| Television          |                              |  |  |  | 1,120                   |                   |
| Corporate Data      | Upgrade/<br>New installation | Nine months ended<br>September 30,<br>2017 | Backbone and subscriber network/others | Increase leased-line and integrated information system | 829                     | To be determined  |
| Others              |                              |  |  | Expand networks and required space                     | 798                     |                   |
| Total               |                              |  |  |  | 4,656                   |                   |

**4. Revenues**

(Unit: in millions of Won)

| Business          | Sales type | Item     | For the nine months ended<br>September 30,<br>2017 | For the year ended<br>December 31,<br>2016 | For the year ended<br>December 31,<br>2015 |
|-------------------|------------|----------|--|--|--|
| <b>Wireless</b>   | Services   | Export   | 15,011   | 17,393                                     | 15,035                                     |
|                   |            | Domestic | 9,861,824  | 12,987,516                                 | 13,254,243                                 |
|                   |            | Subtotal | 9,876,835  | 13,004,909                                 | 13,269,278                                 |
| <b>Fixed-line</b> | Services   | Export   | 56,789   | 92,630                                     | 94,387                                     |
|                   |            | Domestic | 1,963,019  | 2,558,563                                  | 2,400,186                                  |
|                   |            | Subtotal | 2,019,808  | 2,651,193                                  | 2,494,573                                  |
| <b>Other</b>      | Services   | Export   | 25,785   | 42,205                                     | 53,622                                     |
|                   |            | Domestic | 1,100,269  | 1,393,509                                  | 1,319,261                                  |
|                   |            | Subtotal | 1,126,054  | 1,435,714                                  | 1,372,883                                  |
| Total             |            | Export   | 97,585   | 152,228                                    | 163,044                                    |
|                   |            | Domestic | 12,925,112   | 16,939,588                                 | 16,973,690                                 |
|                   |            | Total    | 13,022,697   | 17,091,816                                 | 17,136,734                                 |

(Unit: in millions of Won)

| For the nine months ended September 30, 2017 | Wireless   | Fixed     | Other     | Sub total  | Internal transaction | After consolidation |
|--|------------|-----------|-----------|------------|----------------------|---------------------|
| Total sales                                  | 11,072,955 | 2,573,392 | 1,382,115 | 15,028,462 | (2,005,765)          | 13,022,697          |
| Internal sales                               | 1,196,120  | 553,584   | 256,061   | 2,005,765  | (2,005,765)          |                     |
| External sales                               | 9,876,835  | 2,019,808 | 1,126,054 | 13,022,697 |                      | 13,022,697          |

|                                     |            |           |           |            |           |            |
|-------------------------------------|------------|-----------|-----------|------------|-----------|------------|
| <b>Operating income (loss)</b>      | 1,333,587  | 121,314   | (228,723) | 1,226,178  |           | 1,226,178  |
| <b>Profit (loss) for the period</b> |            |           |           |            |           | 2,476,697  |
| <b>Total assets</b>                 | 25,622,005 | 4,059,839 | 2,587,762 | 32,269,606 | (345,780) | 31,923,826 |
| <b>Total liabilities</b>            | 10,492,416 | 2,511,543 | 1,151,549 | 14,155,508 | 292,233   | 14,447,741 |

**Table of Contents****5. Derivative Transactions****A. Current Swap Contract Applying Cash Flow Risk Hedge Accounting**

Currency swap contracts under cash flow hedge accounting as of September 30, 2017 are as follows:

| <b>Borrowing date</b> | <b>Hedged item</b>  | <b>Hedged risk</b>                           | <b>Contract type</b>              | <b>Financial institution</b>            | <b>Duration of contract</b>    |
|-----------------------|---|--|-----------------------------------|---|--------------------------------|
| 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<br>Jul. 20, 2027 |
| 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<br>May. 1, 2018   |
| Jan. 17, 2013         | Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of AUD 300,000,000)             | Foreign currency risk                        | Cross currency swap               | BNP Paribas and three other banks       | Jan. 17, 2013<br>Nov. 17, 2017 |
| 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<br>Mar. 7, 2020   |
| 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<br>Oct. 26, 2018 |
| 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<br>Apr. 29, 2022 |
| 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<br>Dec. 20, 2021 |

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|                  |  |                    |                    |                        |                                  |
|------------------|--|--------------------|--------------------|------------------------|----------------------------------|
| 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<br>Jul. 30, 2019   |
| 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<br>March 31, 2020 |



**Table of Contents****B. Treatment of Derivative Instruments on the Balance Sheet**

As of September 30, 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   | Accumulated<br>gain<br>(loss)<br>on<br>valuation<br>of<br>derivatives | Tax<br>effect | Fair value      |  | Trading<br>purposes | Total    |
|---|---|---------------|-----------------|--|---------------------|----------|
|   |   |               | Cash flow hedge | Foreign<br>currency<br>translation<br>loss<br>(gain) |                     |          |
| <b>Current assets:</b>  |   |               |                 |  |                     |          |
| Fixed-to-fixed cross currency swap (U.S. dollar<br>denominated bonds face value of<br>US\$700,000,000)                  | (13,570)  | (4,333)       | 39,008          |  |                     | 21,105   |
| <b>Non-current assets:</b>  |   |               |                 |  |                     |          |
| Structured bond (face value of Won 50,000<br>million)   |   |               |                 |  | 8,563               | 8,563    |
| Fixed-to-fixed cross currency swap<br><br>(U.S. dollar denominated bonds face value of<br>US\$400,000,000)              | (59,508)  | (18,999)      | 1,174           | 129,806  |                     | 52,473   |
| Floating-to-fixed cross currency interest rate<br>swap (U.S. dollar denominated bonds face value<br>of US\$300,000,000) | (5,671)   | (1,811)       | 18,857          |  |                     | 11,375   |
| Fixed-to-fixed cross currency swap<br><br>(U.S. dollar denominated bonds face value of<br>US\$57,535,000)               | (3,397)   | (1,084)       | 5,125           |  |                     | 644      |
| Fixed-to-fixed cross currency swap (U.S. dollar<br>denominated bonds face value of USD<br>300,000,000)                  | (4,585)   |               | 25,280          |  |                     | 20,695   |
| Floating-to-fixed interest rate swap (Korean<br>Won denominated bonds face value of KRW<br>49,000 million)              | 96  |               |                 |  |                     | 96       |
| <b>Total assets:</b>  |   |               |                 |  |                     | 114,951  |
| <b>Current liabilities:</b>   |   |               |                 |  |                     |          |
| Fixed-to-fixed cross currency swap<br><br>(Australian dollar denominated bonds face value<br>of AUD 300,000,000)        | 2,103   | 671           | (65,177)        |  |                     | (62,403) |
| <b>Non-current liabilities:</b>   |   |               |                 |  |                     |          |

|  |       |      |          |
|--|-------|------|----------|
| Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 32,667 million) | (1)   |      | (1)      |
| Floating-to-fixed interest rate swap (Korean Won denominated bonds face value of KRW 30,000 million) | (288) | (91) | (379)    |
| <b>Total liabilities:</b>  |       |      | (62,783) |

(\*) Cash flow hedge accounting has been applied to the relevant contract from May 12, 2010. Others represent gain on valuation of currency swap incurred prior to the application of hedge accounting and was recognized through profit or loss prior to the year ended December 31, 2015.

## 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.

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| <b>Counterparty</b>                 | <b>Contract Contents</b>                                  | <b>Contract Period</b>   | <b>Note</b>  |
|-------------------------------------|---|--|--|
| 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. 2017<br><br>(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]**

| <b>Counterparty</b> | <b>Purpose</b>                               | <b>Contract Period</b> | <b>Contract Amount</b>                          |
|---------------------|--|------------------------|---|
| 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   | <b>For the nine months ended September 30, 2017</b> |             |             | Remarks |
|--|---|-------------|-------------|---------|
|  | <b>For the year ended December 31, 2016</b>         |             |             |         |
|  | <b>2017</b>   | <b>2016</b> | <b>2015</b> |         |
| Raw material   | 982   | 659         | 1,267       |         |
| Labor  | 107,399   | 116,108     | 68,969      |         |
| Depreciation   | 105,770   | 125,827     | 147,577     |         |
| Commissioned service   | 50,759  | 54,714      | 37,001      |         |
| Others   | 39,565  | 53,785      | 67,888      |         |
| Total R&D costs  | 304,475   | 351,093     | 322,702     |         |
| Sales and administrative expenses  | 295,613   | 344,787     | 315,790     |         |
| Accounting   |   |             |             |         |
| Development expenses (Intangible assets)                                   | 8,862   | 6,306       | 6,912       |         |
| R&D cost / sales amount ratio (Total R&D costs / Current sales amount×100) | 2.34%   | 2.05%       | 1.88%       |         |

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**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 September 30, 2017, the Company holds 5,326 Korean-registered patents and 1,382 foreign-registered patents. The Company holds 810 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 September 30, 2017, SK Broadband holds 402 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 September 30, 2017, SK Planet held 2,450 registered patents, 126 registered design marks, 1,292 registered trademarks and eight copyrights (including those held jointly with other companies) in Korea. It also holds 153 U.S.-registered patents, 101 Chinese-registered patents, 73 Japanese-registered patents, 42 E.U.-registered patents (all including patents held jointly with other companies) and 363 registered trademarks, along with a number of other intellectual property rights, in other countries.

**[SK Communications]**

As of September 30, 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.

**Table of Contents****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 September 30, 2017, December 31, 2016 and December 31, 2015 and for the nine months ended September 30, 2017 and 2016 and the years ended December 31, 2016 and 2015. The Company's audited consolidated financial statements as of September 30, 2017 and December 31, 2016 and for the nine months ended September 30, 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<br>September 30, 2017                           | As of<br>December 31, 2016 | As of<br>December 31, 2015 |
| <b>Assets</b>   |   |                            |                            |
| Current Assets  | 6,008,289   | 5,996,628                  | 5,160,242                  |
| Cash and Cash Equivalents                               | 1,447,178   | 1,505,242                  | 768,922                    |
| Accounts Receivable Trade, net                          | 2,128,250   | 2,240,926                  | 2,344,867                  |
| Accounts Receivable Other, net                          | 1,004,635   | 1,121,444                  | 673,739                    |
| Others  | 1,428,226   | 1,129,016                  | 1,372,714                  |
| Non-Current Assets                                      | 25,915,537  | 25,301,035                 | 23,421,145                 |
| Long-Term Investment Securities                         | 833,103   | 828,521                    | 1,207,226                  |
| Investments in Associates and Joint Ventures            | 8,967,630   | 7,404,323                  | 6,896,293                  |
| Property and Equipment, net                             | 9,601,584   | 10,374,212                 | 10,371,256                 |
| Intangible Assets, net                                  | 3,658,195   | 3,776,354                  | 2,304,784                  |
| Goodwill  | 1,949,682   | 1,932,452                  | 1,908,590                  |
| Others  | 905,343   | 985,173                    | 732,996                    |
| Total Assets  | 31,923,826  | 31,297,663                 | 28,581,387                 |
| <b>Liabilities</b>                                      |   |                            |                            |
| Current Liabilities                                     | 6,387,736   | 6,444,099                  | 5,256,493                  |
| Non-Current Liabilities                                 | 8,060,005   | 8,737,134                  | 7,950,798                  |
| Total Liabilities                                       | 1,447,741   | 15,181,233                 | 13,207,291                 |
| <b>Equity</b>   |   |                            |                            |
| Equity Attributable to Owners of the Parent Company     | 17,339,464  | 15,971,399                 | 15,251,079                 |
| Share Capital   | 44,639  | 44,639                     | 44,639                     |
| Capital Surplus (Deficit) and Other Capital Adjustments | 196,467   | 199,779                    | 189,510                    |
| Retained Earnings                                       | 17,242,404  | 15,953,164                 | 15,007,627                 |
| Reserves  | (144,046)   | (226,183)                  | 9,303                      |
| Non-controlling Interests                               | 136,621   | 145,031                    | 123,017                    |
| Total Equity  | 17,476,085  | 16,116,430                 | 15,374,096                 |
| Total Liabilities and Equity                            | 31,923,826  | 31,297,663                 | 28,581,387                 |
| Number of Companies Consolidated                        | 39  | 38                         | 37                         |

(Unit: in millions of Won except per share amounts)

|  | <b>For the nine months<br/>ended September 30, 2017</b> | <b>For the nine months<br/>ended September 30, 2016</b> | <b>For the year ended<br/>December 31,<br/>2016</b> | <b>For the year ended<br/>December 31,<br/>2015</b> |
|--|---|---|---|---|
| Operating Revenue  | 13,022,697  | 12,739,556  | 17,091,816  | 17,136,734  |
| Operating Income   | 1,226,178   | 1,233,789   | 1,535,744   | 1,708,006   |
| Profit Before Income Tax   | 2,476,697   | 1,532,047   | 2,096,139   | 2,035,365   |
| Profit for the Period  | 1,996,959   | 1,185,401   | 1,660,101   | 1,515,885   |
| Profit for the Period<br>Attributable to Owners of the<br>Parent Company | 2,009,849   | 1,187,084   | 1,675,967   | 1,518,604   |
| Profit for the Period<br>Attributable to Non-controlling<br>Interests    | (12,890)  | (1,683)   | (15,866)  | (2,719)   |
| Basic and Diluted Earnings Per<br>Share (Won)                            | 28,345  | 16,693  | 23,497  | 20,988  |

**Table of Contents****B. Summary Financial Information (Separate)**

Below is the summary separate financial information of the Company as of September 30, 2017, December 31, 2016 and December 31, 2015 and for the nine months ended September 30, 2017 and 2016 and the years ended December 31, 2016 and 2015. The Company's audited separate financial statements as of September 30, 2017 and December 31, 2016 and for the nine months ended September 30, 2017 and 2016, which are prepared in accordance with K-IFRS, are attached hereto.

|   | (Unit: in millions of Won) |                         |                         |
|---|----------------------------|-------------------------|-------------------------|
|   | As of September 30, 2017   | As of December 31, 2016 | As of December 31, 2015 |
| <b>Assets</b>                                 |                            |                         |                         |
| Current Assets                                | 3,630,399                  | 3,661,115               | 2,713,529               |
| Cash and Cash Equivalents                     | 901,921                    | 874,350                 | 431,666                 |
| Accounts Receivable Trade, net                | 1,548,543                  | 1,594,504               | 1,528,751               |
| Accounts Receivable Other, net                | 791,041                    | 772,570                 | 264,741                 |
| Others  | 388,894                    | 419,691                 | 488,371                 |
| Non-Current Assets                            | 21,355,528                 | 21,787,459              | 20,433,411              |
| Long-Term Investment Securities               | 682,189                    | 560,966                 | 726,505                 |
| Investments in Subsidiaries and Associates    | 9,106,954                  | 8,726,538               | 8,810,548               |
| Property and Equipment, net                   | 6,514,498                  | 7,298,539               | 7,442,280               |
| Intangible Assets, net                        | 3,184,328                  | 3,275,663               | 1,766,069               |
| Goodwill                                      | 1,306,236                  | 1,306,236               | 1,306,236               |
| Others  | 561,323                    | 619,517                 | 381,773                 |
| Total Assets                                  | 24,985,927                 | 25,448,574              | 23,146,940              |
| <b>Liabilities</b>                            |                            |                         |                         |
| Current Liabilities                           | 4,526,513                  | 4,464,160               | 3,491,306               |
| Non-Current Liabilities                       | 5,634,660                  | 6,727,460               | 5,876,174               |
| Total Liabilities                             | 10,161,173                 | 11,191,620              | 9,367,480               |
| <b>Equity</b>                                 |                            |                         |                         |
| Share Capital                                 | 44,639                     | 44,639                  | 44,639                  |
| Capital Surplus and Other Capital Adjustments | 371,760                    | 371,481                 | 369,446                 |
| Retained Earnings                             | 14,365,499                 | 13,902,627              | 13,418,603              |
| Reserves                                      | 42,856                     | (61,793)                | (53,228)                |
| Total Equity                                  | 14,824,754                 | 14,256,954              | 13,779,460              |
| Total Liabilities and Equity                  | 24,985,927                 | 25,448,574              | 23,146,940              |

|                   | (Unit: in millions of Won except per share amounts) |  |  |  |
|-------------------|---|--|--|--|
|                   | For the nine months<br>ended September 30,<br>2017  | For the nine months<br>ended September 30,<br>2016 | For the year<br>ended December 31,<br>2016 | For the year<br>ended December 31,<br>2015 |
| Operating Revenue | 9,354,122   | 9,292,034  | 12,350,479                                 | 12,556,979                                 |
| Operating Income  | 1,322,424   | 1,385,167  | 1,782,172                                  | 1,658,776                                  |
|                   | 1,427,160   | 1,252,179  | 1,562,782                                  | 1,469,444                                  |



|  |           |         |           |           |
|--|-----------|---------|-----------|-----------|
| Profit Before Income Tax                   |           |         |           |           |
| Profit for the Period                      | 1,180,971 | 990,933 | 1,217,274 | 1,106,761 |
| Basic and Diluted Earnings Per Share (Won) | 16,606    | 13,915  | 17,001    | 15,233    |

**Table of Contents****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 nine months ended September 30, 2017**

**Allowance for Doubtful**

|                           | <b>Gross amount</b> | <b>Accounts</b> | <b>Percentage</b> |
|---------------------------|---------------------|-----------------|-------------------|
| Accounts receivable trade | 2,390,322           | 248,020         | 10%               |
| Loans                     | 176,551             | 48,084          | 27%               |
| Accounts receivable other | 1,322,965           | 74,982          | 6%                |
| Accrued income            | 4,999               |                 | 0%                |
| Guarantee deposits        | 292,836             |                 | 0%                |
| <b>Total</b>              | <b>4,187,673</b>    | <b>371,086</b>  | <b>9%</b>         |

(Unit: in millions of Won)

**For the year ended December 31, 2016**

**Allowance for Doubtful**

|                           | <b>Gross amount</b> | <b>Accounts</b> | <b>Percentage</b> |
|---------------------------|---------------------|-----------------|-------------------|
| 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%                |
| <b>Total</b>              | <b>4,331,892</b>    | <b>369,332</b>  | <b>9%</b>         |

(Unit: in millions of Won)

**For the year ended December 31, 2015**

**Allowance for Doubtful**

|                           | <b>Gross amount</b> | <b>Accounts</b> | <b>Percentage</b> |
|---------------------------|---------------------|-----------------|-------------------|
| 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%                |
| <b>Total</b>              | <b>3,836,529</b>    | <b>344,016</b>  | <b>9%</b>         |

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

(Unit: in millions of Won)

|   | <b>For the nine months<br/>ended September 30, 2017</b> | <b>For the year ended<br/>December 31,<br/>2016</b> | <b>For the year ended<br/>December 31,<br/>2015</b> |
|---|---|---|---|
| <b>Beginning balance</b>                    | 369,332   | 344,016   | 328,191   |
| Increase of allowance for doubtful accounts | 24,371  | 78,132  | 75,773  |
| Reversal of allowance for doubtful accounts |   |   |   |
| Write-offs                                  | (42,848)  | (79,891)  | (87,798)  |
| Other                                       | 20,231  | 27,075  | 27,850  |
| <b>Ending balance</b>                       | <b>371,086</b>  | <b>369,332</b>                                      | <b>344,016</b>                                      |

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## (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 September 30, 2017 |                                   |                                    |                          |           |  |
|---------------------|---------|--------------------------|-----------------------------------|------------------------------------|--------------------------|-----------|--|
|                     |         | Six months or<br>less    | From six<br>months to one<br>year | From one year<br>to three<br>years | More than<br>three years | Total     |  |
| Accounts receivable | general | 2,047,968                | 67,929                            | 180,420                            | 94,005                   | 2,390,322 |  |
| Percentage          |         | 86%                      | 3%                                | 7%                                 | 4%                       | 100%      |  |

**C. Inventories**

## (1) Detailed Categories of Inventories

(Unit: in millions of Won)

| Account Category                             | For the year ended                              |                      | For the year                  |
|--|---|----------------------|-------------------------------|
|  | For the nine months<br>ended September 30, 2017 | December 31,<br>2016 | ended<br>December 31,<br>2015 |
| Merchandise                                  | 221,785   | 225,958              | 242,230                       |
| Goods in transit                             |   |                      |                               |
| Other inventories                            | 27,054  | 33,888               | 31,326                        |
| <b>Total</b>                                 | 248,839   | 259,846              | 273,556                       |
| Percentage of inventories to<br>total assets |   |                      |                               |
| [ Inventories / Total assets ]               | 0.78%   | 0.83%                | 0.96%                         |
| Inventory turnover                           | 6.95  | 6.89                 | 7.23                          |

[ Cost of sales / { ( Beginning  
balance of inventories +  
Ending balance of inventories )  
/ 2 } ]

(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.

**Table of Contents****D. Fair Value Measurement**

See notes 3(5) to 3(7) and 3(16) of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015 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 September 30, 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   |  |

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Submission of Compliance Certificate

Compliance Status

Submitted on September 8, 2017

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

Maintenance of Financial Ratio

Key Term  
Compliance Status  
Key Term

Debt ratio no greater than 300%  
Compliant

Restriction on Liens

Compliance Status

The total amount of secured debt not to exceed 100% 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 2 trillion won  
Compliant

Submission of Compliance Certificate

Compliance Status

Submitted on September 8, 2017

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



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|                        |        |                  |                  |         |               |                                   |
|------------------------|--------|------------------|------------------|---------|---------------|-----------------------------------|
| Unsecured Bond<br>68-2 | Series | Nov. 30,<br>2015 | Nov. 30,<br>2025 | 100,000 | Nov. 18, 2015 | Korea Securities<br>Finance Corp. |
| Unsecured Bond<br>68-3 | Series | Nov. 30,<br>2015 | Nov. 30,<br>2035 | 70,000  | Nov. 18, 2015 | Korea Securities<br>Finance Corp. |
| Unsecured Bond<br>69-1 | Series | March 4,<br>2016 | March 4,<br>2019 | 70,000  | Feb. 22, 2016 | Korea Securities<br>Finance Corp. |
| Unsecured Bond<br>69-2 | Series | March 4,<br>2016 | March 4,<br>2021 | 100,000 | Feb. 22, 2016 | Korea Securities<br>Finance Corp. |
| Unsecured Bond<br>69-3 | Series | March 4,<br>2016 | March 4,<br>2026 | 90,000  | Feb. 22, 2016 | Korea Securities<br>Finance Corp. |
| Unsecured Bond<br>69-4 | Series | March 4,<br>2016 | March 4,<br>2036 | 80,000  | Feb. 22, 2016 | Korea Securities<br>Finance Corp. |

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

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| 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 [SK Broadband] | Key Term Compliance Status | Submitted on September 8, 2017   |

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

(As of September 30, 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 37-2 | Oct. 12, 2012 | Oct. 12, 2017 | 120,000          | Oct. 8, 2012                    | Hanwha Investment & Securities Co., Ltd. |

|                                |                            |  |
|--------------------------------|----------------------------|--|
| Maintenance of Financial Ratio | Key Term Compliance Status | Debt ratio no greater than 500% Compliant                                  |
| Restriction on Liens           | Key Term                   | The total amount of secured debt not to exceed 200% of share capital as of |

|                                      |                               |  |
|--------------------------------------|-------------------------------|--|
|                                      | Compliance Status             | the end of the previous fiscal year<br>Compliant                                 |
| Restriction on Disposition of Assets | Key Term<br>Compliance Status | Disposal of assets per fiscal year not to<br>exceed 10 trillion won<br>Compliant |
| Submission of Compliance Certificate | Compliance Status             | Submitted on August 24, 2017   |

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

|                                      |                            |  |
|--------------------------------------|----------------------------|--|
| Maintenance of Financial Ratio       | Key Term Compliance Status | Debt ratio no greater than 400% Compliant  |
| Restriction on Liens                 | Key Term Compliance Status | The total amount of secured debt not to exceed 200% 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 2 trillion won Compliant  |
| Submission of Compliance Certificate | Key Term Compliance Status | Submitted on August 24, 2017   |

**Table of Contents****IV. AUDITOR S OPINION****1. Auditor (Consolidated)**

|  |  |  |
|--|--|--|
| <b>Nine months ended September 30, 2017</b><br>KPMG Samjong Accounting Corp. | <b>Year ended December 31, 2016</b><br>KPMG Samjong Accounting Corp. | <b>Year ended December 31, 2015</b><br>KPMG Samjong Accounting Corp. |
|--|--|--|

**2. Audit Opinion (Consolidated)**

| <b>Period</b>                        | <b>Auditor s opinion</b> | <b>Issues noted</b> |
|--------------------------------------|--------------------------|---------------------|
| Nine months ended September 30, 2017 | 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)

| <b>Period</b>                        | <b>Auditors</b>               | <b>Contents</b>  | <b>Fee</b> | <b>Total number of hours accumulated for the fiscal year</b> |
|--------------------------------------|-------------------------------|--|------------|--|
| Nine months ended September 30, 2017 | KPMG Samjong Accounting Corp. | Quarterly review<br>Separate financial statements audit<br>Consolidated financial statements audit<br>English financial statements review and other audit task | 1,470      | 21,098   |
| Year ended December 31, 2016         | KPMG Samjong Accounting Corp. | Semi-annual review<br>Quarterly review   | 1,350      | 19,412   |

Separate financial  
statements audit  
Consolidated  
financial  
statements audit  
English financial  
statements review  
and other audit  
task

|                              |  |   |       |        |
|------------------------------|--|---|-------|--------|
| Year ended December 31, 2015 | KPMG<br>Samjong<br>Accounting<br>Corp. | Semi-annual<br>review<br>Quarterly review<br>Separate financial<br>statements audit<br>Consolidated<br>financial<br>statements audit<br>English financial<br>statements review<br>and other audit<br>task | 1,320 | 18,127 |
|------------------------------|--|---|-------|--------|

**Table of Contents****B. Non-Audit Services Contract with External Auditors**

(Unit: in millions of Won)

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

**4. Change of Independent Auditors**

Not applicable.

**Table of Contents****V. MANAGEMENT S DISCUSSION AND ANALYSIS**

Omitted in quarterly reports in accordance with Korean disclosure rules.

**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 September 30, 2017)                                   |
|                        |                        | <b>Non-executive</b> |  |
| <b>Total number of</b> | <b>Inside director</b> | <b>director</b>      | <b>Independent directors</b>                                 |
| <b>persons</b>         | Jung Ho Park           | Dae Sik Cho          | Jae Hoon Lee, Dae Shick Oh,<br>Jae Hyeon Ahn, Jung Ho<br>Ahn |
| 6                      |                        |                      |  |

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.



**Table of Contents****B. Significant Activities of the Board of Directors**

| <b>Meeting</b>                           | <b>Date</b>       | <b>Agenda</b>   | <b>Approval</b>      |
|--|-------------------|---|----------------------|
| 397th<br>(the 1st meeting<br>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<br>(the 2nd<br>meeting<br>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  |                      |
| 399th<br>(the 3rd<br>meeting<br>of 2017) | February 23, 2017 | Report for the period after the fourth quarter of 2016<br>Plan for the 33rd General Meeting of Shareholders | Approved as proposed |
|  |                   | Amendment to the regulations of the Board of Directors  | Approved as proposed |
|  | March 24, 2017    | Report of internal accounting management<br>Election of the chief executive officer                         | Approved as proposed |

|  |                |   |                      |
|--|----------------|---|----------------------|
| 400th<br>(the 4th<br>meeting<br><br>of 2017) |                | 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 |
|  |                | 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 |
|  |                | Payment for Employees Benefit Fund in 2017  | Approved as proposed |
| 401st<br>(the 5th<br>meeting<br><br>of 2017) | April 27, 2017 | Payment of operating costs in 2017 for SUPEX Council  | Approved as proposed |
| 402nd<br>(the 6th<br>meeting<br><br>of 2017) | June 30, 2017  | Report for the period after the first quarter of 2017<br>Transactions with SK Holdings in the third quarter of 2017 | 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 |
|  |                |   | Approved as proposed |

Acquisition of shares of Happynarae Co., Ltd. Approved as proposed

Transfer of Public Cloud business Approved as proposed

Donation to Korea Foundation For Advanced Studies in 2017 Approved as proposed

Settlement of expenses between related parties in connection with contemplated joint R&D

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| <b>Meeting</b>                        | <b>Date</b>               | <b>Agenda</b>   | <b>Approval</b>      |
|---------------------------------------|---------------------------|---|----------------------|
| 403rd<br>(the 7th meeting<br>of 2017) | July 17, 2017             | Investment in investment company  | Approved as proposed |
| 404th<br>(the 8th meeting<br>of 2017) | July 28, 2017             | Investment in SK China  | Approved as proposed |
|                                       |                           | Transfer of SSD technology related to SK hynix  | Approved as proposed |
|                                       |                           | Amendment to the regulations of the Audit Committee   | Approved as proposed |
|                                       |                           | Payment of interim dividend   | Approved as proposed |
|                                       |                           | Report on the statement of accounts for the first half year   |                      |
|                                       |                           | Report for the period after the second quarter of 2017  |                      |
| 405th<br>(the 9th meeting<br>of 2017) | September 28,<br><br>2017 | Subcontract with SK Holdings relating to the supply of AI network solutions to Indian company Bharti Airtel | Approved as proposed |
|                                       |                           | Transactions with SK Holdings in the fourth quarter of 2017   | Approved as proposed |
|                                       |                           | Comprehensive share exchange with SK Telink   | Approved as proposed |
|                                       |                           | Changes to 2017 wired/wireless network construction   | Approved as proposed |
|                                       |                           | Transactions related to corporate bonds with SK Securities  | 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 September 30, 2017)

##### (a) Compensation Review Committee

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

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

##### (b) Capex Review Committee

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

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

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## (c) Corporate Citizenship Committee

| <b>Total number of persons</b> | <b>Inside Directors</b> | <b>Members<br/>Independent Directors</b>    | <b>Task</b>   |
|--------------------------------|-------------------------|---|---|
| 3                              |                         | Jae Hoon Lee, Jae Hyeon Ahn,<br>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

| <b>Total number of persons</b> | <b>Inside Directors</b> | <b>Members<br/>Independent Directors</b> | <b>Task</b>                         |
|--------------------------------|-------------------------|--|-------------------------------------|
| 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

| <b>Total number of persons</b> | <b>Inside Directors</b> | <b>Members<br/>Independent Directors</b>     | <b>Task</b>   |
|--------------------------------|-------------------------|--|---|
| 3                              |                         | Jae Hoon Lee, Dae Shick Oh,<br>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 September 30, 2017 are set forth below.

| Meeting                       | Date                 | Agenda   | Approval             |
|-------------------------------|----------------------|--|----------------------|
| The 1st<br>meeting of<br>2017 | February 1,<br>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 | Approved as proposed |
|                               |                      | Contract for payment of customer appreciation gifts in 2017  | Approved as proposed |
| The 2nd<br>meeting of<br>2017 | February 22,<br>2017 | Purchase of supplies from Happynarae Co., Ltd.<br>Report on the IFRS audit of fiscal year 2016         | Approved as proposed |
|                               |                      | Report on review of 2016 internal accounting management system   | Approved as proposed |
|                               |                      | Agenda and document review for the 33rd General Meeting of Shareholders                                | Approved as proposed |
|                               |                      | Auditor's report for fiscal year 2016  |                      |

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| <b>Meeting</b>          | <b>Date</b>    | <b>Agenda</b>   | <b>Approval</b>      |
|-------------------------|----------------|---|----------------------|
|                         |                | Contract for maintenance services of optical cables in 2017   | Approved as proposed |
| The 3rd meeting of 2017 | March 23, 2017 | Contract for maintenance services of transmission equipment in 2017                                   | Approved as proposed |
|                         |                | Consulting for innovation in corporate social responsibility  | Approved as proposed |
|                         |                | Election of the chairman of the Audit Committee   | Approved as proposed |
| The 4th meeting of 2017 | April 26, 2017 | Remuneration for outside auditor for fiscal year 2017   | Approved as proposed |
|                         |                | Outside auditor service plan for fiscal year 2017   | Approved as proposed |
| The 5th meeting of 2017 | June 29, 2017  | Audit plan for fiscal year 2017<br>Plan for wired/wireless network construction for fiscal year 2017  | Approved as proposed |
| The 6th meeting of 2017 |                | Report on the external audit for the first half of fiscal year 2017                                   |                      |
|                         | July 27, 2017  | Review of business and audit results for the first half of 2017 and plans for the second half of 2017 |                      |

\* 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 <sup>th</sup> 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. |
| Also, neither written or electronic voting system is 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 September 30, 2017)

| Name                  | Relationship                  | Type of share | (Unit: in shares and percentages)          |               |  |               |
|-----------------------|-------------------------------|---------------|--|---------------|--|---------------|
|                       |                               |               | Number of shares owned and ownership ratio |               | Number of shares owned and ownership ratio |               |
|                       |                               |               | Beginning of Period                        | End of Period | Beginning of Period                        | End of Period |
|                       |                               |               | shares                                     | ratio         | 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         |

**Table of Contents****B. Overview of the Largest Shareholder**

As of September 30, 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 September 30, 2017)

(Unit: in shares and percentages)

| <b>Largest Shareholder</b> | <b>Date of the change in the largest shareholder/<br/>Date of change in shareholding</b> | <b>Shares Held</b> | <b>Holding Ratio</b> | <b>Remarks</b>   |
|----------------------------|--|--------------------|----------------------|--|
| SK Holdings                | 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                | 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.



**Table of Contents****2. Distribution of Shares****A. Shareholders with ownership of 5% or more and others**

(As of September 30, 2017)

(Unit: in shares and percentages)

| Rank   | Name (title)             | Number of shares | Common share    |  | Remarks         |
|--|--------------------------|------------------|-----------------|--|-----------------|
|  |                          |                  | Ownership ratio |  |                 |
| 1  | Citibank ADR             | 9,278,630        | 11.49%          |  |                 |
| 2  | SK Holdings              | 20,363,452       | 25.22%          |  |                 |
| 3  | SK Telecom               | 10,136,551       | 12.55%          |  | Treasury shares |
| 4  | National Pension Service | 7,283,694        | 9.02%           |  |                 |
| Shareholdings under the Employee Stock Ownership Program |                          |                  | 0.00%           |  |                 |

**B. Shareholder Distribution**

(As of September 30, 2017)

(Unit: in shares and percentages)

| Classification               | Number of shareholder | Ratio (%) | Number of shares | Ratio (%) | Remarks |
|------------------------------|-----------------------|-----------|------------------|-----------|---------|
| Total minority shareholders* | 54,097                | 99.9%     | 33,683,384       | 41.72%    |         |

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

**Table of Contents****3. Share Price and Trading Volume in the Last Six Months****A. Domestic Securities Market**

| Types                             |                | September 2017 | August 2017 | July 2017 | June 2017 | May 2017  | April 2017 |
|-----------------------------------|----------------|----------------|-------------|-----------|-----------|-----------|------------|
| <b>Common stock</b>               | <b>Highest</b> | 257,500        | 283,500     | 279,000   | 266,000   | 254,500   | 257,000    |
|                                   | <b>Lowest</b>  | 242,000        | 253,500     | 255,500   | 242,000   | 235,500   | 239,500    |
|                                   | <b>Average</b> | 249,810        | 267,568     | 266,262   | 251,929   | 243,316   | 248,375    |
| <b>Daily transaction volume</b>   | <b>Highest</b> | 307,053        | 240,410     | 272,229   | 404,959   | 383,752   | 450,303    |
|                                   | <b>Lowest</b>  | 86,092         | 53,846      | 93,703    | 108,575   | 102,115   | 73,361     |
| <b>Monthly transaction volume</b> |                | 3,455,291      | 3,214,025   | 3,576,523 | 4,669,531 | 4,238,668 | 3,040,692  |

**B. Foreign Securities Market**

|                                   |                | New York Stock Exchange |            |           |            |           |            |
|-----------------------------------|----------------|-------------------------|------------|-----------|------------|-----------|------------|
|                                   |                | August                  |            |           |            |           |            |
| Types                             |                | September 2017          | 2017       | July 2017 | June 2017  | May 2017  | April 2017 |
| <b>Depository receipt</b>         | <b>Highest</b> | 24.85                   | 27.88      | 27.51     | 25.89      | 25.12     | 25.31      |
|                                   | <b>Lowest</b>  | 23.57                   | 25.27      | 24.82     | 23.93      | 23.14     | 23.59      |
|                                   | <b>Average</b> | 24.27                   | 26.33      | 26.19     | 24.77      | 23.96     | 24.35      |
| <b>Daily transaction volume</b>   | <b>Highest</b> | 1,382,212               | 1,000,082  | 843,482   | 1,269,484  | 684,691   | 1,797,040  |
|                                   | <b>Lowest</b>  | 413,226                 | 166,593    | 189,054   | 207,995    | 289,764   | 216,065    |
| <b>Monthly transaction volume</b> |                | 15,995,848              | 12,056,548 | 8,708,213 | 10,156,333 | 9,518,262 | 10,683,634 |

**Table of Contents****VIII. EMPLOYEES AND DIRECTORS****1. Employees**

(As of September 30, 2017)

(Unit: in persons and millions of Won)

| Business segment | Gender | Number of employees                                    |   | Total | Average service year | Aggregate wage for             |                         |
|------------------|--------|--|---|-------|----------------------|--------------------------------|-------------------------|
|                  |        | Employees without a fixed term of employment Part-time | Employees with a fixed term of employment Part-time |       |                      | the first three months of 2017 | Average wage per person |
|                  | Male   | 3,782  | 63  | 3,845 | 12.7                 | 336,409                        | 87                      |
|                  | Female | 581  | 55  | 636   | 9.9                  | 39,999                         | 63                      |
| Total            |        | 4,363  | 118   | 4,481 | 12.3                 | 376,408                        | 84                      |

\* Based on Section 9-1-2 (Employee Status) of the Corporate Disclosure Guidelines (amended as of June 2017).

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

(As of September 30, 2017)

(Unit: in millions of Won)

| Classification | Number of Directors | Aggregate Amount Approved |
|----------------|---------------------|---------------------------|
| Directors      | 6                   | 12,000                    |

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

(As of September 30, 2017)

(Unit: in millions of Won)

| Number of Directors | Aggregate Amount Paid | Amount Paid Per Director | Remarks |
|---------------------|-----------------------|--------------------------|---------|
| 7                   | 1,831                 | 262                      |         |

**B-2. Amount by Classification**

(As of September 30, 2017)

(Unit: in millions of Won)

| Classification | Number of Directors | Aggregate Amount Paid | Amount Paid Per Director | Remarks |
|----------------|---------------------|-----------------------|--------------------------|---------|
|----------------|---------------------|-----------------------|--------------------------|---------|

|                         |   |       |     |
|-------------------------|---|-------|-----|
| Inside Directors        | 3 | 1,588 | 529 |
| Independent Directors   | 1 | 63    | 63  |
| Audit Committee Members | 3 | 180   | 60  |
| Auditor                 |   |       |     |

**3. Individual Compensation of Directors**

Omitted in quarterly reports in accordance with Korean disclosure rules.

**Table of Contents****4. Stock Options Granted and Exercised****A. Stock Options Granted to Directors and Auditors**

(As of September 30, 2017) (Unit: in millions of Won)

| Classification          | Number of Directors | Fair Value of Stock Options | Remarks |
|-------------------------|---------------------|-----------------------------|---------|
| Inside Directors        | 3                   | 279                         |         |
| Independent Directors   | 1                   |                             |         |
| Audit Committee Members | 3                   |                             |         |
| Total                   | 7                   | 279                         |         |

\* See note 18 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 September 30, 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 |                              |                                  |                |
| Jung Ho Park | Inside Director               | March 24, 2017 | Treasury stock  | 22,168  |           | 22,168                       | March 25, 2019<br>March 24, 2022 | 246,750        |
| Jung Ho Park | Inside Director               | March 24, 2017 | Treasury stock  | 22,168  |           | 22,168                       | March 25, 2020<br>March 24, 2023 | 266,490        |
| Jung Ho Park | Inside Director               | March 24, 2017 | Treasury stock  | 22,168  |           | 22,168                       | March 25, 2021<br>March 24, 2024 | 287,810        |

\* As of September 30, 2017, the closing price is Won 255,000.



**Table of Contents****IX. RELATED PARTY TRANSACTIONS****1. Line of Credit Extended to the Largest Shareholder**

(Unit: in millions of Won)

| Name (Corporate name) | Relationship | Account category               | Change details |                   | Accrued interest | Remarks |
|-----------------------|--------------|--------------------------------|----------------|-------------------|------------------|---------|
|                       |              |                                | Beginning      | Increase/Decrease |                  |         |
| SK Wyverns            | Affiliate    | Long-term and short-term loans | 814            |                   | 814              | 28      |

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

(As of September 30, 2017)

(Unit: in millions of Won)

| Name (Corporate name)                     | Relationship       | Type of investment | Details Change |          |           | Ending  | Remarks        |
|---|--------------------|--------------------|----------------|----------|-----------|---------|----------------|
|   |                    |                    | Beginning      | Increase | Decrease  |         |                |
| SK Communications                         | Affiliate          | Equity             | 82,857         | 43,329   |           | 126,185 | Share exchange |
| Iriver                                    | Affiliate          | Equity             | 54,503         | 25,000   |           | 79,503  |                |
| SK China Company Ltd.                     | Overseas Affiliate | Equity             | 47,830         | 554,240  | (1,094)   | 600,976 |                |
| SK Property Mgmt. Ltd.                    | Overseas Affiliate | Equity             | 145,656        |          | (145,656) |         |                |
| SK Industrial Development China Co., Ltd. | Overseas Affiliate | Equity             | 83,691         |          | (83,691)  |         |                |
| SK Investment Management Co. Ltd.         | Overseas Affiliate | Equity             |                | 1,094    |           | 1,094   |                |

**Purchase and Disposition of Securities**

(As of September 30, 2017)

(Unit: in millions of Won)

| Name (Corporate name) | Relationship | Type of Transaction | Transaction Date | Object of Transaction | Amount | Valuation Method |
|-----------------------|--------------|---------------------|------------------|-----------------------|--------|------------------|
|                       |              |                     |                  |                       |        |                  |

**Table of Contents****Transfer of Assets**

(As of September 30, 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            |         |
| <b>Total</b>          |              |  |                     |                    | <b>1,521</b>   |         |

**3. Transactions with the Largest Shareholder**

None.

**4. Related Party Transactions**

See note 28 of the notes to the Company's consolidated financial statements attached hereto for more information regarding related party transactions.

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

| Name (Corporate name)   | Relationship | Account category               | Change details |          |           | Accrued Ending interest | Remarks |
|-------------------------|--------------|--------------------------------|----------------|----------|-----------|-------------------------|---------|
|                         |              |                                | Beginning      | Increase | Decrease  |                         |         |
| Baekmajang and others   | Agency       | Long-term and short-term loans | 65,148         | 157,745  | (148,723) | 74,170                  |         |
| Daehan Kanggun BCN Inc. | Investee     | Long-term loans                | 22,147         |          |           | 22,147                  |         |

(Unit: in millions of Won)

**Table of Contents****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**

| <b>Date</b>  | <b>Agenda</b>  | <b>Resolution</b>                             |
|--|--|---|
| 31st Fiscal Year Meeting of Shareholders<br>(March 20, 2015) | 1. Approval of the financial statements for the year ended December 31, 2014 | Approved (Cash dividend, Won 8,400 per share) |
|  | 2. Amendments to Articles of Incorporation                                   | Approved                                      |
|  | 3. Election of directors   | Approved (Dong Hyun Jang)                     |
|  | Election of an inside director   | Approved (Jae Hoon Lee)                       |
|  | 4. Election of an independent director as Audit Committee member             | Approved (Won 12 billion)                     |
| 32nd Fiscal Year Meeting of Shareholders<br>(March 18, 2016) | 5. Approval of remuneration limit for directors                              |   |
|  | 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   | Approved (Dae Sik Cho)                        |

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|  |  |   |
|--|--|---|
|  |  | Approved (Dae Shick Oh)                       |
|  | Election of an inside director   |   |
|  |  | Approved (Dae Shick Oh)                       |
|  | Election of an independent director  |   |
|  |  | Approved (Won 12 billion)                     |
|  | 4. Election of an independent director as Audit Committee member             |   |
|  |  | Approved                                      |
|  | 5. Approval of remuneration limit for directors                              |   |
|  | 6. Amendments to executive payroll regulations                               |   |
| 33rd Fiscal Year Meeting of Shareholders<br><br>(March 24, 2017) | 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   | Approved (Jung Ho Park)                       |
|  | Election of an inside director   | Approved (Dae Sik Cho)                        |
|  | Election of a non-executive director   | Approved (Jae Hoon Lee)                       |
|  | Election of an independent director  | Approved (Jae Hyeon Ahn)                      |
|  | Election of an independent director  | Approved (Jung Ho Ahn)                        |

Approved (Jae Hoon Lee)

Election of an independent director

Approved (Jae Hyeon Ahn)

4. Election of an independent director as  
Audit Committee member

Approved (Won 12 billion)

Election of an independent director as  
Audit Committee member

Approved

Election of an independent director as  
Audit Committee member

5. Approval of remuneration limit for  
directors

6. Award of stock options

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**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**

As of September 30, 2017, there were eighteen pending cases proceeding with SK Broadband as the defendant and the aggregate amount of the claims was Won 224 million. The Company does not believe that the outcome of any of the proceedings 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 5,606 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 22,969 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 September 30, 2017, there were six pending cases proceeding with SK Planet as the defendant and the aggregate amount of the claims was Won 3,342 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.

**Table of Contents****B. Other Contingent Liabilities**

## (1) Borrowings

As of September 30, 2017, SK Planet's borrowings from financial institutions are set forth in the table below.

| (Unit: in thousands of Won)  |                                     |                     |                        |
|------------------------------|-------------------------------------|---------------------|------------------------|
| <b>Financial Institution</b> | <b>Borrowing</b>                    | <b>Limit Amount</b> | <b>Borrowed Amount</b> |
| KEB Hana Bank                | Overdrafts                          | 10,000,000          |                        |
|                              | Corporate credit card               | 65,000,000          | 37,061,442             |
|                              | Electronic accounts receivable bond | 5,000,000           | 366,411                |
| Shinhan Bank                 | Overdrafts                          | 15,000,000          |                        |
|                              | Electronic accounts receivable bond | 15,000,000          |                        |
| Nonghyup Bank                | Corporate credit card               | 5,000,000           |                        |
| <b>Total</b>                 |                                     | <b>115,000,000</b>  | <b>37,427,583</b>      |

## (2) Payment guarantees

The material payment guarantees provided by third parties to SK Planet as of September 30, 2017 are set forth in the table below.

| (Unit: in thousands of Won) |                                   |  |               |
|-----------------------------|-----------------------------------|--|---------------|
| <b>Recipient</b>            | <b>Financial institution</b>      | <b>Guarantee</b>                                 | <b>Amount</b> |
| SK Planet                   | Seoul Guarantee Insurance Company | Payment guarantee on e-commerce business         | 24,312,317    |
|                             | KEB Hana Bank                     | Guarantee fulfillment of contractual obligations | 4,957,684     |
|                             |                                   | Other guarantees                                 | 707,000       |

The material payment guarantee provided to a third party by SK Planet as of September 30, 2017 is set forth in the table below.

| (Unit: in thousands of Won) |                              |   |               |
|-----------------------------|------------------------------|---|---------------|
| <b>Recipient</b>            | <b>Financial institution</b> | <b>Guarantee</b>                        | <b>Amount</b> |
| 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.

**Table of Contents****B. Other Contingent Liabilities**

Seoul Guarantee Insurance Company and KB Insurance have provided performance guarantees of Won 12,784,132 thousand and Won 4,195,000 thousand, 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 498,957 thousand to business partners through Seoul Guarantee Insurance Company.

SK Telink has entered into revolving credit facilities with a limit of Won 30 billion with KEB Hana Bank in relation to its loans.

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

As of September 30, 2017, the aggregate amount of pending claims against SK Communications was Won 1,064 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.

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 September 30, 2017 are set forth in the table below.

|                                   |   | (Unit: in thousands of Won) |
|-----------------------------------|---|-----------------------------|
| <b>Financial Institution</b>      | <b>Guarantee</b>                                  | <b>Amount</b>               |
| 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 September 30, 2017, there was one pending case against Iriver for damages of Won 1 billion. The management cannot reasonably forecast the outcome of this case or the impact of the outcome on the Company's financial statements due to uncertainty of the amount to be charged to the Company.

**B. Other Contingent Liabilities**

(1) As of September 30, 2017, Iriver's borrowings from financial institutions are set forth in the table below.

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

(2) Seoul Guarantee Insurance Company has provided performance guarantees of Won 49 million to Iriver in connection with the performance of contracts, advance payment guarantee and defective guarantee.

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(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 nine months ended September 30, 2017 and September 30, 2016 were Won 1,666 million and Won 266 million, respectively, and such fees are included in cost of sales and selling and administrative expenses.

[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.

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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.

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**[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.

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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 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.

(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.

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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.

**[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.

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- (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.

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.

**Table of Contents****4. Important Matters That Occurred After September 30, 2017**  
**[SK Telink]**

The extraordinary general meeting of shareholders held on November 9, 2017 approved to reduce its capital (through a cancellation of treasury shares) and to accept the cash consideration for shares in a comprehensive exchange of shares with SK Telecom.

## (1) Approval of reduction in capital (through a cancellation of treasury shares)

SK Telink resolved to reduce its capital through a cancellation of treasury shares in order to become a wholly-owned subsidiary of SK Telecom.

Type of capital reduction and amount: 84,103 registered common shares (par value of Won 5,000 per share)

Capital and issued shares before and after the capital reduction

| <b>Category</b> | <b>Before capital reduction</b> | <b>After capital reduction</b> |
|-----------------|---------------------------------|--------------------------------|
| Capital         | Won 7,583,650,000               | Won 7,163,135,000              |
| Issued Shares   | 1,516,730 shares                | 1,432,627 shares               |

## (2) Approval of comprehensive exchange of shares

SK Telink 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.

(ø84,103 shares of SK Telink cancelled before the date of share exchange were excluded from the above transaction.)

Share exchange ratio: Shareholders of one common share of SK Telink were allotted Won 270,583.  
(Share exchange ratio of SK Telecom : SK Telink = 1 : 1.0687714)

Date of Contract: September 29, 2017

Meeting of board of directors for approval of the share exchange: November 9, 2017



Date of share exchange: December 14, 2017

øSee Report on Important Business Matters (Decision on Capital Reduction and Share Exchange) filed on September 29, 2017 by SK Telink for more information.

**[Iriver]**

Pursuant to the resolution of its board of directors on July 17, 2017, Iriver announced its merger with SM Mobile Communications Co., Ltd., with Iriver as the surviving entity, which merger was approved at the extraordinary meeting of shareholders held on August 29, 2017. The merger was completed on October 10, 2017. All the necessary legal action has been taken in connection with the merger, and all property of SM Mobile Communications Co., Ltd. has been transferred to Iriver.

**5. Use of Direct Financing**

**A. Use of Proceeds from Public Offerings**

Not applicable.

**B. Use of Proceeds from Private Offerings**

Not applicable.

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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/ Sung Hyung Lee  
(Signature)

Name: Sung Hyung Lee  
Title: Senior Vice President

Date: December 14, 2017

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**SK TELECOM CO., LTD.**

Condensed Separate Interim Financial Statements

(Unaudited)

**September 30, 2017 and 2016**

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

**Reviewed financial statements**

We have reviewed the accompanying condensed separate interim financial statements of SK Telecom Co., Ltd. (the Company), which comprise the condensed separate statement of financial position as of September 30, 2017, the related condensed separate statements of income and comprehensive income for the three and nine-month periods ended September 30, 2017 and 2016, the condensed separate statements of changes in equity and cash flows for the nine-month periods ended September 30, 2017 and 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's responsibility**

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

**Auditors' responsibility**

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

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

**Conclusion**

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

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**Other matters**

The separate statement of financial position of the Company as of December 31, 2016, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 22, 2017, expressed an unqualified opinion. The accompanying condensed separate statement of financial position of the Company as of December 31, 2016, presented for comparative purposes, is consistent, in all material respects, with the audited separate financial statements from which it has been derived.

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

KPMG Samjong Accounting Corp.

Seoul, Korea

November 6, 2017

This report is effective as of November 6, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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SK TELECOM CO., LTD.

Condensed Separate Statements of Financial Position

As of September 30, 2017 and December 31, 2016

| <i>(In millions of won)</i>                                | <i>Note</i>   | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|--|---------------|---------------------------|--------------------------|
| <b>Assets</b>  |               |                           |                          |
| <b>Current Assets:</b>                                     |               |                           |                          |
| Cash and cash equivalents                                  | 23,24         | 901,921                   | 874,350                  |
| Short-term financial instruments                           | 23,24         | 94,000                    | 95,000                   |
| Short-term investment securities                           | 5,23,24       | 47,402                    | 97,340                   |
| Accounts receivable trade, net                             | 4,23,24,25    | 1,548,543                 | 1,594,504                |
| Short-term loans, net                                      | 4,23,24,25    | 65,827                    | 54,143                   |
| Accounts receivable other, net                             | 4,23,24,25,26 | 791,041                   | 772,570                  |
| Prepaid expenses   |               | 113,603                   | 107,989                  |
| Short-term derivative financial assets                     | 13,23,24      | 21,105                    |                          |
| Inventories, net   |               | 28,154                    | 32,479                   |
| Advance payments and other                                 | 4,23,24       | 18,803                    | 32,740                   |
| <b>Total Current Assets</b>                                |               | <b>3,630,399</b>          | <b>3,661,115</b>         |
| <b>Non-Current Assets:</b>                                 |               |                           |                          |
| Long-term financial instruments                            | 23,24         | 382                       | 102                      |
| Long-term investment securities                            | 5,23,24       | 682,189                   | 560,966                  |
| Investments in subsidiaries, associates and joint ventures | 6             | 9,106,954                 | 8,726,538                |
| Property and equipment, net                                | 7,25          | 6,514,498                 | 7,298,539                |
| Goodwill   |               | 1,306,236                 | 1,306,236                |
| Intangible assets, net                                     | 8             | 3,184,328                 | 3,275,663                |
| Long-term loans, net                                       | 4,23,24,25    | 8,407                     | 11,160                   |
| Long-term accounts receivable - other                      | 4,23,24,25,26 | 240,750                   | 147,139                  |
| Long-term prepaid expenses                                 |               | 26,175                    | 27,918                   |
| Guarantee deposits   | 4,23,24,25    | 168,395                   | 173,287                  |
| Long-term derivative financial assets                      | 13,23,24      | 73,055                    | 176,465                  |
| Deferred tax assets  | 21            | 43,910                    | 58,410                   |
| Defined benefit assets                                     | 12            |                           | 24,787                   |
| Other non-current assets                                   |               | 249                       | 249                      |
| <b>Total Non-Current Assets</b>                            |               | <b>21,355,528</b>         | <b>21,787,459</b>        |
| <b>Total Assets</b>  |               | <b>24,985,927</b>         | <b>25,448,574</b>        |

*See accompanying notes to the condensed separate interim financial statements.*





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SK TELECOM CO., LTD.

Condensed Separate Statements of Financial Position, Continued

As of September 30, 2017 and December 31, 2016

| <i>(In millions of won)</i>                               | <i>Note</i> | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|---|-------------|---------------------------|--------------------------|
| <b>Liabilities and Shareholders Equity</b>                |             |                           |                          |
| <b>Current Liabilities:</b>                               |             |                           |                          |
| Current installments of long-term debt, net               | 9,23,24     | 1,373,789                 | 628,868                  |
| Current installments of long-term payables - other        | 10,23,24    | 300,464                   | 301,773                  |
| Accounts payable - other                                  | 23,24,25    | 1,147,320                 | 1,546,252                |
| Withholdings  | 23,24       | 577,676                   | 642,582                  |
| Accrued expenses  | 23,24       | 749,816                   | 663,918                  |
| Income tax payable  | 21          | 179,740                   | 461,999                  |
| Unearned revenue  |             | 1,114                     | 1,360                    |
| Derivative financial liabilities                          | 13,23,24    | 62,403                    | 86,950                   |
| Provisions  | 11          | 60,177                    | 59,027                   |
| Receipts in advance                                       |             | 74,014                    | 71,431                   |
| <b>Total Current Liabilities</b>                          |             | <b>4,526,513</b>          | <b>4,464,160</b>         |
| <b>Non-Current Liabilities:</b>                           |             |                           |                          |
| Debentures, excluding current installments, net           | 9,23,24     | 4,187,471                 | 4,991,067                |
| Long-term borrowings, excluding current installments, net | 9,23,24     | 51,884                    | 61,416                   |
| Long-term payables - other                                | 10,23,24    | 1,322,936                 | 1,602,943                |
| Long-term unearned revenue                                |             | 1,796                     | 2,389                    |
| Defined benefit liabilities                               | 12          | 10,211                    |                          |
| Long-term provisions                                      | 11          | 16,468                    | 21,493                   |
| Other non-current liabilities                             | 23,24       | 43,894                    | 48,152                   |
| <b>Total Non-Current Liabilities</b>                      |             | <b>5,634,660</b>          | <b>6,727,460</b>         |
| <b>Total Liabilities</b>                                  |             | <b>10,161,173</b>         | <b>11,191,620</b>        |
| <b>Shareholders Equity:</b>                               |             |                           |                          |
| Share capital   | 1,14        | 44,639                    | 44,639                   |
| Capital surplus and others                                | 14,15       | 371,760                   | 371,481                  |
| Retained earnings   | 16          | 14,365,499                | 13,902,627               |
| Reserves  | 17          | 42,856                    | (61,793)                 |
| <b>Total Shareholders Equity</b>                          |             | <b>14,824,754</b>         | <b>14,256,954</b>        |
| <b>Total Liabilities and Shareholders Equity</b>          |             | <b>24,985,927</b>         | <b>25,448,574</b>        |

*See accompanying notes to the condensed separate interim financial statements.*

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SK TELECOM CO., LTD.

Condensed Separate Statements of Income

For the three and nine-month periods ended September 30, 2017 and 2016

*(In millions of won except for per share data)*

|   |      | September 30, 2017 |                  | September 30, 2016 |                  |
|---|------|--------------------|------------------|--------------------|------------------|
|   |      | Three-month        | Nine-month       | Three-month        | Nine-month       |
|   | Note | period ended       | period ended     | period ended       | period ended     |
| <b>Operating revenue:</b>                                 | 25   |                    |                  |                    |                  |
| Revenue   |      | 3,156,536          | 9,354,122        | 3,101,785          | 9,292,034        |
| <b>Operating expenses:</b>                                | 25   |                    |                  |                    |                  |
| Labor   |      | 152,635            | 461,444          | 148,642            | 483,459          |
| Commissions   |      | 1,242,501          | 3,636,624        | 1,144,725          | 3,503,044        |
| Depreciation and amortization                             |      | 593,341            | 1,765,653        | 556,757            | 1,646,938        |
| Network interconnection                                   |      | 161,691            | 470,650          | 192,978            | 575,451          |
| Leased line   |      | 73,726             | 220,470          | 87,472             | 268,026          |
| Advertising   |      | 37,489             | 100,648          | 39,401             | 115,007          |
| Rent  |      | 110,106            | 331,407          | 105,151            | 317,019          |
| Cost of products that have been resold                    |      | 132,890            | 398,966          | 136,497            | 379,523          |
| Others  | 18   | 231,477            | 645,836          | 213,051            | 618,400          |
|   |      | 2,735,856          | 8,031,698        | 2,624,674          | 7,906,867        |
| <b>Operating profit</b>                                   |      | <b>420,680</b>     | <b>1,322,424</b> | <b>477,111</b>     | <b>1,385,167</b> |
| Finance income  | 20   | 23,357             | 169,776          | 37,080             | 164,842          |
| Finance costs   | 20   | (64,288)           | (204,045)        | (70,846)           | (194,421)        |
| Other non-operating income                                | 19   | 5,945              | 13,315           | 6,739              | 44,067           |
| Other non-operating expenses                              | 19   | (32,803)           | (70,311)         | (44,035)           | (99,858)         |
| Gain (loss) on investments in subsidiaries and associates | 6    | 211,306            | 196,001          |                    | (47,618)         |
| <b>Profit before income tax</b>                           |      | <b>564,197</b>     | <b>1,427,160</b> | <b>406,049</b>     | <b>1,252,179</b> |
| Income tax expense  | 21   | 85,482             | 246,189          | 81,466             | 261,246          |
| <b>Profit for the period</b>                              |      | <b>478,715</b>     | <b>1,180,971</b> | <b>324,583</b>     | <b>990,933</b>   |
| <b>Earnings per share:</b>                                | 22   |                    |                  |                    |                  |
| Basic and diluted earnings per share (in won)             |      | 6,780              | 16,606           | 4,597              | 13,915           |

*See accompanying notes to the condensed separate interim financial statements.*



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SK TELECOM CO., LTD.

Condensed Separate Statements of Comprehensive Income

For the three and nine-month periods ended September 30, 2017 and 2016

*(In millions of won)*

|  |       | September 30, 2017 |                  | September 30, 2016 |                  |
|--|-------|--------------------|------------------|--------------------|------------------|
|  |       | Three-month        | Nine-month       | Three-month        | Nine-month       |
|  | Note  | period             | period           | period             | period           |
|  |       | ended              | ended            | ended              | ended            |
| <b>Profit for the period</b>   |       | <b>478,715</b>     | <b>1,180,971</b> | <b>324,583</b>     | <b>990,933</b>   |
| <b>Other comprehensive income (loss):</b>  |       |                    |                  |                    |                  |
| <b>Items that will never be reclassified to profit or loss, net of taxes:</b>              |       |                    |                  |                    |                  |
| Remeasurement of defined benefit liabilities   | 12    | 2,784              | (3,588)          | 15                 | (9,070)          |
| <b>Items that are or may be reclassified subsequently to profit or loss, net of taxes:</b> |       |                    |                  |                    |                  |
| Net change in unrealized fair value of available-for-sale financial assets                 | 17    | (5,412)            | 93,935           | 48,902             | 64,704           |
| Net change in unrealized fair value of derivatives   | 13,17 | 4,910              | 10,714           | (7,677)            | (15,518)         |
| <b>Other comprehensive income for the period, net of taxes</b>                             |       | <b>2,282</b>       | <b>101,061</b>   | <b>41,240</b>      | <b>40,116</b>    |
| <b>Total comprehensive income</b>  |       | <b>480,997</b>     | <b>1,282,032</b> | <b>365,823</b>     | <b>1,031,049</b> |

*See accompanying notes to the condensed separate interim financial statements.*

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SK TELECOM CO., LTD.

Condensed Separate Statements of Changes in Equity

For the nine-month periods ended September 30, 2017 and 2016

| of won)                             | Note     | Capital surplus and others |                 |                |             |              | Total   | Retained earnings | Reserves | Total      |
|-------------------------------------|----------|----------------------------|-----------------|----------------|-------------|--------------|---------|-------------------|----------|------------|
|                                     |          | Share capital              | Paid-in surplus | Treasury stock | Hybrid bond | Share option |         |                   |          |            |
| January 1, 2016                     |          | 44,639                     | 2,915,887       | (2,260,626)    | 398,518     | (684,333)    | 369,446 | 13,418,603        | (53,228) | 13,365,375 |
| Comprehensive income                |          |                            |                 |                |             |              |         | 990,933           |          |            |
| Disposals of non-current assets     | 12,13,17 |                            |                 |                |             |              |         | (9,070)           | 49,186   |            |
|                                     |          |                            |                 |                |             |              |         | 981,863           | 49,186   | 1,031,049  |
| Transactions with owners:           |          |                            |                 |                |             |              |         |                   |          |            |
| Dividends                           |          |                            |                 |                |             |              |         | (635,482)         |          |            |
| Share repurchases                   |          |                            |                 |                |             |              |         | (70,610)          |          |            |
| Combination of non-control interest |          |                            |                 |                |             | 2,035        | 2,035   |                   |          |            |
| Issuance of hybrid bond             |          |                            |                 |                |             |              |         | (8,420)           |          |            |
|                                     |          |                            |                 |                |             | 2,035        | 2,035   | (714,512)         |          |            |
| September 30,                       |          |                            |                 |                |             |              |         |                   |          |            |
|                                     |          | 44,639                     | 2,915,887       | (2,260,626)    | 398,518     | (682,298)    | 371,481 | 13,685,954        | (4,042)  | 14,079,203 |
| January 1, 2017                     |          | 44,639                     | 2,915,887       | (2,260,626)    | 398,518     | (682,298)    | 371,481 | 13,902,627        | (61,793) | 14,079,203 |
| Comprehensive income                |          |                            |                 |                |             |              |         | 1,180,971         |          |            |
| Disposals of non-current assets     | 12,13,17 |                            |                 |                |             |              |         | (3,588)           | 104,649  |            |
|                                     |          |                            |                 |                |             |              |         | 1,177,383         | 104,649  | 1,282,032  |
| Transactions with owners:           |          |                            |                 |                |             |              |         |                   |          |            |
| Dividends                           |          |                            |                 |                |             |              |         | (635,482)         |          |            |
| Share repurchases                   |          |                            |                 |                |             |              |         | (70,609)          |          |            |
| Combination of non-control interest |          |                            |                 |                |             | 279          | 279     |                   |          |            |
| Issuance of hybrid bond             |          |                            |                 |                |             |              |         | (8,420)           |          |            |
|                                     |          |                            |                 |                |             | 279          | 279     | (714,511)         |          |            |

September 30,

|        |           |             |         |     |           |         |            |        |    |
|--------|-----------|-------------|---------|-----|-----------|---------|------------|--------|----|
| 44,639 | 2,915,887 | (2,260,626) | 398,518 | 279 | (682,298) | 371,760 | 14,365,499 | 42,856 | 14 |
|--------|-----------|-------------|---------|-----|-----------|---------|------------|--------|----|

*See accompanying notes to the condensed separate interim financial statements.*

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SK TELECOM CO., LTD.

Condensed Separate Statements of Cash Flows

For the nine-month periods ended September 30, 2017 and 2016

| <i>(In millions of won)</i>                                       | <i>Note</i> | <b>September 30, 2017</b> | <b>September 30, 2016</b> |
|---|-------------|---------------------------|---------------------------|
| <b>Cash flows from operating activities:</b>                      |             |                           |                           |
| Cash generated from operating activities:                         |             |                           |                           |
| Profit for the period   |             | 1,180,971                 | 990,933                   |
| Adjustments for income and expenses                               | 27          | 1,989,161                 | 2,157,931                 |
| Changes in assets and liabilities related to operating activities | 27          | (99,586)                  | (482,456)                 |
| Sub-total   |             | 3,070,546                 | 2,666,408                 |
| Interest received   |             | 36,934                    | 19,194                    |
| Dividends received  |             | 101,256                   | 113,024                   |
| Interest paid   |             | (133,346)                 | (143,675)                 |
| Income tax paid   |             | (546,213)                 | (365,503)                 |
| <b>Net cash provided by operating activities</b>                  |             | <b>2,529,177</b>          | <b>2,289,448</b>          |
| <b>Cash flows from investing activities:</b>                      |             |                           |                           |
| Cash inflows from investing activities:                           |             |                           |                           |
| Decrease in short-term investment securities, net                 |             | 50,000                    |                           |
| Decrease in short-term financial instruments, net                 |             | 1,000                     | 15,000                    |
| Collection of short-term loans                                    |             | 148,723                   | 137,422                   |
| Proceeds from disposal of long-term investment securities         |             | 14,253                    | 30,832                    |
| Increase in cash due to business combination                      |             |                           | 360                       |
| Proceeds from disposal of property and equipment                  |             | 17,147                    | 8,731                     |
| Proceeds from disposal of intangible assets                       |             | 3,490                     | 2,595                     |
| Sub-total   |             | 234,613                   | 194,940                   |
| Cash outflows for investing activities:                           |             |                           |                           |
| Increase in short-term investment securities, net                 |             |                           | (110,000)                 |
| Increase in long-term financial instruments, net                  |             |                           | (40)                      |
| Increase in short-term loans                                      |             | (157,745)                 | (148,085)                 |
| Acquisition of long-term investment securities                    |             | (11,048)                  | (19,210)                  |
| Acquisition of investments in subsidiaries and associates         |             | (184,414)                 | (63,330)                  |
| Acquisition of property and equipment                             |             | (1,331,694)               | (899,627)                 |
| Acquisition of intangible assets                                  |             | (23,987)                  | (364,120)                 |
| Sub-total   |             | (1,708,888)               | (1,604,412)               |
| <b>Net cash used in investing activities</b>                      |             | <b>(1,474,275)</b>        | <b>(1,409,472)</b>        |



*See accompanying notes to the condensed separate interim financial statements.*

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SK TELECOM CO., LTD.

Condensed Separate Statements of Cash Flows, Continued

For the nine-month periods ended September 30, 2017 and 2016

| <i>(In millions of won)</i>                                   | <i>Note</i> | <b>September 30, 2017</b> | <b>September 30, 2016</b> |
|---|-------------|---------------------------|---------------------------|
| <b>Cash flows from financing activities:</b>                  |             |                           |                           |
| Cash inflows from financing activities:                       |             |                           |                           |
| Proceeds from issuance of debentures                          |             | 368,456                   | 607,474                   |
| Sub-total   |             | 368,456                   | 607,474                   |
| Cash outflows for financing activities:                       |             |                           |                           |
| Decrease in short-term borrowings, net                        |             |                           | (230,000)                 |
| Repayments of long-term borrowings                            |             | (6,407)                   | (6,407)                   |
| Repayments of long-term accounts payable-other                |             | (302,867)                 | (120,718)                 |
| Repayments of debentures                                      |             | (349,119)                 | (520,000)                 |
| Payments of cash dividends                                    |             | (706,091)                 | (706,092)                 |
| Payments of interest on hybrid bond                           |             | (8,420)                   | (8,420)                   |
| Cash outflows from transactions of derivatives                |             | (22,884)                  | (144)                     |
| Sub-total   |             | (1,395,788)               | (1,591,781)               |
| <b>Net cash used in financing activities</b>                  |             | <b>(1,027,332)</b>        | <b>(984,307)</b>          |
| <b>Net increase (decrease) in cash and cash equivalents</b>   |             | <b>27,570</b>             | <b>(104,331)</b>          |
| Cash and cash equivalents at beginning of the period          |             | 874,350                   | 431,666                   |
| Effects of exchange rate changes on cash and cash equivalents |             | 1                         | (446)                     |
| <b>Cash and cash equivalents at end of the period</b>         |             | <b>901,921</b>            | <b>326,889</b>            |

*See accompanying notes to the condensed separate interim financial statements.*

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 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 September 30, 2017, the Company s total issued shares are held by the following shareholders:

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

**2. Basis of Preparation**

## (1) Statement of compliance

These condensed separate interim financial statements were prepared in accordance with K-IFRS No. 1034, *Interim Financial Reporting*, as part of the period covered by the Company s K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since December 31, 2016. These condensed separate interim financial statements do not include all of the disclosures required for full annual financial statements.

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

## (2) Use of estimates and judgments

1) Critical judgments, assumptions and estimation uncertainties

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

In preparing these condensed separate interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended December 31, 2016.

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**2. Basis of Preparation, Continued**

(2) Use of estimates and judgments, Continued

2) Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework 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 executive.

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 Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Information about assumptions used for fair value measurements is included in Note 24.



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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**3. Significant Accounting Policies**

The significant accounting policies applied by the Company in these condensed separate interim financial statements are the same as those applied by the Company in its separate financial statements as of and for the year ended December 31, 2016. In addition, 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 these condensed separate interim financial statements.

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

The Company currently plans to apply K-IFRS No.1109 in the period beginning on January 1, 2018 and to assess the financial impact on its financial statements resulting from the adoption of K-IFRS No. 1109 by December 31, 2017. The assessment results will be disclosed in its annual financial statements for the year ending December 31, 2017. As of September 30, 2017, there have been no material changes related to the Company's plan for the adoption of K-IFRS No. 1109 which was disclosed in the Company's separate financial statements as of December 31, 2016.

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

The Company currently plans to apply K-IFRS No.1115 in the period beginning on January 1, 2018. The Company is in the process of designing, implementing and enhancing 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 impact of the adoption of K-IFRS No. 1115 on its separate financial statements plans to complete the assessment by December 31, 2017. The assessment results will be disclosed in its annual financial statements for the year ending December 31, 2017. As of September 30, 2017, there have been no material changes related to the Company's plan for the adoption of K-IFRS No. 1115 which was disclosed in the Company's separate financial statements as of December 31, 2016.

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**4. Trade and Other Receivables**

(1) Details of trade and other receivables as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                       | <b>Gross<br/>amount</b> | <b>September 30, 2017<br/>Allowances for<br/>doubtful accounts</b> | <b>Carrying<br/>amount</b> |
|---------------------------------------|-------------------------|--|----------------------------|
| <b>Current assets:</b>                |                         |  |                            |
| Accounts receivable - trade           | 1,666,752               | (118,209)  | 1,548,543                  |
| Short-term loans                      | 66,492                  | (665)  | 65,827                     |
| Accounts receivable - other           | 845,563                 | (54,522)   | 791,041                    |
| Accrued income                        | 654                     |  | 654                        |
|                                       | 2,579,461               | (173,396)  | 2,406,065                  |
| <b>Non-current assets:</b>            |                         |  |                            |
| Long-term loans                       | 49,527                  | (41,120)   | 8,407                      |
| Long-term accounts receivable - other | 240,750                 |  | 240,750                    |
| Guarantee deposits                    | 168,395                 |  | 168,395                    |
|                                       | 458,672                 | (41,120)   | 417,552                    |
|                                       | 3,038,133               | (214,516)  | 2,823,617                  |

*(In millions of won)*

|                             | <b>Gross<br/>amount</b> | <b>December 31, 2016<br/>Allowances<br/>for<br/>doubtful<br/>accounts</b> | <b>Carrying<br/>amount</b> |
|-----------------------------|-------------------------|---|----------------------------|
| <b>Current assets:</b>      |                         |   |                            |
| 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                  |
| <b>Non-current assets:</b>  |                         |   |                            |
| Long-term loans             | 52,308                  | (41,148)  | 11,160                     |



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|                                       |           |           |           |
|---------------------------------------|-----------|-----------|-----------|
| 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 |

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SK TELECOM CO., LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**4. Trade and Other Receivables, Continued**

- (2) Changes in the allowances for doubtful accounts during the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i>                      | <b>For the nine-month period ended</b> |                           |
|--|--|---------------------------|
|  | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Balance at January 1                             | 218,827                                | 204,677                   |
| Bad debt expense                                 | 10,581                                 | 21,807                    |
| Write-offs                                       | (32,149)                               | (23,102)                  |
| Collection of receivables previously written-off | 17,257                                 | 14,490                    |
| Balance at September 30                          | 214,516                                | 217,872                   |

**5. Investment Securities**

- (1) Details of short-term investment securities as of September 30, 2017 and December 31, 2016 are as follows:

| <i>(In millions of won)</i> | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|-----------------------------|---------------------------|--------------------------|
| Beneficiary certificates    | 47,402                    | 97,340                   |

- (2) Details of long-term investment securities as of September 30, 2017 and December 31, 2016 are as follows:

| <i>(In millions of won)</i>  | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|------------------------------|---------------------------|--------------------------|
| <b>Equity securities:</b>    |                           |                          |
| Marketable equity securities | 545,333                   | 421,846                  |
| Unlisted equity securities   | 78,066                    | 78,198                   |

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|                         |         |         |
|-------------------------|---------|---------|
| Equity investments      | 57,890  | 50,633  |
|                         | 681,289 | 550,677 |
| <b>Debt securities:</b> |         |         |
| Investment bonds(*)     | 900     | 10,289  |
|                         | 682,189 | 560,966 |

(\*) During the nine-month period ended September 30, 2017, the Company disposed of the convertible bonds issued by IRIVER LIMITED, whose carrying amount was 7,359 million as of December 31, 2016.

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**6. Investments in Subsidiaries, Associates and Joint ventures**

- (1) Investments in subsidiaries, associates and joint ventures as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|  | September 30, 2017 | December 31, 2016 |
|--|--------------------|-------------------|
| Investments in subsidiaries                  | 4,400,790          | 4,345,956         |
| Investments in associates and joint ventures | 4,706,164          | 4,380,582         |
|  | 9,106,954          | 8,726,538         |

- (2) Details of investments in subsidiaries as of September 30, 2017 and December 31, 2016 are as follows:

| <i>(In millions of won, except for share data)</i> | September 30, 2017 |               |                 | December 31, 2016 |
|--|--------------------|---------------|-----------------|-------------------|
|  | Number of shares   | Ownership (%) | Carrying amount | Carrying amount   |
| SK Telink Co., Ltd.(*1)                            | 1,302,239          | 85.9          | 208,707         | 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         | 126,185         | 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(*3,4)                               | 19,901,287         | 45.9          | 79,503          | 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.(*5)                            |                    | 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.                                   | 4,157,000          | 100.0         | 27,628          | 27,628            |

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|                     |            |       |           |           |
|---------------------|------------|-------|-----------|-----------|
| SK techx Co., Ltd.  | 6,323,905  | 100.0 | 128,371   | 128,371   |
| One Store Co., Ltd. | 10,409,600 | 65.5  | 82,186    | 82,186    |
|                     |            |       | 4,400,790 | 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 all of the other shareholders of SK Telink Co., Ltd. on December 14, 2017 at 35,281 million in cash ( 270,583 per share).
- (\*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 other 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 and the Company holds wholly owns SK Communications Co., Ltd. as of September 30, 2017.
- (\*3) 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.

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**6. Investments in Subsidiaries, Associates and Joint ventures, Continued**

(2) Details of investments in subsidiaries as of September 30, 2017 and December 31, 2016 are as follows, Continued:

(\*4) During the nine-month period ended September 30, 2017, the Company acquired 4,699,248 shares of IRIVER LIMITED at 25,000 million by paid-in capital increase, and, as a result, the Company's ownership interest of IRIVER LIMITED has changed during the nine-month period ended September 30, 2017.

(\*5) Impairment loss amounting to 15,305 million was recognized during the nine-month period ended September 30, 2017.

(3) Details of investments in associates and joint ventures as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won, except for share data)*

|   | September 30, 2017 |               |                 | December 31, 2016 |
|---|--------------------|---------------|-----------------|-------------------|
|   | Number of shares   | Ownership (%) | Carrying amount | Carrying amount   |
| <b>Investments in associates:</b>             |                    |               |                 |                   |
| SK China Company Ltd.(*1)                     | 10,928,921         | 27.3          | 600,976         | 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           |
| SK USA, Inc. and others                       |                    |               | 82,917          | 81,823            |

4,670,688 4,345,106

**Investment in joint venture:**

|                           |           |      |           |           |
|---------------------------|-----------|------|-----------|-----------|
| Finnq Co., Ltd.(*5)       | 4,900,000 | 49.0 | 24,580    | 24,580    |
| 12CM GLOBAL PTE. LTD.(*5) | 1,007,143 | 62.7 | 10,896    | 10,896    |
|                           |           |      | 35,476    | 35,476    |
|                           |           |      | 4,706,164 | 4,380,582 |

(\*1) During the nine-month period ended September 30, 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 which resulted in the 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 211,307 million for the nine-month period ended September 30, 2017.

(\*2) The Company acquired 40,000 shares of HappyNarae Co., Ltd. at 17,212 per share during the nine-month period ended September 30, 2017.

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**6. Investments in Subsidiaries, Associates and Joint ventures, Continued**

(3) Details of investments in associates and joint ventures as of September 30, 2017 and December 31, 2016 are as follows, Continued:

(\*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.

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

**7. Property and Equipment**

Details of the changes in property and equipment for the nine-month periods ended September 30, 2017 and 2016 are as follows:

(In millions of won)

|                          | For the nine-month period ended September 30, 2017 |             |          |           |              | Ending balance |
|--------------------------|--|-------------|----------|-----------|--------------|----------------|
|                          | Beginning balance                                  | Acquisition | Disposal | Transfer  | Depreciation |                |
| Land                     | 506,786  | 2,935       | (4,406)  | 10,380    |              | 515,695        |
| Buildings                | 557,021  | 179         | (459)    | 18,562    | (27,559)     | 547,744        |
| Structures               | 357,065  | 13,845      | (74)     | 2,679     | (26,183)     | 347,332        |
| Machinery                | 4,781,985  | 75,297      | (4,594)  | 786,966   | (1,232,107)  | 4,407,547      |
| Other                    | 492,410  | 441,914     | (4,272)  | (406,567) | (81,976)     | 441,509        |
| Construction in progress | 603,272  | 436,662     | (1,811)  | (783,452) |              | 254,671        |
|                          | 7,298,539  | 970,832     | (15,616) | (371,432) | (1,367,825)  | 6,514,498      |

(In millions of won)

**For the nine-month period ended September 30, 2016**  
**Acquisition Disposal Transfer Depreciation Others**



|                          | <b>Beginning balance</b> |         |          |           |             | <b>Ending balance</b> |           |
|--------------------------|--------------------------|---------|----------|-----------|-------------|-----------------------|-----------|
| Land                     | 494,359                  | 1,764   | (2,881)  | 7,795     |             |                       | 501,037   |
| Buildings                | 557,932                  | 1,437   | (8,603)  | 20,182    | (26,713)    |                       | 544,235   |
| Structures               | 342,411                  | 11,156  | (15)     | 9,837     | (24,780)    |                       | 338,609   |
| Machinery                | 5,222,023                | 84,255  | (21,793) | 383,717   | (1,209,017) | 2,612                 | 4,461,797 |
| Other                    | 402,252                  | 393,659 | (3,153)  | (276,264) | (83,965)    | 344                   | 432,873   |
| Construction in progress | 423,303                  | 324,251 | (6,848)  | (178,406) |             | 3,439                 | 565,739   |
|                          | 7,442,280                | 816,522 | (43,293) | (33,139)  | (1,344,475) | 6,395                 | 6,844,290 |

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**8. Intangible Assets**

- (1) Details of the changes in intangible assets for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                        | For the nine-month period ended September 30, 2017 |             |          |          |              | Ending balance |
|------------------------|--|-------------|----------|----------|--------------|----------------|
|                        | Beginning balance                                  | Acquisition | Disposal | Transfer | Amortization |                |
| Frequency usage rights | 2,580,828  |             |          |          | (302,916)    | 2,277,912      |
| Land usage rights      | 8,359  | 2,489       | (143)    | 200      | (2,781)      | 8,124          |
| Industrial rights      | 13,692   | 2,196       | (19)     |          | (2,523)      | 13,346         |
| Facility usage rights  | 16,259   | 1,689       | (36)     | 122      | (2,014)      | 16,020         |
| Club memberships       | 43,984   | 1,435       | (1,960)  | 87       |              | 43,546         |
| Other                  | 612,541  | 16,178      | (4,642)  | 386,203  | (184,900)    | 825,380        |
|                        | 3,275,663  | 23,987      | (6,800)  | 386,612  | (495,134)    | 3,184,328      |

*(In millions of won)*

|                        | For the nine-month period ended September 30, 2016 |             |          |          |              |        | Ending balance |
|------------------------|--|-------------|----------|----------|--------------|--------|----------------|
|                        | Beginning balance                                  | Acquisition | Disposal | Transfer | Amortization | Others |                |
| Frequency usage rights | 1,103,517  | 1,254,664   |          |          | (220,514)    |        | 2,137,667      |
| Land usage rights      | 11,695   | 995         | (50)     |          | (3,307)      |        | 9,333          |
| Industrial rights      | 11,828   | 3,598       | (120)    |          | (3,261)      | 202    | 12,247         |
| Facility usage rights  | 16,486   | 1,013       | (4)      | 72       | (1,919)      |        | 15,648         |
| Club memberships       | 61,512   | 118         | (1,267)  |          |              |        | 60,363         |
| Other                  | 561,031  | 25,870      | (359)    | 41,946   | (158,414)    | 25,676 | 495,750        |
|                        | 1,766,069  | 1,286,258   | (1,800)  | 42,018   | (387,415)    | 25,878 | 2,731,008      |

- (2) Details of frequency usage rights as of September 30, 2017 are as follows:

*(In millions of won)*

|                | <b>Amount</b> | <b>Description</b>  | <b>Commencement<br/>of amortization</b> | <b>Completion of<br/>amortization</b> |
|----------------|---------------|---|---|---------------------------------------|
| 800MHz license | 152,040       | Frequency usage rights<br>relating to CDMA and<br>LTE service   | Jul. 2011                               | Jun. 2021                             |
| 1.8GHz license | 533,885       | Frequency usage rights<br>relating to LTE service               | Sept. 2013                              | Dec. 2021                             |
| WiBro license  | 3,544         | WiBro service   | Mar. 2012                               | Mar. 2019                             |
| 2.6GHz license | 1,123,125     | Frequency usage rights<br>relating to LTE service               | Sept. 2016                              | Dec. 2026                             |
| 2.1GHz license | 465,318       | Frequency usage rights<br>relating to W-CDMA<br>and LTE service | Dec. 2016                               | Dec. 2021                             |
|                | 2,277,912     |   |   |                                       |

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**9. Borrowings and Debentures**

(1) Changes in long-term borrowings for the nine-month period ended September 30, 2017 are as follows:

*(In millions of won)*

|                                    | <b>Lender</b>        | <b>Annual<br/>interest<br/>rate</b> | <b>Maturity</b> | <b>Book value</b> |
|------------------------------------|----------------------|-------------------------------------|-----------------|-------------------|
| Current                            |                      |                                     |                 | 13,491            |
| Non-current                        |                      |                                     |                 | 61,416            |
| As of January 1, 2017              |                      |                                     |                 | 74,907            |
| Repayment of long-term borrowings: |                      |                                     |                 |                   |
|                                    | Export Kreditnamnden | 1.70%                               | Apr. 29, 2022   | (6,407)           |
| Other changes(*):                  |                      |                                     |                 | (3,659)           |
| Current                            |                      |                                     |                 | 12,957            |
| Non-current                        |                      |                                     |                 | 51,884            |
| As of September 30, 2017           |                      |                                     |                 | 64,841            |

(\*) Other changes include the effects on foreign currency translation of foreign currency-denominated long-term borrowings and changes in present value discount during the nine-month period ended September 30, 2017.

(2) Changes in debentures for the nine-month period ended September 30, 2017 are as follows:

*(In millions of won, thousands of other currencies)*

|  | <b>Purpose</b> | <b>Annual<br/>interest<br/>rate</b> | <b>Maturity</b> | <b>Face value</b> | <b>Book value</b> |
|--|----------------|-------------------------------------|-----------------|-------------------|-------------------|
|--|----------------|-------------------------------------|-----------------|-------------------|-------------------|

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|                               |                                |       |               |             |             |
|-------------------------------|--------------------------------|-------|---------------|-------------|-------------|
| Current                       |                                |       |               | 616,014     | 615,377     |
| Non-current                   |                                |       |               | 5,001,900   | 4,991,067   |
| As of January 1, 2017         |                                |       |               | 5,617,914   | 5,606,444   |
| Debentures newly issued:      |                                |       |               |             |             |
| Unsecured private bonds       | Refinancing fund               | 1.93% | Apr. 25, 2020 | 60,000      | 59,703      |
|                               |                                | 2.17% | Apr. 25, 2022 | 120,000     | 119,498     |
|                               |                                | 2.55% | Apr. 25, 2027 | 100,000     | 99,592      |
| Unsecured private bonds       | Operating and refinancing fund | 2.65% | Apr. 25, 2032 | 90,000      | 89,663      |
| Debentures repaid:            |                                |       |               |             |             |
| Unsecured private Swiss bonds | Operating fund                 | 1.75% | June 12, 2017 | (349,119)   | (349,119)   |
|                               |                                |       |               | CHF 300,000 | CHF 300,000 |
| Other changes(*):             |                                |       |               | (83,403)    | (77,478)    |
| Current                       |                                |       |               | 1,272,702   | 1,360,832   |
| Non-current                   |                                |       |               | 4,282,690   | 4,187,471   |
| As of September 30, 2017      |                                |       |               | 5,555,392   | 5,548,303   |

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**9. Borrowings and Debentures, Continued**

(2) Changes in debentures for the nine-month period ended September 30, 2017 are as follows, Continued:

(\*) Other changes include the effects on foreign currency translation of foreign currency-denominated debentures and changes in present value discount during the nine-month period ended September 30, 2017.

**10. Long-term Payables - other**

(1) As of September 30, 2017 and December 31, 2016, details of long-term payables - other which consist of payables related to the acquisition of frequency usage rights are as follows (See Note 8):

*(In millions of won)*

|   | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|---|-------------------------------|------------------------------|
| Long-term payables - other                              | 1,710,255                     | 2,013,122                    |
| Present value discount on long-term payables - other    | (86,855)                      | (108,406)                    |
|   | 1,623,400                     | 1,904,716                    |
| Less current installments of long-term payables - other | (300,464)                     | (301,773)                    |
| Carrying amount at period end                           | 1,322,936                     | 1,602,943                    |

(2) The repayment schedule of the principal amount of long-term payables - other related to acquisition of frequency usage rights as of September 30, 2017 is as follows:

*(In millions of won)*

|                  | <b>Amount</b> |
|------------------|---------------|
| Less than 1 year | 302,867       |
| 1~3 years        | 605,734       |

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|                   |           |
|-------------------|-----------|
| 3~5 years         | 402,624   |
| More than 5 years | 399,030   |
|                   | 1,710,255 |

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**11. Provisions**

Changes in provisions for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | For the nine-month period ended September 30,<br>2017 |          |             |          | As of September 30, 2017 |         |                 |
|--|---|----------|-------------|----------|--------------------------|---------|-----------------|
|  | Beginning<br>balance                                  | Increase | Utilization | Reversal | Ending<br>balance        | Current | Non-<br>current |
| Provision for installment of handset subsidy | 24,710  | 2        | (6,735)     |          | 17,977                   | 17,977  |                 |
| Provision for restoration                    | 53,022  | 3,126    | (645)       | (395)    | 55,108                   | 38,640  | 16,468          |
| Emission allowance                           | 2,788   | 3,573    | (518)       | (2,283)  | 3,560                    | 3,560   |                 |
|  | 80,520  | 6,701    | (7,898)     | (2,678)  | 76,645                   | 60,177  | 16,468          |

*(In millions of won)*

|  | For the nine-month period ended September 30,<br>2016 |          |             |          | As of September 30, 2016 |         |                 |
|--|---|----------|-------------|----------|--------------------------|---------|-----------------|
|  | Beginning<br>balance                                  | Increase | Utilization | Reversal | Ending<br>balance        | Current | Non-<br>current |
| Provision for installment of handset subsidy | 5,670   |          | (1,019)     |          | 4,651                    | 1,213   | 3,438           |
| Provision for restoration                    | 50,459  | 3,047    | (559)       | (863)    | 52,084                   | 28,845  | 23,239          |
| Emission allowance                           | 1,477   | 1,016    | (169)       |          | 2,324                    | 2,324   |                 |
|  | 57,606  | 4,063    | (1,747)     | (863)    | 59,059                   | 32,382  | 26,677          |

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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**12. Defined Benefit Liabilities (Assets)**

- (1) Details of defined benefit liabilities (assets) as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|  | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|--|---------------------------|--------------------------|
| Present value of defined benefit obligations | 280,674                   | 240,289                  |
| Fair value of plan assets                    | (270,463)                 | (265,076)                |
|  | 10,211                    | (24,787)                 |

- (2) Changes in defined benefit obligations for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                                  | <b>For the nine-month period ended</b> |                           |
|----------------------------------|--|---------------------------|
|                                  | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Beginning balance                | 240,289                                | 212,139                   |
| Current service cost             | 29,341                                 | 27,961                    |
| Interest cost                    | 4,947                                  | 4,212                     |
| Remeasurement:                   |  |                           |
| - Adjustment based on experience | 4,199                                  | 6,925                     |
| Benefit paid                     | (7,220)                                | (4,192)                   |
| Others                           | 9,118                                  | 3,731                     |
| Ending balance                   | 280,674                                | 250,776                   |

- (3) Changes in plan assets for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | <b>For the nine-month period ended</b> |                           |
|--|--|---------------------------|
|  | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |

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|                   |          |         |
|-------------------|----------|---------|
| Beginning balance | 265,076  | 208,133 |
| Interest income   | 5,059    | 3,976   |
| Remeasurement     | (535)    | (5,040) |
| Contribution      | 20,000   | 19,000  |
| Benefit paid      | (25,655) | (3,766) |
| Others            | 6,518    | 2,753   |
| Ending balance    | 270,463  | 225,056 |

- (4) Total cost of benefit plan, which is recognized in profit and loss (included in labor in the statement of income) and capitalized into construction-in-progress, for the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | <b>For the nine-month period ended</b> |                           |
|-----------------------------|--|---------------------------|
|                             | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Current service cost        | 29,341                                 | 27,961                    |
| Net interest cost (income)  | (112)                                  | 236                       |
|                             | 29,229                                 | 28,197                    |

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**13. Derivative Instruments**

The derivative contract that matured during the nine-month period ended September 30, 2017 is as follows:

*(In thousands of other currencies)*

| <b>Borrowing date</b> | <b>Hedging Instrument (Hedged item)</b>   | <b>Hedged risk</b>    | <b>Financial institution</b>  | <b>Duration of contract</b>  |
|-----------------------|---|-----------------------|-------------------------------|------------------------------|
| Jun 12, 2012          | Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds with face value of CHF 300,000) | Foreign currency risk | Citibank and four other banks | Jun. 12, 2012 ~ Jun.12, 2017 |

**14. Share Capital and Capital Surplus and Others**

The Company's outstanding share capital consists entirely of common stocks with a par value of 500. The number of authorized, issued and outstanding common stocks and the details of capital surplus and others as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won, except for share data)*

|                                    | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|------------------------------------|---------------------------|--------------------------|
| Number of authorized shares        | 220,000,000               | 220,000,000              |
| Number of issued shares            | 80,745,711                | 80,745,711               |
| <b>Share capital:</b>              |                           |                          |
| Common stock                       | 44,639                    | 44,639                   |
| <b>Capital surplus and others:</b> |                           |                          |
| Paid-in surplus                    | 2,915,887                 | 2,915,887                |
| Treasury shares                    | (2,260,626)               | (2,260,626)              |
| Hybrid bonds                       | 398,518                   | 398,518                  |
| Share option (Note 15)             | 279                       |                          |
| Others                             | (682,298)                 | (682,298)                |
|                                    | <b>371,760</b>            | <b>371,481</b>           |

There were no changes in share capital for the nine-month periods ended September 30, 2017 and 2016 and details of shares outstanding as of September 30, 2017 and 2016 are as follows:

*(In shares)*

|               | September 30, 2017 |                   |                       | September 30, 2016 |                   |                       |
|---------------|--------------------|-------------------|-----------------------|--------------------|-------------------|-----------------------|
|               | Issued<br>shares   | Treasury<br>stock | Outstanding<br>shares | Issued<br>shares   | Treasury<br>stock | Outstanding<br>shares |
| Issued shares | 80,745,711         | 10,136,551        | 70,609,160            | 80,745,711         | 10,136,551        | 70,609,160            |

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**15. 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 in the Company. The terms and conditions related to the grants of the share options under the share option program are as follows:

|                              | <b>1-1</b>                                | <b>1-2</b>                                | <b>1-3</b>                                |
|------------------------------|---|---|---|
| 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                                   |
| Exercise period              | Mar. 25, 2019<br>~ Mar. 24,<br>2022       | Mar. 25, 2020<br>~ Mar. 24,<br>2023       | Mar. 25, 2021<br>~ Mar. 24,<br>2024       |
| Vesting conditions           | 2 years service<br>from the grant<br>date | 3 years service<br>from the grant<br>date | 4 years service<br>from the grant<br>date |

- (2) Share compensation expense recognized during the nine-month period ended September 30, 2017 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

| <i>(In millions of won)</i>                              | <b>Share<br/>compensation expense</b> |
|--|---------------------------------------|
| During the nine-month period ended<br>September 30, 2017 | 279                                   |
| In subsequent periods                                    | 1,112                                 |
|  | <b>1,391</b>                          |

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

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|  | <b>1-1</b> | <b>1-2</b> | <b>1-3</b> |
|--|------------|------------|------------|
| Risk-free interest rate                                    | 1.86%      | 1.95%      | 2.07%      |
| Estimated option s life                                    | 5 years    | 6 years    | 7 years    |
| Share price<br>(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    |
| Fair value per share (in won)                              | 27,015     | 20,240     | 15,480     |

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**16. Retained Earnings**

Retained earnings as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|   | September 30, 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                              | 1,100,741          | 1,122,868         |
|   | 14,365,499         | 13,902,627        |

**17. Reserves**

(1) Details of reserves, net of taxes, as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|   | September 30, 2017 | December 31, 2016 |
|---|--------------------|-------------------|
| Valuation gain on available-for-sale financial assets | 122,898            | 28,963            |
| Valuation loss on derivatives                         | (80,042)           | (90,756)          |
|   | 42,856             | (61,793)          |

(2) Changes in reserves for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)***For the nine-month period ended September 30, 2017**

|                               | <b>Valuation gain<br/>on available-for-<br/>sale<br/>financial<br/>assets</b> | <b>Valuation gain<br/>(loss) on<br/>derivatives</b> | <b>Total</b> |
|-------------------------------|---|---|--------------|
| Balance at January 1, 2017    | 28,963  | (90,756)  | (61,793)     |
| Changes, net of taxes         | 93,935  | 10,714  | 104,649      |
| Balance at September 30, 2017 | 122,898   | (80,042)  | 42,856       |

*(In millions of won)***For the nine-month period ended September 30, 2016**

|                               | <b>Valuation gain<br/>on<br/>available-for-<br/>sale<br/>financial<br/>assets</b> | <b>Valuation<br/>loss<br/>on<br/>derivatives</b> | <b>Total</b> |
|-------------------------------|---|--|--------------|
| Balance at January 1, 2016    | 23,578  | (76,806)   | (53,228)     |
| Changes, net of taxes         | 64,704  | (15,518)   | 49,186       |
| Balance at September 30, 2016 | 88,282  | (92,324)   | (4,042)      |



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**18. Other Operating Expenses**

Details of other operating expenses for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | 2017   |   | 2016   |   |
|--|--|---|--|---|
|  | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| <b>Other Operating Expenses:</b>         |  |   |  |   |
| Communication                            | 6,052  | 18,540  | 6,698  | 22,240  |
| Utilities                                | 63,630   | 170,146                                       | 57,956   | 158,353                                       |
| Taxes and dues                           | 7,644  | 14,918  | 7,235  | 16,542  |
| Repair                                   | 58,249   | 165,021                                       | 54,105   | 155,965                                       |
| Research and development                 | 77,075   | 221,814                                       | 66,098   | 199,616                                       |
| Training                                 | 6,679  | 16,009  | 5,487  | 15,478  |
| Bad debt for accounts receivable - trade | 2,002  | 10,354  | 2,474  | 14,198  |
| Other                                    | 10,146   | 29,034  | 12,998   | 36,008  |
|  | 231,477  | 645,836                                       | 213,051  | 618,400                                       |

**19. Other Non-operating Income and Expenses**

Details of other non-operating income and expenses for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | 2017   |   | 2016   |   |
|--|--|---|--|---|
|  | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| <b>Other Non-operating Income:</b>                               |  |   |  |   |
| Gain on disposal of property and equipment and intangible assets | 2,461  | 7,025   | 1,663  | 2,533   |
| Others   | 3,484  | 6,290   | 5,076  | 41,534  |

|  |       |        |       |        |
|--|-------|--------|-------|--------|
|  | 5,945 | 13,315 | 6,739 | 44,067 |
|--|-------|--------|-------|--------|

**Other Non-operating Expenses:**

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Loss on disposal of property and equipment and intangible assets | 5,149  | 8,804  | 18,080 | 28,050 |
| Donations  | 27,202 | 57,896 | 17,444 | 58,091 |
| Bad debt for accounts receivable - other                         |        | 227    | 4,196  | 7,609  |
| Others   | 452    | 3,384  | 4,315  | 6,108  |
|  | 32,803 | 70,311 | 44,035 | 99,858 |

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For the nine-month periods ended September 30, 2017 and 2016

**20. Finance Income and Costs**

- (1) Details of finance income and costs for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|   | 2017   |   | 2016   |   |
|---|--|---|--|---|
|   | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| <b>Finance Income:</b>  |  |   |  |   |
| Interest income   | 12,766   | 42,164  | 9,644  | 21,862  |
| Gain on sale of accounts receivable - trade                                 | 4,414  | 13,504  | 4,853  | 12,708  |
| Dividends   | 1,833  | 101,256                                       | 16,591   | 113,024                                       |
| Gain on foreign currency transactions                                       | 2,798  | 8,235   | 1,444  | 7,045   |
| Gain on foreign currency translations                                       | 392  | 132   |  | 43  |
| Gain relating to financial liabilities at fair value through profit or loss |  |   | 1,048  | 1,225   |
| Gain relating to financial assets at fair value through profit or loss      |  | 142   |  |   |
| Gain on disposal of long-term investment securities                         | 790  | 3,148   | 2,476  | 4,227   |
| Gain on valuation of derivatives  | 364  | 1,195   | 1,024  | 4,708   |
|   | 23,357   | 169,776                                       | 37,080   | 164,842                                       |

*(In millions of won)*

|   | 2017   |   | 2016   |   |
|---|--|---|--|---|
|   | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| <b>Finance Costs:</b>                               |  |   |  |   |
| Interest expense                                    | 58,755   | 182,351                                       | 62,040   | 178,747                                       |
| Loss on foreign currency transactions               | 3,004  | 9,448   | 5,060  | 10,100  |
| Loss on foreign currency translations               |  | 45  | 1,588  | 1,860   |
| Loss on disposal of long-term investment securities | 138  | 694   | 108  | 152   |

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|   |        |         |        |         |
|---|--------|---------|--------|---------|
| Loss on settlement of derivatives   |        | 8,910   | 1,518  | 1,837   |
| Loss relating to financial assets at fair value through profit or loss      | 323    |         | 532    | 910     |
| Loss relating to financial liabilities at fair value through profit or loss | 38     | 567     |        |         |
| Others  | 2,030  | 2,030   |        | 815     |
|   | 64,288 | 204,045 | 70,846 | 194,421 |

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For the nine-month periods ended September 30, 2017 and 2016

**20. Finance Income and Costs, Continued**

- (2) Details of interest income included in finance income for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | 2017   |   | 2016   |   |
|--|--|---|--|---|
|  | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| Interest income on cash equivalents and short-term financial instruments | 3,794  | 11,259  | 1,908  | 5,658   |
| Interest income on installment receivables and others                    | 8,972  | 30,905  | 7,736  | 16,204  |
|  | 12,766   | 42,164  | 9,644  | 21,862  |

- (3) Details of interest expenses included in finance costs for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                                 | 2017   |   | 2016   |   |
|---------------------------------|--|---|--|---|
|                                 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| Interest expenses on borrowings | 1,340  | 5,321   | 922  | 4,193   |
| Interest expenses on debentures | 43,495   | 133,528                                       | 49,763   | 147,017                                       |
| Others                          | 13,920   | 43,502  | 11,355   | 27,537  |
|                                 | 58,755   | 182,351                                       | 62,040   | 178,747                                       |

- (4) Details of impairment losses on financial assets for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                                     | 2017   |   | 2016   |   |
|-------------------------------------|--|---|--|---|
|                                     | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| Accounts receivable - trade         | 2,002  | 10,354  | 2,474  | 14,198  |
| Other receivables                   |  | 227   | 4,196  | 7,609   |
| Available-for-sale financial assets | 2,030  | 2,030   |  | 815   |
|                                     | 4,032  | 12,611  | 6,670  | 22,622  |

**21. Income Tax Expense**

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

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**22. Earnings per Share**

## (1) Basic earnings per share

- 1) Basic earnings per share for the nine-month periods ended September 30, 2017 and 2016 are calculated as follows:

*(In millions of won, shares)*

|  | 2017                                  |                                      | 2016                                  |                                      |
|--|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|
|  | Three-month period ended September 30 | Nine-month period ended September 30 | Three-month period ended September 30 | Nine-month period ended September 30 |
| Profit for the period                                | 478,715                               | 1,180,971                            | 324,583                               | 990,933                              |
| Interest on hybrid bond                              |                                       | (8,420)                              |                                       | (8,420)                              |
| Profit for the period available for common shares    | 478,715                               | 1,172,551                            | 324,583                               | 982,513                              |
| Weighted average number of common shares outstanding | 70,609,160                            | 70,609,160                           | 70,609,160                            | 70,609,160                           |
| Basic earnings per share (in won)                    | 6,780                                 | 16,606                               | 4,597                                 | 13,915                               |

- 2) The weighted average number of common shares outstanding for the nine-month periods ended September 30, 2017 and 2016 are calculated as follows:

*(In shares)*

|  | Number of shares | Weighted number of shares             |                                      |
|--|------------------|---------------------------------------|--------------------------------------|
|  |                  | Three-month period ended September 30 | Nine-month period ended September 30 |
| Issued common shares at January 1, 2017                                    | 80,745,711       | 80,745,711                            | 80,745,711                           |
| Effect of treasury shares  | (10,136,551)     | (10,136,551)                          | (10,136,551)                         |
| Weighted average number of common shares outstanding at September 30, 2017 | 70,609,160       | 70,609,160                            | 70,609,160                           |

*(In shares)*

|   |                         | <b>Weighted number of shares</b>             |   |
|---|-------------------------|--|---|
|   | <b>Number of shares</b> | <b>Three-month period ended September 30</b> | <b>Nine-month period ended September 30</b> |
| Issued common shares at January 1, 2016   | 80,745,711              | 80,745,711                                   | 80,745,711                                  |
| Effect of treasury shares   | (10,136,551)            | (10,136,551)                                 | (10,136,551)                                |
| <b>Weighted average number of common shares outstanding at September 30, 2016</b> | <b>70,609,160</b>       | <b>70,609,160</b>                            | <b>70,609,160</b>                           |

## (2) Diluted earnings per share

For the nine-month periods ended September 30, 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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**23. Categories of Financial Instruments**

(1) Financial assets by category as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                  | <b>September 30, 2017</b>  |   |                                  |   |              |
|----------------------------------|--|---|----------------------------------|---|--------------|
|                                  | <b>Financial<br/>assets<br/>at<br/>fair<br/>value<br/>through<br/>profit or loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivatives<br/>designated as<br/>hedging<br/>instrument</b> | <b>Total</b> |
| Cash and cash equivalents        |  |   | 901,921                          |   | 901,921      |
| Financial instruments            |  |   | 94,382                           |   | 94,382       |
| Short-term investment securities |  | 47,402  |                                  |   | 47,402       |
| Long-term investment securities  |  | 682,189   |                                  |   | 682,189      |
| Accounts receivable - trade      |  |   | 1,548,543                        |   | 1,548,543    |
| Loans and other receivables(*2)  |  |   | 1,275,074                        |   | 1,275,074    |
| Derivative financial assets      | 8,563  |   |                                  | 85,597  | 94,160       |
|                                  | 8,563  | 729,591   | 3,819,920                        | 85,597  | 4,643,671    |

*(In millions of won)*

|                                     | <b>December 31, 2016</b>   |   |                                  |   |              |
|-------------------------------------|--|---|----------------------------------|---|--------------|
|                                     | <b>Financial<br/>assets<br/>at<br/>fair<br/>value<br/>through<br/>profit or loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivatives<br/>designated as<br/>hedging<br/>instrument</b> | <b>Total</b> |
| 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 or loss since the fair value of embedded derivative (conversion right) could not be separately measured.

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**23. Categories of Financial Instruments, Continued**

(1) Financial assets by category as of September 30, 2017 and December 31, 2016 are as follows, Continued:

(\*2) Details of loans and other receivables as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                     | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|-------------------------------------|---------------------------|--------------------------|
| Short-term loans                    | 65,827                    | 54,143                   |
| Accounts receivable other           | 791,041                   | 772,570                  |
| Accrued income                      | 654                       | 460                      |
| Long-term loans                     | 8,407                     | 11,160                   |
| Long-term accounts receivable other | 240,750                   | 147,139                  |
| Guarantee deposits                  | 168,395                   | 173,287                  |
|                                     | <b>1,275,074</b>          | <b>1,158,759</b>         |

(2) Financial liabilities by category as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|  | <b>September 30, 2017</b>   |   |   |                  |
|--|---|---|---|------------------|
|  | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities measured at amortized cost</b> | <b>Derivatives designated as hedging instrument</b> | <b>Total</b>     |
| Derivative financial liabilities         |   |   | 62,403  | 62,403           |
| Borrowings                               |   | 64,841  |   | 64,841           |
| Debentures (*1)                          | 60,167  | 5,488,136   |   | 5,548,303        |
| Accounts payable - other and others (*2) |   | 3,552,481   |   | 3,552,481        |
|  | <b>60,167</b>   | <b>9,105,458</b>  | <b>62,403</b>                                       | <b>9,228,028</b> |

*(In millions of won)*

|  | <b>December 31, 2016</b>  |   |   |              |
|--|---|---|---|--------------|
|  | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities measured at amortized cost</b> | <b>Derivatives designated as hedging instrument</b> | <b>Total</b> |
| 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    |

(\*1) Bonds classified as financial liabilities at fair value through profit or loss as of September 30, 2017 and December 31, 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.

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**23. Categories of Financial Instruments, Continued**

(2) Financial liabilities by category as of September 30, 2017 and December 31, 2016 are as follows, Continued:

(\*2) Details of accounts payable - other and others as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|   | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|---|---------------------------|--------------------------|
| Accounts payable - other                      | 1,147,320                 | 1,546,252                |
| Withholdings                                  | 40                        | 40                       |
| Accrued expenses                              | 749,816                   | 663,918                  |
| Current portion of long-term payables - other | 300,464                   | 301,773                  |
| Long-term payables - other                    | 1,322,936                 | 1,602,943                |
| Other non-current liabilities                 | 31,905                    | 35,206                   |
|   | <b>3,552,481</b>          | <b>4,150,132</b>         |

**24. 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, and 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.

Monetary assets and liabilities denominated in foreign currencies as of September 30, 2017 are as follows:

*(In millions of won, thousands of foreign currencies)*

|        | Assets             |                 | Liabilities        |                 |
|--------|--------------------|-----------------|--------------------|-----------------|
|        | Foreign currencies | Won translation | Foreign currencies | Won translation |
| USD    | 42,950             | 49,251          | 1,451,154          | 1,664,038       |
| EUR    | 28,211             | 38,109          | 31                 | 42              |
| JPY    | 16,340             | 167             |                    |                 |
| AUD    |                    |                 | 299,930            | 269,949         |
| Others |                    | 602             |                    |                 |
|        |                    | 88,129          |                    | 1,934,029       |

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For the nine-month periods ended September 30, 2017 and 2016

**24. Financial Risk Management, Continued**

## (1) Financial risk management, Continued

## 1) Market risk, Continued

## (i) Currency risk, Continued

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

As of September 30, 2017, a hypothetical change in exchange rates by 10% would have increased (reduced) the Company's income before income taxes as follows:

| <i>(In millions of won)</i> | <b>If increased by 10%</b> | <b>If decreased by 10%</b> |
|-----------------------------|----------------------------|----------------------------|
| USD                         | 4,811                      | (4,811)                    |
| EUR                         | 3,807                      | (3,807)                    |
| JPY                         | 17                         | (17)                       |
| Others                      | 60                         | (60)                       |
|                             | <b>8,695</b>               | <b>(8,695)</b>             |

## (ii) Equity price risk

The Company has listed and non-listed equity securities for its liquidity management and operating purpose. As of September 30, 2017, available-for-sale equity instruments measured at fair value amount to 595,685 million.

## (iii) Interest rate risk

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

the changes in market interest rates.

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

As of September 30, 2017, floating-rate debentures amount to 344,010 million and the Company has entered into interest rate swaps to hedge interest rate risk related to floating-rate debentures. Therefore, income before income taxes for the nine-month period ended September 30, 2017 would not have been affected by the changes in interest rates of floating-rate borrowings and debentures.



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**24. Financial Risk Management, Continued**

(1) Financial risk management, Continued

2) Credit risk

The maximum credit exposure as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|   | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|---|---------------------------|--------------------------|
| Cash and cash equivalents                             | 901,859                   | 874,310                  |
| Financial instruments                                 | 94,382                    | 95,102                   |
| Available-for-sale financial assets                   | 900                       | 2,930                    |
| Accounts receivable trade                             | 1,548,543                 | 1,594,504                |
| Loans and other receivables                           | 1,275,074                 | 1,158,759                |
| Derivative financial assets                           | 94,160                    | 176,465                  |
| Financial assets at fair value through profit or loss |                           | 7,359                    |
|   | <b>3,914,918</b>          | <b>3,909,429</b>         |

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

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

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been 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 from transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Company has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Company is the carrying amount of financial assets as of September 30, 2017.

## 3) Liquidity risk

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

Contractual maturities of financial liabilities as of September 30, 2017 are as follows:

*(In millions of won)*

|                                     | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Less than<br/>1 year</b> | <b>1 - 5 years</b> | <b>More<br/>than<br/>5 years</b> |
|-------------------------------------|----------------------------|-----------------------------------|-----------------------------|--------------------|----------------------------------|
| Borrowings(*)                       | 64,841                     | 69,685                            | 14,414                      | 55,271             |                                  |
| Debentures(*)                       | 5,548,303                  | 6,608,764                         | 1,528,623                   | 2,267,801          | 2,812,340                        |
| Accounts payable - other and others | 3,552,481                  | 3,717,555                         | 2,212,685                   | 1,094,692          | 410,178                          |
|                                     | 9,165,625                  | 10,396,004                        | 3,755,722                   | 3,417,764          | 3,222,518                        |

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For the nine-month periods ended September 30, 2017 and 2016

**24. Financial Risk Management, Continued**

(1) Financial risk management, Continued

3) Liquidity risk, Continued

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 September 30, 2017, periods in which cash flows from cash flow hedge derivatives are expected to occur are as follows:

*(In millions of won)*

|             | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Less<br/>than<br/>1 year</b> | <b>1 - 5 years</b> | <b>More than<br/>5 years</b> |
|-------------|----------------------------|-----------------------------------|---------------------------------|--------------------|------------------------------|
| Assets      | 85,597                     | 87,103                            | 30,553                          | 48,036             | 8,514                        |
| Liabilities | (62,403)                   | (62,551)                          | (62,551)                        |                    |                              |
|             | 23,194                     | 24,552                            | (31,998)                        | 48,036             | 8,514                        |

(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 from the financial statements.

Debt-equity ratio as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                    | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|--------------------|---------------------------|--------------------------|
| Total liabilities  | 10,161,173                | 11,191,620               |
| Total equity       | 14,824,754                | 14,256,954               |
| Debt-equity ratios | 68.54%                    | 78.50%                   |

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For the nine-month periods ended September 30, 2017 and 2016

**24. Financial Risk Management, Continued**

## (3) Fair value

- 1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of September 30, 2017 are as follows:

*(In millions of won)*

|   | Carrying<br>amount | September 30, 2017 |           |         | Total     |
|---|--------------------|--------------------|-----------|---------|-----------|
|   |                    | Level 1            | Level 2   | Level 3 |           |
| <b>Financial assets that are measured at fair value:</b>          |                    |                    |           |         |           |
| Financial assets at fair value through profit or loss             | 8,563              |                    | 8,563     |         | 8,563     |
| Derivative financial assets                                       | 85,597             |                    | 85,597    |         | 85,597    |
| Available-for-sale financial assets                               | 595,685            | 545,333            | 47,402    | 2,950   | 595,685   |
|   | 689,845            | 545,333            | 141,562   | 2,950   | 689,845   |
| <b>Financial liabilities that are measured at fair value:</b>     |                    |                    |           |         |           |
| Financial liabilities at fair value through profit or loss        | 60,167             |                    | 60,167    |         | 60,167    |
| Derivative financial liabilities                                  | 62,403             |                    | 62,403    |         | 62,403    |
|   | 122,570            |                    | 122,570   |         | 122,570   |
| <b>Financial liabilities that are not measured at fair value:</b> |                    |                    |           |         |           |
| Borrowings  | 64,841             |                    | 66,134    |         | 66,134    |
| Debentures  | 5,488,136          |                    | 5,817,482 |         | 5,817,482 |
| Long-term payables - other  | 1,623,400          |                    | 1,748,929 |         | 1,748,929 |
|   | 7,176,377          |                    | 7,632,545 |         | 7,632,545 |

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**24. 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)*

|   | <b>December 31, 2016</b>   |                |                |                |              |
|---|----------------------------|----------------|----------------|----------------|--------------|
|   | <b>Carrying<br/>amount</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Financial assets that are measured at fair value:</b>          |                            |                |                |                |              |
| 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      |
| <b>Financial liabilities that are measured at fair value:</b>     |                            |                |                |                |              |
| 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      |
| <b>Financial liabilities that are not measured at fair value:</b> |                            |                |                |                |              |
| 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 133,906 million and 128,456 million as of September 30, 2017 and December 31, 2016, respectively, are measured at cost in accordance with K-IFRS 1039 since they are equity instruments which do not have quoted price in an active market for the identical instruments and for which fair value

cannot be reliably measured using other valuation methods.

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**24. 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 September 30, 2017 are as follows:

|                            | <b>Interest rate</b> |
|----------------------------|----------------------|
| Derivative instruments     | 1.22 ~ 1.89%         |
| Borrowings and debentures  | 2.28 ~ 2.36%         |
| Long-term payables - other | 2.00 ~ 2.44%         |

- 3) There have been no transfers between Level 2 to Level 1 for the nine-month period ended September 30, 2017 and changes of financial assets classified as Level 3 for the nine-month period ended September 30, 2017 are as follows:

(In millions of won)

|   | <b>Balance<br/>at<br/>January 1,<br/>2017</b> | <b>Gain for the<br/>period</b> | <b>Other<br/>comprehensive<br/>loss</b> | <b>Disposals</b> | <b>Balance<br/>at<br/>September 30,<br/>2017</b> |
|---|---|--------------------------------|---|------------------|--|
| Financial assets at fair value through profit or loss | 7,359   | 142                            |   | (7,501)          |  |
| Available-for-sale financial assets                   | 3,305   |                                | (355)                                   |                  | 2,950  |





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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**24. 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 September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                               |                  | <b>September 30, 2017</b>                     |                      |   |  |                   |
|-------------------------------|------------------|---|----------------------|---|--|-------------------|
|                               |                  | <b>Gross financial instruments recognized</b> | <b>Amount offset</b> | <b>Net financial instruments presented on the statement of financial position</b> | <b>Relevant financial instruments not offset</b> | <b>Net amount</b> |
| <b>Financial assets:</b>      |                  |   |                      |   |  |                   |
| Derivatives(*)                |                  | 27,500  |                      | 27,500  | (27,500)   |                   |
| Accounts receivable           | trade and others | 85,329  | (84,921)             | 408   |  | 408               |
|                               |                  | 112,829                                       | (84,921)             | 27,908  | (27,500)   | 408               |
| <b>Financial liabilities:</b> |                  |   |                      |   |  |                   |
| Derivatives(*)                |                  | 62,403  |                      | 62,403  | (27,500)   | 34,903            |
| Accounts payable              | other and others | 84,921  | (84,921)             |   |  |                   |
|                               |                  | 147,324                                       | (84,921)             | 62,403  | (27,500)   | 34,903            |

*(In millions of won)*

|                          |  | <b>December 31, 2016</b>                      |                      |   |  |                   |
|--------------------------|--|---|----------------------|---|--|-------------------|
|                          |  | <b>Gross financial instruments recognized</b> | <b>Amount offset</b> | <b>Net financial instruments presented on the statement of financial position</b> | <b>Relevant financial instruments not offset</b> | <b>Net amount</b> |
| <b>Financial assets:</b> |  |   |                      |   |  |                   |

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|                               |                  |         |           |        |          |        |
|-------------------------------|------------------|---------|-----------|--------|----------|--------|
| 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 | (74,708) | 7,512  |
| <b>Financial liabilities:</b> |                  |         |           |        |          |        |
| Derivatives(*)                |                  | 86,950  |           | 86,950 | (74,708) | 12,242 |
| Accounts payable              | other and others | 103,250 | (103,250) |        |          |        |
|                               |                  | 190,200 | (103,250) | 86,950 | (74,708) | 12,242 |

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

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**25. Related Parties and Others**

(1) List of related parties

| <b>Relationship</b>         | <b>Company</b>  |
|-----------------------------|---|
| Ultimate Controlling Entity | SK Holdings Co., Ltd.   |
| Subsidiaries                | SK Planet Co., Ltd. and 38 others(*)                                |
| Joint ventures              | Dogus Planet, Inc. and 5 others                                     |
| Associates                  | SK hynix Inc. and 43 others   |
| Others                      | The Ultimate Controlling Entity's subsidiaries and associates, etc. |

(\*) As of September 30, 2017, subsidiaries of the Company are as follows:

| <b>Company</b>                           | <b>Ownership<br/>percentage(%)(*1)</b> | <b>Types of business</b>   |
|--|--|--|
| Subsidiaries owned by the Company        |  |  |
| SK Telink Co., Ltd.                      | 85.9                                   | Telecommunication and MVNO service                                   |
| SK Communications Co., Ltd.(*2)          | 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 association   |
| Atlas Investment                         | 100.0                                  | Investment association   |
| SKT Americas, Inc.                       | 100.0                                  | Information gathering and consulting                                 |
| Entrix Co., Ltd.                         | 100.0                                  | Cloud streaming service  |
| SK techx Co., Ltd.                       | 100.0                                  | System software development and supply                               |
| One Store Co., Ltd.                      | 65.5                                   | Telecommunication services   |
| SK Planet Co., Ltd.                      | 98.1                                   | Telecommunication services   |
| IRIVER LIMITED                           | 45.9                                   | Manufacturing digital audio players and other portable media devices |

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|                       |  |       |   |
|-----------------------|--|-------|---|
| Subsidiaries owned by | SK m&service Co.,Ltd.<br>(formerly, M&Service Co., Ltd.) | 100.0 | Database and internet website service                         |
| SK Planet Co., Ltd.   | SK Planet Japan, K. K.                                   | 79.5  | Digital contents sourcing service                             |
|                       | SK Planet Global PTE. Ltd.                               | 100.0 | Digital contents sourcing service                             |
|                       | SKP GLOBAL HOLDINGS PTE. LTD.                            | 100.0 | Investment  |
|                       | SKP America LLC.   | 100.0 | Digital contents sourcing service                             |
|                       | shopkick Management Company, Inc.                        | 100.0 | Investment  |
|                       | shopkick, Inc.   | 100.0 | Reward points-based in-store shopping application development |
|                       | Planet11 E-commerce Solutions India Pvt. Ltd.            | 99.0  | Electronic commerce platform service                          |
|                       | 11street (Thailand) Co., Ltd.                            | 100.0 | Electronic commerce   |
|                       | Hello Nature Ltd.  | 100.0 | Retail of agro-fisheries and livestock                        |
| Subsidiaries owned by | iriver Enterprise Ltd.                                   | 100.0 | Management of Chinese subsidiaries                            |
|                       | iriver Inc.  | 100.0 | Marketing and sales in North America                          |
|                       | iriver China Co., Ltd.                                   | 100.0 | Sales and manufacturing MP3 and 4                             |
| IRIVER LIMITED        | Dongguan iriver Electronics Co., Ltd.                    | 100.0 | Sales and Manufacturing of e-book                             |
|                       | 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                                     |

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**25. Related Parties and Others, Continued**

(1) List of related parties, Continued

(\*) As of September 30, 2017, subsidiaries of the Company are as follows, Continued:

|                              | <b>Company</b>   | <b>Ownership<br/>percentage(%)(*1)</b> | <b>Types of business</b>                               |
|------------------------------|--|--|--|
| Subsidiaries<br>owned by     | NSOK Co., Ltd.<br><br>(formerly, Neosnetworks Co., Ltd.)(*3) | 100.0                                  | Security and maintenance services                      |
| SK Telink<br>Co., Ltd.       |  |  |  |
| Subsidiaries<br>owned by     | K-net Culture and Contents Venture<br>Fund                   | 59.0                                   | Capital investing in startups                          |
| SK techx<br>Co., Ltd.        |  |  |  |
| Subsidiaries<br>owned by     | Home & Service Co., Ltd.(*4)                                 | 100.0                                  | Operation of information and<br>communication facility |
| SK<br>Broadband<br>Co., Ltd. |  |  |  |
| Others(*5)                   | SK Telecom Innovation Fund, L.P.                             | 100.0                                  | Investment   |
|                              | SK Telecom China Fund I L.P.                                 | 100.0                                  | Investment   |

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

(\*2) 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 other 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 and the Company wholly owns SK Communications Co., Ltd. as of September 30, 2017.

(\*3) During the nine-month period ended September 30, 2017, Neosnetworks Co., Ltd. changed its name to NSOK Co., Ltd.

(\*4) Home & Service Co., Ltd. was newly established by SK Boradband Co., Ltd. during the nine-month period ended September 30, 2017.

(\*5) Others are owned together by Atlas Investment and one other subsidiary of the Parent Company. For the periods presented, the Company belongs to SK Group, a conglomerate as defined in the *Monopoly Regulation and Fair Trade Act of the Republic of Korea*. All of the other entities included in SK Group are considered related parties of the Company.

(2) Compensation for the key management

The Company considers registered directors who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i>    | 2017   |   | 2016   |   |
|--------------------------------|--|---|--|---|
|                                | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| Salaries                       | 332  | 1,831   | 220  | 1,421   |
| Defined benefits plan expenses | 83   | 175   | 48   | 376   |
| Share option                   | 135  | 279   |  |   |
|                                | 550  | 2,285   | 268  | 1,797   |

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

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**25. Related Parties and Others, Continued**

- (3) Transactions with related parties for the nine-month periods ended September 30, 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 |                                 |
|                    |                                  | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30      | Nine-month period ended Sep. 30 |
| Ultimate           |                                  |                                  |                                 |                                  |                                 |                                       |                                 |
| Controlling Entity | SK Holdings Co., Ltd.(*1)        | 3,495                            | 8,318                           | 72,907                           | 403,186                         | 15,563                                | 76,573                          |
| Subsidiaries       | SK Broadband Co., Ltd.           | 31,284                           | 87,555                          | 130,463                          | 407,652                         | 16,659                                | 19,523                          |
|                    | PS&Marketing Corporation(*2)     | 2,924                            | 10,078                          | 381,426                          | 1,067,792                       | 62                                    | 542                             |
|                    | Network O&S Co., Ltd.            | 1,483                            | 3,412                           | 42,974                           | 151,147                         | 15,552                                | 19,973                          |
|                    | SK Planet Co., Ltd.              | 7,325                            | 21,388                          | 11,351                           | 22,860                          | 20                                    | 56                              |
|                    | SK Telink Co., Ltd.              | 16,277                           | 46,855                          | 5,229                            | 14,280                          |                                       |                                 |
|                    | Service Ace Co., Ltd.            | 1,986                            | 5,954                           | 31,472                           | 96,789                          |                                       |                                 |
|                    | Service Top Co., Ltd.            | 2,097                            | 6,341                           | 34,411                           | 102,873                         |                                       |                                 |
|                    | SK techx Co., Ltd                | 3,513                            | 4,591                           | 46,956                           | 141,053                         | 1,605                                 | 1,887                           |
|                    | Others                           | 6,735                            | 20,894                          | 21,609                           | 41,451                          | 1,269                                 | 2,204                           |
|                    |                                  | 73,624                           | 207,068                         | 705,891                          | 2,045,897                       | 35,167                                | 44,185                          |
| Associates         | F&U Credit information Co., Ltd. | 401                              | 1,221                           | 10,671                           | 33,535                          |                                       | 37                              |
|                    | HappyNarae Co., Ltd.             | 26                               | 29                              | 2,754                            | 10,741                          | 21,553                                | 34,035                          |
|                    | SK hynix Inc.(*3)                | 17,424                           | 114,661                         | 10                               | 156                             |                                       |                                 |
|                    | KEB HanaCard Co., Ltd.           | 4,455                            | 13,629                          | 3,780                            | 11,223                          |                                       |                                 |
|                    | Others(*4)                       | 288                              | 2,476                           | 537                              | 26,026                          |                                       | 151                             |



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|       |   |         |         |         |           |         |         |
|-------|---|---------|---------|---------|-----------|---------|---------|
|       |   | 22,594  | 132,016 | 17,752  | 81,681    | 21,553  | 34,223  |
| Other | SK Engineering & Construction Co., Ltd. | 476     | 2,818   | 98      | 239       |         |         |
|       | SK Innovation Co., Ltd.                 | 1,533   | 4,476   | 183     | 673       |         |         |
|       | SK Networks Co., Ltd.                   | 4,816   | 12,129  | 3,670   | 11,930    | 390     | 671     |
|       | SK Networks service Co., Ltd.           | 161     | 161     | 17,603  | 35,422    | 522     | 824     |
|       | SK Telesys Co., Ltd.                    | 40      | 123     | 491     | 1,210     | 28,208  | 55,771  |
|       | SK TNS Co., Ltd.                        | 25      | 74      | 8,044   | 14,437    | 107,742 | 172,796 |
|       | Others                                  | 2,513   | 7,173   | 11,978  | 35,467    | 2,639   | 4,739   |
|       |   | 9,564   | 26,954  | 42,067  | 99,378    | 139,501 | 234,801 |
|       |   | 109,277 | 374,356 | 838,617 | 2,630,142 | 211,784 | 389,782 |

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**25. Related Parties and Others, Continued**

(3) Transactions with related parties for the nine-month periods ended September 30, 2017 and 2016 are as follows, Continued:

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

(\*2) Operating expenses and others include 532,733 million paid to PS&Marketing Corporation relating to purchase of accounts receivables from the 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.

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**25. Related Parties and Others, Continued**

- (3) Transactions with related parties for the nine-month periods ended September 30, 2017 and 2016 are as follows, Continued:

*(In millions of won)*

| Scope                       | Company                      | Operating revenue and others     |                                 | Operating expense and others     |                                 | 2016<br>Acquisition of property and equipment |                                 | Loans                            | Collection of loans             |                                 |
|-----------------------------|------------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|---|---------------------------------|----------------------------------|---------------------------------|---------------------------------|
|                             |                              | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30              | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Nine-month period ended Sep. 30 |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1)    | 2,199                            | 7,916                           | 81,414                           | 452,059                         | 54,910  | 67,906                          |                                  |                                 |                                 |
| Subsidiaries                | SK Broadband Co., Ltd.       | 30,082                           | 91,535                          | 148,360                          | 401,941                         | 19,835  | 26,934                          |                                  |                                 |                                 |
|                             | PS&Marketing Corporation(*7) | 2,677                            | 8,309                           | 380,030                          | 1,136,983                       | 2,877   | 3,232                           |                                  |                                 |                                 |
|                             | Network O&S Co., Ltd.        | 1,295                            | 4,405                           | 49,008                           | 141,577                         | 5,712   | 8,531                           |                                  |                                 |                                 |
|                             | SK Planet Co., Ltd.          | 7,362                            | 25,800                          | 11,560                           | 127,025                         |   | 331                             |                                  |                                 |                                 |
|                             | SK Telink Co., Ltd.(*2)      | 16,098                           | 50,300                          | 5,069                            | 15,925                          |   |                                 |                                  |                                 |                                 |
|                             | Service Ace Co., Ltd.(*3)    | 7,454                            | 11,341                          | 34,000                           | 101,899                         |   |                                 |                                  |                                 |                                 |
|                             | Service Top Co., Ltd.(*4)    | 9,848                            | 14,232                          | 35,871                           | 109,149                         |   |                                 |                                  |                                 |                                 |
|                             | SK techx Co., Ltd            | 463                              | 891                             | 53,748                           | 124,149                         | 2,421   | 5,019                           |                                  |                                 |                                 |
|                             | Others                       | 7,323                            | 15,321                          | 13,281                           | 37,747                          | 918   | 1,769                           |                                  |                                 |                                 |
|                             |                              | 82,602                           | 222,134                         | 730,927                          | 2,196,395                       | 31,763  | 45,816                          |                                  |                                 |                                 |

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|            |                                    |        |         |        |        |       |       |       |       |       |
|------------|------------------------------------|--------|---------|--------|--------|-------|-------|-------|-------|-------|
| Associates | F&U Credit information Co., Ltd.   | 399    | 1,207   | 10,571 | 30,987 |       |       |       |       |       |
|            | HappyNarae Co., Ltd.               | 20     | 57      | 2,904  | 6,491  | 5,769 | 9,639 |       |       |       |
|            | SK hynix Inc.(*5)                  | 6,979  | 87,652  | 28     | 215    |       |       |       |       |       |
|            | SK Wyverns Baseball Club Co., Ltd. | 284    | 852     | 2      | 14,312 |       |       |       |       |       |
|            | KEB HanaCard Co., Ltd.             | 4,929  | 14,928  | 3,667  | 11,146 |       |       |       |       |       |
|            | Others(*6)                         | 2      | 6,084   | 1,070  | 2,855  | 316   | 359   | 1,100 | 1,290 | 2,990 |
|            |                                    | 12,613 | 110,780 | 18,242 | 66,006 | 6,085 | 9,998 | 1,100 | 1,290 | 2,990 |

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**25. Related Parties and Others, Continued**

- (3) Transactions with related parties for the nine-month periods ended September 30, 2017 and 2016 are as follows, Continued:

*(In millions of won)*

| Scope | Company                                 | Operating revenue and others     |                                 | Operating expense and others     |                                 | 2016<br>Acquisition of property and equipment |                                 | Loans                            | Collection of loans             |                                 |
|-------|---|----------------------------------|---------------------------------|----------------------------------|---------------------------------|---|---------------------------------|----------------------------------|---------------------------------|---------------------------------|
|       |   | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30              | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Nine-month period ended Sep. 30 |
| Other | SK Engineering & Construction Co., Ltd. | 751                              | 3,060                           |                                  | 831                             | 1,245   | 1,890                           |                                  |                                 |                                 |
|       | SK Networks Co., Ltd.                   | 1,297                            | 3,837                           | 3,475                            | 11,690                          |   |                                 |                                  |                                 |                                 |
|       | SK Networks service Co., Ltd.           | 166                              | 662                             | 12,641                           | 35,711                          | 1,492   | 2,024                           |                                  |                                 |                                 |
|       | SK Telesys Co., Ltd.                    | 342                              | 389                             | 1,833                            | 5,593                           | 14,513  | 38,644                          |                                  |                                 |                                 |
|       | SK TNS Co., Ltd.                        | 24                               | 66                              | 10,141                           | 20,656                          | 77,495  | 135,360                         |                                  |                                 |                                 |
|       | Others                                  | 3,780                            | 12,961                          | 5,184                            | 15,077                          | 2,621   | 4,762                           |                                  |                                 |                                 |
|       |   | 6,360                            | 20,975                          | 33,274                           | 89,558                          | 97,366  | 182,680                         |                                  |                                 |                                 |
| Total |   | 103,774                          | 361,805                         | 863,857                          | 2,804,018                       | 190,124                                       | 306,400                         | 1,100                            | 1,290                           | 2,990                           |

(\*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 589,587 million paid to PS&Marketing Corporation relating to purchase of accounts receivables from its sale of handsets.

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**25. Related Parties and Others, Continued**

(4) Account balances with related parties as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

| Scope              | Company                                   | Loans  | September 30, 2017  |   |        |
|--------------------|---|--------|---|---|--------|
|                    |   |        | Accounts receivable<br>Accounts receivable -<br>trade and<br>others | Accounts payable<br>Accounts payable -<br>other and<br>others |        |
| Ultimate           |   |        |   |   |        |
| Controlling Entity | SK Holdings Co., Ltd.                     |        | 662   | 41,588  |        |
| Subsidiaries       | SK Broadband Co., Ltd.                    |        | 17,017  | 51,879  |        |
|                    | PS&Marketing Corporation                  |        | 394   | 125,149   |        |
|                    | Network O&S Co., Ltd.                     |        | 10  | 25,847  |        |
|                    | SK Planet Co., Ltd.                       |        | 4,309   | 33,467  |        |
|                    | SK Telink Co., Ltd.                       |        | 8,641   | 2,419   |        |
|                    | SERVICEACE Co., Ltd.                      |        |   | 10,914  |        |
|                    | SERVICE TOP Co., Ltd.                     |        | 129   | 10,849  |        |
|                    | SK techx Co., Ltd.                        |        |   | 3,546   | 17,019 |
|                    | One Store Co., Ltd.                       |        |   | 677   | 12,554 |
|                    | Others                                    |        |   | 6,868   | 20,829 |
|                    |   |        | 41,591  | 310,926   |        |
| Associates         | HappyNarae Co., Ltd.                      |        | 3   | 297   |        |
|                    | SK hynix Inc.                             |        | 4,752   |   |        |
|                    | Wave City Development Co., Ltd.           |        | 38,412  |   |        |
|                    | Daehan Kanggun BcN Co., Ltd.(*)           | 22,147 |   |   |        |
|                    | KEB HanaCard Co., Ltd.                    |        | 1,455   | 8,036   |        |
|                    | Others                                    | 813    | 899   | 3,573   |        |
|                    |   | 22,960 | 45,521  | 11,906  |        |
| Other              | SK Engineering and Construction Co., Ltd. |        | 257   |   |        |
|                    | SK Networks Co., Ltd.                     |        | 4,340   | 1,064   |        |

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|                                   |        |        |         |
|-----------------------------------|--------|--------|---------|
| SK Networks Services Co.,<br>Ltd. |        |        | 1,220   |
| SK Telesys Co., Ltd.              | 14     |        | 2,745   |
| SK TNS Co., Ltd.                  | 1,979  |        | 138     |
| SK Innovation Co., Ltd.           | 8      |        | 5,720   |
| SK infosec Co., Ltd.              |        |        | 8,728   |
| Others                            | 560    |        | 2,267   |
|                                   |        | 7,158  | 21,882  |
|                                   | 22,960 | 94,932 | 386,302 |

(\*) As of September 30, 2017, the Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as allowances for doubtful accounts.



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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**25. Related Parties and Others, Continued**

- (4) Account balances with related parties as of September 30, 2017 and December 31, 2016 are as follows,  
Continued:

*(In millions of won)*

| Scope              | Company                                   | Loans  | December 31, 2016   |   |        |
|--------------------|---|--------|---|---|--------|
|                    |   |        | Accounts receivable<br>Accounts receivable -<br>trade and<br>others | Accounts payable<br>Accounts payable -<br>other and<br>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   |        |

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|                         |        |         |
|-------------------------|--------|---------|
| SK Telesys Co., Ltd.    | 20     | 863     |
| SK Innovation Co., Ltd. | 1,114  | 427     |
| SK TNS Co., Ltd.        |        | 66,751  |
| Others                  | 1,278  | 19,070  |
|                         | 4,580  | 103,321 |
|                         | 22,960 | 111,142 |
|                         |        | 607,264 |

(\*1) The convertible bonds amounting to 7,359 million are included in accounts receivable - trade and others.

(\*2) As of December 31, 2016, the Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as allowances for doubtful accounts.

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**26. 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 nine-month period ended September 30, 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 868,899 million as of September 30, 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 September 30, 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.

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**27. Statements of Cash Flows**

- (1) Adjustments for income and expenses from operating activities for the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i>   | <b>For the nine-month period ended</b> |                           |
|---|--|---------------------------|
|   | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Gain on foreign currency translations                                       | (132)                                  | (43)                      |
| Interest income   | (42,164)                               | (21,862)                  |
| Dividends   | (101,256)                              | (113,024)                 |
| Gain relating to financial assets at fair value through profit or loss      | (142)                                  |                           |
| Gain on disposal of long-term investment securities                         | (3,148)                                | (4,227)                   |
| Gain on disposal of property and equipment and intangible assets            | (7,025)                                | (2,533)                   |
| Gain on valuation of derivatives  | (1,195)                                | (4,708)                   |
| Gain relating to financial liabilities at fair value through profit or loss |  | (1,225)                   |
| Gain on sale of accounts receivable - trade                                 | (13,504)                               | (12,708)                  |
| Other income  |  | (758)                     |
| Loss on foreign currency translations                                       | 45                                     | 1,860                     |
| Bad debt for accounts receivable - trade                                    | 10,354                                 | 14,198                    |
| Bad debt for accounts receivable - other                                    | 227                                    | 7,609                     |
| Loss on disposal of long-term investments securities                        | 694                                    | 152                       |
| Other finance costs   | 2,030                                  | 815                       |
| Loss relating to financial assets at fair value through profit or loss      |  | 910                       |
| Depreciation and amortization   | 1,862,959                              | 1,731,890                 |
| Loss on disposal of property and equipment and intangible assets            | 8,804                                  | 28,050                    |
| Interest expenses   | 182,351                                | 178,747                   |
| Loss relating to financial liabilities at fair value through profit or loss | 567                                    |                           |
| Loss on settlement of derivatives   | 8,910                                  | 1,837                     |
| Gain (loss) relating to Investments in subsidiaries and associates          | (196,001)                              | 47,618                    |

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|                             |           |           |
|-----------------------------|-----------|-----------|
| Retirement benefit expenses | 29,229    | 28,197    |
| Share option                | 279       |           |
| Income tax expense          | 246,189   | 261,246   |
| Other expenses              | 1,090     | 15,890    |
|                             | 1,989,161 | 2,157,931 |

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SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**27. Statements of Cash Flows, Continued**

- (2) Changes in assets and liabilities from operating activities for the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i>           | <b>For the nine-month period ended</b> |                           |
|---------------------------------------|--|---------------------------|
|                                       | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Accounts receivable trade             | 35,662                                 | (86,273)                  |
| Accounts receivable other             | (4,609)                                | (471,450)                 |
| Advance payments                      | 15,611                                 | 18,666                    |
| Prepaid expenses                      | (5,614)                                | (9,956)                   |
| Inventories                           | 3,884                                  | 5,244                     |
| Long-term accounts receivable - other | (93,611)                               | (226,168)                 |
| Long-term prepaid expenses            | 1,743                                  | 2,532                     |
| Guarantee deposits                    | 9,184                                  | (3,104)                   |
| Accounts payable other                | (38,072)                               | 87,258                    |
| Advanced receipts                     | 2,583                                  | 11,977                    |
| Withholdings                          | (64,905)                               | 147,039                   |
| Deposits received                     | (4,257)                                | 3,189                     |
| Accrued expenses                      | 49,468                                 | 68,874                    |
| Unearned revenue                      | (839)                                  | (9,598)                   |
| Provisions                            | (1,962)                                | (1,188)                   |
| Long-term provisions                  | (2,266)                                |                           |
| Plan assets                           | 5,655                                  | (15,234)                  |
| Retirement benefit payment            | (7,220)                                | (4,192)                   |
| Others                                | (21)                                   | (72)                      |
|                                       | (99,586)                               | (482,456)                 |

- (3) Significant non-cash transactions for the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | <b>For the nine-month period ended</b> |                           |
|-----------------------------|--|---------------------------|
|                             | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
|                             | (360,862)                              | 839,033                   |

Increase (decrease) in accounts payable -  
other relating to the acquisition of property  
and equipment and intangible assets

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**SK TELECOM CO., LTD. AND SUBSIDIARIES**

Condensed Consolidated Interim Financial Statements

(Unaudited)

**September 30, 2017 and 2016**

(With Independent Auditors' Review Report Thereon)



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Independent Auditors' Review Report

Based on a report originally issued in Korean

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

### **Reviewed financial statements**

We have reviewed the accompanying condensed consolidated interim financial statements of SK Telecom Co., Ltd. and its subsidiaries (the Group), which comprise the condensed consolidated statement of financial position as of September 30, 2017, the related condensed consolidated statements of income and comprehensive income for the three and nine-month periods ended September 30, 2017 and 2016, the condensed consolidated statements of changes in equity and cash flows for the nine-month periods ended September 30, 2017 and 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility**

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

### **Auditors' responsibility**

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

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

### **Conclusion**

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

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**Other matters**

The consolidated statement of financial position of the Group as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 22, 2017, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2016, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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

KPMG Samjong Accounting Corp.

Seoul, Korea

November 6, 2017

This report is effective as of November 6, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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SK TELECOM CO., LTD. and Subsidiaries

Condensed Consolidated Statements of Financial Position

As of September 30, 2017 and December 31, 2016

| <i>(In millions of won)</i>                  | Note          | September 30, 2017 | December 31, 2016 |
|--|---------------|--------------------|-------------------|
| <b>Assets</b>                                |               |                    |                   |
| <b>Current Assets:</b>                       |               |                    |                   |
| Cash and cash equivalents                    | 26,27         | 1,447,178          | 1,505,242         |
| Short-term financial instruments             | 26,27,28,29   | 624,280            | 468,768           |
| Short-term investment securities             | 7,26,27       | 87,402             | 107,364           |
| Accounts receivable trade, net               | 5,26,27,28    | 2,128,250          | 2,240,926         |
| Short-term loans, net                        | 5,26,27,28    | 74,406             | 58,979            |
| Accounts receivable other, net               | 5,26,27,28,29 | 1,004,635          | 1,121,444         |
| Prepaid expenses                             |               | 191,160            | 169,173           |
| Short-term derivative financial assets       | 16,26,27      | 21,105             |                   |
| Inventories, net                             | 6             | 248,839            | 259,846           |
| Advance payments and other                   | 5,26,27,28    | 64,939             | 64,886            |
| Assets classified as held for sale           | 8             | 116,095            |                   |
| <b>Total Current Assets</b>                  |               | <b>6,008,289</b>   | <b>5,996,628</b>  |
| <b>Non-Current Assets:</b>                   |               |                    |                   |
| Long-term financial instruments              | 26,27         | 1,219              | 937               |
| Long-term investment securities              | 7,26,27       | 833,103            | 828,521           |
| Investments in associates and joint ventures | 9             | 8,967,630          | 7,404,323         |
| Property and equipment, net                  | 10,28,29      | 9,601,584          | 10,374,212        |
| Goodwill                                     |               | 1,949,682          | 1,932,452         |
| Intangible assets, net                       | 11            | 3,658,195          | 3,776,354         |
| Long-term loans, net                         | 5,26,27,28    | 54,061             | 65,476            |
| Long-term accounts receivable - other        | 5,26,27,29    | 243,348            | 149,669           |
| Long-term prepaid expenses                   |               | 88,122             | 88,130            |
| Guarantee deposits                           | 5,26,27,28    | 290,433            | 298,964           |
| Long-term derivative financial assets        | 16,26,27      | 93,845             | 214,770           |
| Defined benefit assets                       | 15            | 379                | 30,247            |
| Deferred tax assets                          | 24            | 84,133             | 75,111            |
| Other non-current assets                     | 5,26,27       | 49,803             | 61,869            |
| <b>Total Non-Current Assets</b>              |               | <b>25,915,537</b>  | <b>25,301,035</b> |
| <b>Total Assets</b>                          |               | <b>31,923,826</b>  | <b>31,297,663</b> |

*See accompanying notes to the condensed consolidated interim financial statements.*



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SK TELECOM CO., LTD. and Subsidiaries

Condensed Consolidated Statements of Financial Position, Continued

As of September 30, 2017 and December 31, 2016

| <i>(In millions of won)</i>                               | Note     | September 30, 2017 | December 31, 2016 |
|---|----------|--------------------|-------------------|
| <b>Liabilities and Shareholders Equity</b>                |          |                    |                   |
| <b>Current Liabilities:</b>                               |          |                    |                   |
| Short-term borrowings                                     | 12,26,27 | 80,000             | 2,614             |
| Current installments of long-term debt, net               | 12,26,27 | 1,570,714          | 888,467           |
| Current installments of long-term payables - other        | 13,26,27 | 301,002            | 301,773           |
| Accounts payable - trade                                  | 26,27,28 | 257,105            | 402,445           |
| Accounts payable - other                                  | 26,27,28 | 1,262,442          | 1,767,799         |
| Withholdings  | 26,27,28 | 944,358            | 964,084           |
| Accrued expenses  | 26,27    | 1,201,981          | 1,125,816         |
| Income tax payable  | 24       | 190,218            | 474,931           |
| Unearned revenue  |          | 170,415            | 188,403           |
| Provisions  | 14       | 65,353             | 66,227            |
| Receipts in advance                                       |          | 170,621            | 174,588           |
| Derivative financial liabilities                          | 16,26,27 | 62,403             | 86,950            |
| Other current liabilities                                 |          | 29                 | 2                 |
| Liabilities classified as held for sale                   | 8        | 111,095            |                   |
| <b>Total Current Liabilities</b>                          |          | <b>6,387,736</b>   | <b>6,444,099</b>  |
| <b>Non-Current Liabilities:</b>                           |          |                    |                   |
| Debentures, excluding current installments, net           | 12,26,27 | 5,622,461          | 6,338,930         |
| Long-term borrowings, excluding current installments, net | 12,26,27 | 178,030            | 139,716           |
| Long-term payables - other                                | 13,26,27 | 1,342,171          | 1,624,590         |
| Long-term unearned revenue                                |          | 1,816              | 2,389             |
| Defined benefit liabilities                               | 15       | 120,320            | 70,739            |
| Long-term derivative financial liabilities                | 16,26,27 | 379                | 203               |
| Long-term provisions                                      | 14       | 30,097             | 31,690            |
| Deferred tax liabilities                                  | 24       | 719,550            | 479,765           |
| Other non-current liabilities                             | 26,27    | 45,181             | 49,112            |
| <b>Total Non-Current Liabilities</b>                      |          | <b>8,060,005</b>   | <b>8,737,134</b>  |
| <b>Total Liabilities</b>                                  |          | <b>14,447,741</b>  | <b>15,181,233</b> |
| <b>Shareholders Equity</b>                                |          |                    |                   |
| Share capital   | 1,17     | 44,639             | 44,639            |
| Capital surplus and others                                | 17,18    | 196,467            | 199,779           |
| Retained earnings   | 19       | 17,242,404         | 15,953,164        |

|  |    |                   |                   |
|--|----|-------------------|-------------------|
| Reserves   | 20 | (144,046)         | (226,183)         |
| <b>Equity attributable to owners of the Parent Company</b> |    | <b>17,339,464</b> | <b>15,971,399</b> |
| <b>Non-controlling interests</b>                           |    | <b>136,621</b>    | <b>145,031</b>    |
| <b>Total Shareholders Equity</b>                           |    | <b>17,476,085</b> | <b>16,116,430</b> |
| <b>Total Liabilities and Shareholders Equity</b>           |    | <b>31,923,826</b> | <b>31,297,663</b> |

*See accompanying notes to the condensed consolidated interim financial statements.*

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SK TELECOM CO., LTD. and Subsidiaries

Condensed Consolidated Statements of Income

For the three and nine-month periods ended September 30, 2017 and 2016

*(In millions of won except for per share data)*

|   |      | September 30, 2017 |                  | September 30, 2016 |                  |
|---|------|--------------------|------------------|--------------------|------------------|
|   |      | Three-month        | Nine-month       | Three-month        | Nine-month       |
|   | Note | period             | period           | period             | period           |
|   |      | ended              | ended            | ended              | ended            |
| <b>Operating revenue:</b>   | 4,28 |                    |                  |                    |                  |
| Revenue   |      | 4,442,739          | 13,022,697       | 4,243,804          | 12,739,556       |
| <b>Operating expenses:</b>  | 28   |                    |                  |                    |                  |
| Labor   |      | 509,511            | 1,437,439        | 448,799            | 1,391,385        |
| Commissions   |      | 1,372,781          | 4,103,409        | 1,314,583          | 3,965,062        |
| Depreciation and amortization   | 4    | 777,663            | 2,305,546        | 733,040            | 2,169,642        |
| Network interconnection   |      | 224,143            | 658,247          | 264,460            | 783,816          |
| Leased line   |      | 86,636             | 257,835          | 91,472             | 302,443          |
| Advertising   |      | 128,356            | 337,232          | 103,897            | 299,476          |
| Rent  |      | 129,367            | 394,852          | 130,104            | 388,905          |
| Cost of products that have been resold  |      | 477,928            | 1,325,497        | 417,394            | 1,295,574        |
| Others  | 21   | 343,944            | 976,462          | 315,757            | 909,464          |
|   |      | 4,050,329          | 11,796,519       | 3,819,506          | 11,505,767       |
| <b>Operating profit</b>   | 4    | <b>392,410</b>     | <b>1,226,178</b> | <b>424,298</b>     | <b>1,233,789</b> |
| Finance income  | 4,23 | 31,153             | 104,703          | 34,933             | 411,337          |
| Finance costs   | 4,23 | (80,444)           | (305,476)        | (89,509)           | (241,447)        |
| Gains relating to investments in subsidiaries, associates and joint ventures, net | 4,9  | 689,480            | 1,567,730        | 112,005            | 228,813          |
| Other non-operating income  | 4,22 | 9,493              | 22,963           | 12,125             | 53,449           |
| Other non-operating expenses  | 4,22 | (38,041)           | (139,401)        | (62,679)           | (153,894)        |
| <b>Profit before income tax</b>   | 4    | <b>1,004,051</b>   | <b>2,476,697</b> | <b>431,173</b>     | <b>1,532,047</b> |
| Income tax expense  | 24   | 211,084            | 479,738          | 109,060            | 346,646          |
| <b>Profit for the period</b>  |      | <b>792,967</b>     | <b>1,996,959</b> | <b>322,113</b>     | <b>1,185,401</b> |
| Attributable to:  |      |                    |                  |                    |                  |
| Owners of the Parent Company  |      | 795,826            | 2,009,849        | 325,102            | 1,187,084        |
| Non-controlling interests   |      | (2,859)            | (12,890)         | (2,989)            | (1,683)          |
| <b>Earnings per share:</b>  | 25   |                    |                  |                    |                  |
| Basic and diluted earnings per share (in won)                                     |      | 11,271             | 28,345           | 4,604              | 16,693           |



*See accompanying notes to the condensed consolidated interim financial statements.*

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SK TELECOM CO., LTD. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

For the three and nine-month periods ended September 30, 2017 and 2016

*(In millions of won)*

|  |       | September 30, 2017 |                  | September 30, 2016 |                  |
|--|-------|--------------------|------------------|--------------------|------------------|
|  |       | Three-month        | Nine-month       | Three-month        | Nine-month       |
|  | Note  | period             | period           | period             | period           |
|  |       | ended              | ended            | ended              | ended            |
| <b>Profit for the period</b>   |       | <b>792,967</b>     | <b>1,996,959</b> | <b>322,113</b>     | <b>1,185,401</b> |
| <b>Other comprehensive income (loss):</b>  |       |                    |                  |                    |                  |
| <b>Items that will never be reclassified to profit or loss, net of taxes:</b>              |       |                    |                  |                    |                  |
| Remeasurement of defined benefit liabilities   | 15    | 3,760              | (6,118)          | 678                | (10,959)         |
| <b>Items that are or may be reclassified subsequently to profit or loss, net of taxes:</b> |       |                    |                  |                    |                  |
| Net change in unrealized fair value of available-for-sale financial assets                 | 20    | (5,409)            | 126,578          | 30,903             | (159,646)        |
| Net change in other comprehensive income of investments in associates and joint ventures   | 9,20  | 28,458             | (32,821)         | (96,142)           | (127,296)        |
| Net change in unrealized fair value of derivatives   | 16,20 | 5,673              | 11,597           | (8,420)            | (14,349)         |
| Foreign currency translations differences for foreign operations                           | 20    | 3,859              | (22,969)         | (27,534)           | (41,423)         |
| <b>Other comprehensive income (loss) for the period, net of taxes</b>                      |       | <b>36,341</b>      | <b>76,267</b>    | <b>(100,515)</b>   | <b>(353,673)</b> |
| <b>Total comprehensive income</b>  |       | <b>829,308</b>     | <b>2,073,226</b> | <b>221,598</b>     | <b>831,728</b>   |

Total comprehensive income (loss) attributable to:

|                              |  |         |           |         |         |
|------------------------------|--|---------|-----------|---------|---------|
| Owners of the Parent Company |  | 832,175 | 2,085,875 | 229,550 | 838,319 |
| Non-controlling interests    |  | (2,867) | (12,649)  | (7,952) | (6,591) |

*See accompanying notes to the condensed consolidated interim financial statements.*

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SK TELECOM CO., LTD. and Subsidiaries

Condensed Consolidated Statements of Changes in Equity

For the nine-month periods ended September 30, 2017 and 2016

*(In millions of won)*

|  |            | Controlling Interest |                                  |                      |                  | Non-              | Total                    |                   |
|--|------------|----------------------|----------------------------------|----------------------|------------------|-------------------|--------------------------|-------------------|
|  | Note       | Share capital        | Capital surplus<br>and<br>others | Retained<br>earnings | Reserves         | Total             | controlling<br>interests | equity            |
| <b>Balance,<br/>January 1,<br/>2016</b>    |            | <b>44,639</b>        | <b>189,510</b>                   | <b>15,007,627</b>    | <b>9,303</b>     | <b>15,251,079</b> | <b>123,017</b>           | <b>15,374,096</b> |
| Total<br>comprehensive<br>income:          |            |                      |                                  |                      |                  |                   |                          |                   |
| Profit for the<br>period                   |            |                      |                                  | 1,187,084            |                  | 1,187,084         | (1,683)                  | 1,185,401         |
| Other<br>comprehensive<br>loss             | 9,15,16,20 |                      |                                  | (10,808)             | (337,957)        | (348,765)         | (4,908)                  | (353,673)         |
|  |            |                      |                                  | 1,176,276            | (337,957)        | 838,319           | (6,591)                  | 831,728           |
| Transactions<br>with owners:               |            |                      |                                  |                      |                  |                   |                          |                   |
| Annual<br>dividends                        |            |                      |                                  | (635,482)            |                  | (635,482)         | (300)                    | (635,782)         |
| Interim<br>dividends                       |            |                      |                                  | (70,610)             |                  | (70,610)          |                          | (70,610)          |
| Interest on<br>hybrid bond                 |            |                      |                                  | (8,420)              |                  | (8,420)           |                          | (8,420)           |
| Changes in<br>ownership in<br>subsidiaries |            |                      | 2,588                            |                      |                  | 2,588             | 50,587                   | 53,175            |
|  |            |                      | 2,588                            | (714,512)            |                  | (711,924)         | 50,287                   | (661,637)         |
| <b>Balance,<br/>September 30,<br/>2016</b> |            | <b>44,639</b>        | <b>192,098</b>                   | <b>15,469,391</b>    | <b>(328,654)</b> | <b>15,377,474</b> | <b>166,713</b>           | <b>15,544,187</b> |
| <b>Balance,<br/>January 1,</b>             |            | <b>44,639</b>        | <b>199,779</b>                   | <b>15,953,164</b>    | <b>(226,183)</b> | <b>15,971,399</b> | <b>145,031</b>           | <b>16,116,430</b> |

| <b>2017</b>                          |               |                |                   |                  |                   |                |                   |
|--------------------------------------|---------------|----------------|-------------------|------------------|-------------------|----------------|-------------------|
| Total comprehensive income:          |               |                |                   |                  |                   |                |                   |
| Profit for the period                |               |                | 2,009,849         |                  | 2,009,849         | (12,890)       | 1,996,959         |
| Other comprehensive income (loss)    | 9,15,16,20    |                | (6,111)           | 82,137           | 76,026            | 241            | 76,267            |
|                                      |               |                | 2,003,738         | 82,137           | 2,085,875         | (12,649)       | 2,073,226         |
| Transactions with owners:            |               |                |                   |                  |                   |                |                   |
| Annual dividends                     |               |                | (635,482)         |                  | (635,482)         | (281)          | (635,763)         |
| Interim dividends                    |               |                | (70,609)          |                  | (70,609)          |                | (70,609)          |
| Interest on hybrid bond              |               |                | (8,420)           |                  | (8,420)           |                | (8,420)           |
| Share option                         |               | 279            |                   |                  | 279               |                | 279               |
| Changes in ownership in subsidiaries |               | (3,591)        | 13                |                  | (3,578)           | 4,520          | 942               |
|                                      |               | (3,312)        | (714,498)         |                  | (717,810)         | 4,239          | (713,571)         |
| <b>Balance, September 30, 2017</b>   | <b>44,639</b> | <b>196,467</b> | <b>17,242,404</b> | <b>(144,046)</b> | <b>17,339,464</b> | <b>136,621</b> | <b>17,476,085</b> |

*See accompanying notes to the condensed consolidated interim financial statements.*

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SK TELECOM CO., LTD. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the nine-month periods ended September 30, 2017 and 2016

| <i>(In millions of won)</i>  | Note | September 30, 2017 | September 30, 2016 |
|--|------|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>                           |      |                    |                    |
| Cash generated from operating activities:                              |      |                    |                    |
| Profit for the period  |      | 1,996,959          | 1,185,401          |
| Adjustments for income and expenses                                    | 30   | 1,668,754          | 2,410,078          |
| Changes in assets and liabilities related to operating activities      | 30   | (133,527)          | (478,564)          |
| Sub-total  |      | 3,532,186          | 3,116,915          |
| Interest received  |      | 50,246             | 38,040             |
| Dividends received   |      | 102,676            | 97,336             |
| Interest paid  |      | (167,975)          | (174,812)          |
| Income tax paid  |      | (574,016)          | (367,200)          |
| <b>Net cash provided by operating activities</b>                       |      | <b>2,943,117</b>   | <b>2,710,279</b>   |
| <b>Cash flows from investing activities:</b>                           |      |                    |                    |
| Cash inflows from investing activities:                                |      |                    |                    |
| Decrease in short-term financial instruments, net                      |      |                    | 175,346            |
| Decrease in short-term investment securities, net                      |      | 20,025             |                    |
| Collection of short-term loans   |      | 157,720            | 142,048            |
| Decrease in long-term financial instruments                            |      | 1                  | 27                 |
| Proceeds from disposal of long-term investment securities              |      | 128,741            | 249,481            |
| Proceeds from disposal of investments in associates and joint ventures |      | 4,564              | 45,908             |
| Proceeds from disposal of property and equipment                       |      | 24,692             | 14,200             |
| Proceeds from disposal of intangible assets                            |      | 8,257              | 10,487             |
| Collection of long-term loans  |      | 2,067              | 1,327              |
| Decrease in deposits   |      | 61,193             | 13,421             |
| Proceeds from disposal of other non-current assets                     |      | 1,009              | 257                |
| Receipt of government grants   |      |                    | 300                |
| Sub-total  |      | 408,269            | 652,802            |
| Cash outflows for investing activities:                                |      |                    |                    |
| Increase in short-term financial instruments, net                      |      | (155,482)          |                    |
| Increase in short-term investment securities, net                      |      |                    | (110,000)          |
| Increase in short-term loans   |      | (159,798)          | (150,054)          |
| Increase in long-term loans  |      | (3,868)            | (30,857)           |
| Increase in long-term financial instruments                            |      | (2,022)            | (237)              |
| Acquisition of long-term investment securities                         |      | (17,034)           | (27,741)           |

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|   |                    |                    |
|---|--------------------|--------------------|
| Acquisition of investments in associates and joint ventures | (124,342)          | (101,901)          |
| Acquisition of property and equipment                       | (1,885,750)        | (1,431,744)        |
| Acquisition of intangible assets                            | (78,754)           | (407,031)          |
| Increase in deposits  | (63,063)           | (10,882)           |
| Increase in other non-current assets                        | (48)               | (763)              |
| Acquisition of businesses, net of cash acquired             | (25,891)           | (4,498)            |
| Liquidation of subsidiary                                   | (1,600)            |                    |
| <b>Sub-total</b>  | <b>(2,517,652)</b> | <b>(2,275,708)</b> |
| <b>Net cash used in investing activities</b>                | <b>(2,109,383)</b> | <b>(1,622,906)</b> |

*See accompanying notes to the condensed consolidated interim financial statements.*

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SK TELECOM CO., LTD. and Subsidiaries

Condensed Consolidated Statements of Cash Flows, Continued

For the nine-month periods ended September 30, 2017 and 2016

| <i>(In millions of won)</i>   | <i>Note</i> | <b>September 30, 2017</b> | <b>September 30, 2016</b> |
|---|-------------|---------------------------|---------------------------|
| <b>Cash flows from financing activities:</b>  |             |                           |                           |
| Cash inflows from financing activities:   |             |                           |                           |
| Proceeds from short-term borrowings, net  |             | 77,386                    |                           |
| Proceeds from issuance of debentures  |             | 525,166                   | 607,474                   |
| Proceeds from long-term borrowings  |             | 70,000                    |                           |
| Cash received from transfer of interests in subsidiaries to non-controlling interests |             | 40,938                    | 49,060                    |
| <b>Sub-total</b>  |             | <b>713,490</b>            | <b>656,534</b>            |
| Cash outflows for financing activities:   |             |                           |                           |
| Decrease in short-term borrowings, net  |             |                           | (259,173)                 |
| Repayments of long-term accounts payable-other  |             | (304,815)                 | (122,062)                 |
| Repayments of debentures  |             | (469,119)                 | (530,000)                 |
| Repayments of long-term borrowings  |             | (21,307)                  | (21,681)                  |
| Cash outflows from settlement of derivatives  |             | (22,884)                  | (144)                     |
| Payments of finance lease liabilities   |             |                           | (26)                      |
| Payments of dividends   |             | (706,091)                 | (706,092)                 |
| Payments of interest on hybrid bond   |             | (8,420)                   | (8,420)                   |
| Acquisitions of additional interests in subsidiaries                                  |             | (41,795)                  |                           |
| <b>Sub-total</b>  |             | <b>(1,574,431)</b>        | <b>(1,647,598)</b>        |
| <b>Net cash used in financing activities</b>  |             | <b>(860,941)</b>          | <b>(991,064)</b>          |
| <b>Net increase (decrease) in cash and cash equivalents</b>                           |             | <b>(27,207)</b>           | <b>96,309</b>             |
| Cash and cash equivalents at beginning of the period                                  |             | 1,505,242                 | 768,922                   |
| Effects of exchange rate changes on cash and cash equivalents                         |             | (1,985)                   | (6,009)                   |
| Cash and cash equivalents classified as held for sale                                 | 8           | (28,872)                  |                           |
| <b>Cash and cash equivalents at end of the period</b>                                 |             | <b>1,447,178</b>          | <b>859,222</b>            |

*See accompanying notes to the condensed consolidated interim financial statements.*

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 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 September 30, 2017, the Parent Company's total issued shares are held by the following shareholders:

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

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

**(2) List of subsidiaries**

The list of subsidiaries as of September 30, 2017 and December 31, 2016 is as follows:

| Subsidiary                                    | Location | Primary business                   | Ownership (%)(*1) |                  |
|---|----------|------------------------------------|-------------------|------------------|
|   |          |                                    | Sep. 30,<br>2017  | Dec. 31,<br>2016 |
| Subsidiaries owned by SK Telink Co., Ltd.(*2) | Korea    | Telecommunication and MVNO service | 85.9              | 85.9             |



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|                     |   |                            |   |       |       |
|---------------------|---|----------------------------|---|-------|-------|
| the Parent Company  | SK Communications Co., Ltd.(*3)           | Korea                      | Internet website services   | 100.0 | 64.5  |
|                     | SK Broadband Co., Ltd.                    | Korea                      | Telecommunication services  | 100.0 | 100.0 |
|                     | PS&Marketing Corporation                  | Korea                      | Communications device retail business                                 | 100.0 | 100.0 |
|                     | SERVICEACE Co., Ltd.                      | Korea                      | Customer center management service                                    | 100.0 | 100.0 |
|                     | SERVICE TOP Co., Ltd.                     | Korea                      | Customer center management service                                    | 100.0 | 100.0 |
|                     | Network O&S Co., Ltd.                     | Korea                      | Base station maintenance service                                      | 100.0 | 100.0 |
|                     | SK Planet Co., Ltd.                       | Korea                      | Telecommunication service   | 98.1  | 98.1  |
|                     | IRIVER LIMITED (*4,5)                     | Korea                      | Manufacturing digital audio players and other portable media devices. | 45.9  | 48.9  |
|                     | SK Telecom China Holdings Co., Ltd.       | China                      | Investment  | 100.0 | 100.0 |
|                     | SK Global Healthcare Business Group, Ltd. | Hong Kong                  | Investment  | 100.0 | 100.0 |
|                     | SKT Vietnam PTE. Ltd.                     | Singapore                  | Telecommunication service   | 73.3  | 73.3  |
|                     | SKT Americas, Inc.                        | USA                        | Information gathering and consulting                                  | 100.0 | 100.0 |
|                     | YTK Investment Ltd.                       | Cayman Islands             | Investment association  | 100.0 | 100.0 |
|                     | Atlas Investment                          | Cayman Islands             | Investment association  | 100.0 | 100.0 |
|                     | Entrix Co., Ltd.                          | Korea                      | Cloud streaming services  | 100.0 | 100.0 |
|                     | SK techx Co., Ltd.                        | Korea                      | System software development and supply                                | 100.0 | 100.0 |
| One Store Co., Ltd. | Korea                                     | Telecommunication services | 65.5  | 65.5  |       |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**1. Reporting Entity, Continued**

## (2) List of subsidiaries, Continued

The list of subsidiaries as of September 30, 2017 and December 31, 2016 is as follows, Continued:

|   | Subsidiary                                    | Location  | Primary business  | Ownership (%)(*1) |               |
|---|---|-----------|---|-------------------|---------------|
|   |   |           |   | Sep. 30, 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 application development | 100.0             | 100.0         |
|   | Planet11 E-commerce Solutions India Pvt. Ltd. | India     | Electronic commerce platform service                          | 99.0              | 99.0          |
|   | 11street (Thailand) Co., Ltd.                 | Thailand  | Electronic commerce   | 100.0             | 100.0         |
| Subsidiaries owned by IRIVER LIMITED      | Hello Nature Ltd.                             | Korea     | Retail of agro-fisheries and livestock                        | 100.0             | 100.0         |
|   | 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     |   | 100.0             | 100.0         |

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|  |   |                |  |       |       |
|--|---|----------------|--|-------|-------|
|  |   |                | Sales and manufacturing MP3 and 4                        |       |       |
|  | Dongguan iriver Electronics Co., Ltd.                 | China          | Sales and manufacturing e-book                           | 100.0 | 100.0 |
|  | groovers Japan Co., Ltd.                              | Japan          | Digital music contents sourcing and distribution service | 100.0 | 100.0 |
|  | S.M. LIFE DESIGN COMPANY JAPAN INC.(*6)               | Japan          | Selling of goods in Japan                                | 100.0 |       |
| Subsidiaries owned by SK Telink Co., Ltd.    | NSOK Co., Ltd. (formerly, Neosnetworks Co., Ltd.)(*7) | Korea          | Security and maintenance services                        | 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)                          | Korea          | Operation of information and communication facility      | 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  |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**1. Reporting Entity, Continued**

(2) List of subsidiaries, 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 all of the other shareholders of SK Telink Co., Ltd. on December 14, 2017 at 35,281 million in cash (270,583 per share).

(\*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 other shareholders of SK Communications Co., Ltd. on February 7, 2017 at 2,814 per share in cash. The Group paid 41,550 million in cash and the SK Communications Co., Ltd. became a wholly owned subsidiary as of September 30, 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 nine-month period ended September 30, 2017.

(\*6) Details of changes in consolidation scope for the nine-month period ended September 30, 2017 are presented and explained separately in Note 1-(4).

(\*7) During the nine-month period ended September 30, 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.



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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**1. Reporting Entity, Continued**

## (3) Condensed financial information of subsidiaries

Condensed financial information of significant subsidiaries as of and for the nine-month period ended September 30, 2017 is as follows:

*(In millions of won)*

| Subsidiary                        | As of September 30, 2017 |                   |              | For the nine-month period ended September 30, 2017 |               |
|-----------------------------------|--------------------------|-------------------|--------------|--|---------------|
|                                   | Total assets             | Total liabilities | Total equity | Revenue  | Profit (loss) |
| SK Telink Co., Ltd.               | 454,484                  | 110,911           | 343,573      | 295,035  | 26,038        |
| SK m&service Co.,Ltd.             | 99,621                   | 50,094            | 49,527       | 138,498  | 1,223         |
| SK Communications Co., Ltd.       | 121,713                  | 29,904            | 91,809       | 36,640   | (6,603)       |
| SK Broadband Co., Ltd.            | 3,541,422                | 2,382,038         | 1,159,384    | 2,213,186  | 10,846        |
| PS&Marketing Corporation          | 437,065                  | 217,049           | 220,016      | 1,265,728  | 2,111         |
| SERVICEACE Co., Ltd.              | 74,882                   | 45,498            | 29,384       | 146,108  | 2,354         |
| SERVICE TOP Co., Ltd.             | 56,162                   | 34,754            | 21,408       | 135,878  | 2,572         |
| Network O&S Co., Ltd.             | 68,132                   | 34,106            | 34,026       | 171,120  | 312           |
| SK Planet Co., Ltd.               | 1,862,327                | 933,106           | 929,221      | 813,708  | (203,935)     |
| IRIVER LIMITED(*)                 | 112,962                  | 17,012            | 95,950       | 45,567   | (7,733)       |
| SKP America LLC.                  | 433,113                  |                   | 433,113      |  | (28)          |
| SK techx Co., Ltd.                | 230,095                  | 37,351            | 192,744      | 148,028  | 31,916        |
| One Store Co., Ltd.               | 117,882                  | 39,601            | 78,281       | 86,666   | (14,163)      |
| shopkick Management Company, Inc. | 354,309                  |                   | 354,309      |  | (241)         |
| shopkick, Inc.                    | 26,659                   | 18,912            | 7,747        | 32,970   | (15,023)      |

(\*) The condensed financial information of IRIVER LIMITED includes consolidated financial information of iriver Enterprise Ltd., iriver Inc., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd., groovers Japan Co., Ltd., and S.M. LIFE DESIGN COMPANY JAPAN INC., subsidiaries of IRIVER LIMITED.

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**1. Reporting Entity, Continued**

## (3) Condensed financial information of subsidiaries, Continued

Condensed financial information of significant subsidiaries as of and for the year ended December 31, 2016 is as follows:

*(In millions of won)*

| Subsidiary                        | As of December 31, 2016 |                   |              | For the year ended December 31, 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.             | 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 consolidated financial information of IRIVER LIMITED includes consolidated financial information of iriver Enterprise Ltd., iriver America Inc., iriver Inc., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd., and groovers Japan Co., Ltd., subsidiaries of IRIVER LIMITED.





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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**1. Reporting Entity, Continued**

## (4) Changes in subsidiaries

The list of subsidiaries that were newly included in consolidation during the nine-month period ended September 30, 2017 is as follows:

| <b>Subsidiary</b>                      | <b>Reason</b>                         |
|--|---------------------------------------|
| Home & Service Co., Ltd.               | Established by SK Boradband Co., Ltd. |
| S.M. LIFE DESIGN COMPANY JAPAN INC.(*) | Acquired by IRIVER LIMITED            |

(\* ) IRIVER LIMITED, a subsidiary of the Parent Company, acquired S.M. LIFE DESIGN COMPANY JAPAN INC. for a purchase price of 30,000 million during the nine-month period ended September 30, 2017.

The list of subsidiaries that were excluded from consolidation during the nine-month period ended September 30, 2017 is as follows:

| <b>Subsidiary</b>       | <b>Reason</b>   |
|-------------------------|---|
| Stonebridge Cinema Fund | Liquidated during the nine-month period ended September 30, 2017. |

- (5) The financial information of significant non-controlling interests of the Group as of and for the nine-month period ended September 30, 2017, and as of and for the year ended December 31, 2016 are as follows. There were no dividends paid during the nine-month period ended September 30, 2017 and the year ended December 31, 2016 by subsidiaries of which non-controlling interests are significant.

*(In millions of won)*

|  | <b>IRIVER LIMITED One Store Co., Ltd.</b> |       |
|--|---|-------|
| Ownership of non-controlling interests (%) | 54.12                                     | 34.46 |

|   | <b>As of September 30, 2017</b>        |          |
|---|--|----------|
| Current assets                                      | 78,904                                 | 81,658   |
| Non-current assets                                  | 34,058                                 | 36,224   |
| Current liabilities                                 | (10,814)                               | (38,064) |
| Non-current liabilities                             | (6,198)                                | (1,537)  |
| Net assets  | 95,950                                 | 78,281   |
| Carrying amount of non-controlling interests        | 53,816                                 | 26,976   |
|   | <b>For the nine-month period ended</b> |          |
|   | <b>September 30, 2017</b>              |          |
| Revenue   | 45,567                                 | 86,666   |
| Loss for the period                                 | 7,733                                  | 14,163   |
| Total comprehensive loss                            | 7,364                                  | 14,188   |
| Loss attributable to non-controlling interests      | 3,952                                  | 4,880    |
| Net cash provided by (used in) operating activities | (4,718)                                | 23,765   |
| Net cash provided by (used in) investing activities | (48,285)                               | 1,041    |
| Net cash provided by (used in) financing activities | 64,963                                 | (2)      |
| Net increase in cash and cash equivalents           | 11,960                                 | 24,804   |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**1. Reporting Entity, Continued**

- (5) The financial information of significant non-controlling interests of the Group as of and for the nine-month period ended September 30, 2017, and as of and for the year ended December 31, 2016 are as follows. There were no dividends paid during the nine-month period ended September 30, 2017 and the year ended December 31, 2016 by subsidiaries of which non-controlling interests are significant, Continued.

*(In millions of won)*

|  | <b>SK Communications Co., Ltd.</b> | <b>One Store Co., Ltd.</b> |
|--|------------------------------------|----------------------------|
| Ownership of non-controlling interests (%)           | 35.46                              | 34.46                      |
|  | <b>As of December 31, 2016</b>     |                            |
| 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                     |
|  | <b>2016</b>                        |                            |
| 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                     |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**2. Basis of Preparation**

(1) Statement of compliance

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

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, *Interim Financial Reporting*, as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since December 31, 2016. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(2) Use of estimates and judgments

1) Critical judgments, assumptions and estimation uncertainties

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2016.

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**2. Basis of Preparation, Continued**

(2) Use of estimates and judgments, Continued

2) Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has established policies and processes with respect to the measurement of fair values. 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:

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 is included in Note 27.



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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**3. Significant Accounting Policies**

The significant accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2016. In addition, 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 these condensed consolidated interim financial statements.

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

The Group currently plans to apply K-IFRS No.1109 in the period beginning on January 1, 2018 and to assess the financial impact on its consolidated financial statements resulting from the adoption of K-IFRS No. 1109 by December 31, 2017. The assessment results will be disclosed in its annual consolidated financial statements for the year ending December 31, 2017. As of September 30, 2017, there have been no material changes related to the Group's plan for the adoption of K-IFRS No. 1109 which was disclosed in the Group's consolidated financial statements as of December 31, 2016.

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

The Group currently plans to apply K-IFRS No.1115 in the period beginning on January 1, 2018. The Group is in the process of designing, implementing and enhancing 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 impact of the adoption of K-IFRS No. 1115 on its consolidated financial statements plans to complete the assessment by December 31, 2017. The assessment results will be disclosed in its annual financial statements for the year ending December 31, 2017. As of September 30, 2017, there have been no material changes related to the Group's plan for the adoption of K-IFRS No. 1115 which was disclosed in the Group's consolidated financial statements as of December 31, 2016.

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**4. Operating Segments**

The Group's operating segments have been identified to be each business unit, by which the Group provides independent services and merchandise. The Group's reportable segments are cellular services, which include cellular voice service, wireless data service and wireless internet services; fixed-line telecommunication services, which include telephone services, internet services, and leased line services; e-commerce services, 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. From the annual period ended December 31, 2016, the Group separately reported information about the e-commerce services operating segment as a reportable segment due to the significance of its reported segment results. Segment information for the nine-month period ended September 30, 2016 has been recasted to separately present e-commerce services segment information which was previously included in other segment.

(1) Segment information for the nine-month period ended September 30, 2017 are as follows:

(In millions of won)

|  | <b>For the nine-month period ended September 30, 2017</b> |  |                            |               |                  |                    |              |
|--|---|--|----------------------------|---------------|------------------|--------------------|--------------|
|  | <b>Cellular Services</b>                                  | <b>Fixed-line telecommunication services</b> | <b>E-commerce Services</b> | <b>Others</b> | <b>Sub-total</b> | <b>Adjustments</b> | <b>Total</b> |
| Total revenue  | 11,072,955  | 2,573,392                                    | 813,788                    | 568,327       | 15,028,462       | (2,005,765)        | 13,022,697   |
| Inter-segment revenue  | 1,196,120   |  |                            |               |                  |                    |              |
| External revenue   | 9,876,835   | 553,584                                      | 35,042                     | 221,019       | 2,005,765        | (2,005,765)        | 13,022,697   |
| Depreciation and amortization  | 1,780,213   | 439,007                                      | 41,572                     | 44,754        | 2,305,546        |                    | 2,305,546    |
| Operating profit (loss)  | 1,333,587   | 121,314                                      | (176,773)                  | (51,950)      | 1,226,178        |                    | 1,226,178    |
| Finance income and costs, net  |   |  |                            |               |                  |                    | (200,773)    |
| Gain relating to investments in subsidiaries, associates and joint ventures, net |   |  |                            |               |                  |                    | 1,567,730    |
| Other non-operating income and   |   |  |                            |               |                  |                    | (116,438)    |



expense, net

|                          |           |
|--------------------------|-----------|
| Profit before income tax | 2,476,697 |
|--------------------------|-----------|

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**4. Operating Segments, Continued**

(2) Segment information for the nine-month period ended September 30, 2016 are as follows:

*(In millions of won)*

|  | <b>For the nine-month period ended September 30, 2016</b> |  |                                |               |                  |                    |              |
|--|---|--|--------------------------------|---------------|------------------|--------------------|--------------|
|  | <b>Cellular<br/>Services</b>                              | <b>Fixed-line<br/>telecommu-<br/>nication<br/>services</b> | <b>E-commerce<br/>Services</b> | <b>Others</b> | <b>Sub-total</b> | <b>Adjustments</b> | <b>Total</b> |
| Total revenue  | 10,923,701  | 2,482,479  | 886,138                        | 508,464       | 14,800,782       | (2,061,226)        | 12,739,556   |
| Inter-segment revenue  | 1,205,079   |  |                                |               |                  |                    |              |
| External revenue   | 9,718,622   | 489,279  | 159,184                        | 207,684       | 2,061,226        | (2,061,226)        | 12,739,556   |
| Depreciation and amortization  | 1,661,941   | 1,993,200  | 726,954                        | 300,780       | 12,739,556       |                    | 12,739,556   |
| Operating profit (loss)  | 1,404,043   | 411,535  | 53,262                         | 42,904        | 2,169,642        |                    | 2,169,642    |
| Finance income and costs, net  |   | 103,243  | (246,469)                      | (27,028)      | 1,233,789        |                    | 1,233,789    |
| Gain relating to investments in subsidiaries, associates and joint ventures, net |   |  |                                |               |                  |                    | 169,890      |
| Other non-operating income and expense, net                                      |   |  |                                |               |                  |                    | 228,813      |
| Profit before income tax   |   |  |                                |               |                  |                    | (100,445)    |
|  |   |  |                                |               |                  |                    | 1,532,047    |

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

No single customer contributed 10% or more to the Group's total revenue for the nine-month periods ended September 30, 2017 and 2016.



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SK TELECOM CO., LTD. and Subsidiaries

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**5. Trade and Other Receivables**

(1) Details of trade and other receivables as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                       | <b>Gross<br/>amount</b> | <b>September 30, 2017<br/>Allowances for<br/>doubtful accounts</b> | <b>Carrying<br/>amount</b> |
|---------------------------------------|-------------------------|--|----------------------------|
| <b>Current assets:</b>                |                         |  |                            |
| Accounts receivable - trade           | 2,376,052               | (247,802)  | 2,128,250                  |
| Short-term loans                      | 75,071                  | (665)  | 74,406                     |
| Accounts receivable - other           | 1,079,617               | (74,982)   | 1,004,635                  |
| Accrued income                        | 4,999                   |  | 4,999                      |
| Others                                | 2,403                   |  | 2,403                      |
|                                       | <b>3,538,142</b>        | <b>(323,449)</b>   | <b>3,214,693</b>           |
| <b>Non-current assets:</b>            |                         |  |                            |
| Long-term loans                       | 101,480                 | (47,419)   | 54,061                     |
| Long-term accounts receivable - other | 243,348                 |  | 243,348                    |
| Guarantee deposits                    | 290,433                 |  | 290,433                    |
| Long-term accounts receivable - trade | 14,270                  | (218)  | 14,052                     |
|                                       | <b>649,531</b>          | <b>(47,637)</b>  | <b>601,894</b>             |
|                                       | <b>4,187,673</b>        | <b>(371,086)</b>   | <b>3,816,587</b>           |

*(In millions of won)*

|                           | <b>Gross<br/>amount</b> | <b>December 31, 2016<br/>Allowances for<br/>doubtful accounts</b> | <b>Carrying<br/>amount</b> |
|---------------------------|-------------------------|---|----------------------------|
| <b>Current assets:</b>    |                         |   |                            |
| 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                      |
|                           | <b>3,749,166</b>        | <b>(321,100)</b>  | <b>3,428,066</b>           |

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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 |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**5. Trade and Other Receivables, Continued**

- (2) Changes in the allowances for doubtful accounts during the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i>    | <b>For the nine-month period ended</b> |                           |
|--------------------------------|--|---------------------------|
|                                | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Balance at January 1           | 369,332                                | 344,016                   |
| Bad debt expense               | 24,371                                 | 40,299                    |
| Write-offs                     | (42,848)                               | (33,360)                  |
| Others                         | 20,231                                 | 18,504                    |
| <b>Balance at September 30</b> | <b>371,086</b>                         | <b>369,459</b>            |

**6. Inventories**

Details of inventories as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                            | <b>September 30, 2017</b> |                   |                        | <b>December 31, 2016</b> |                   |                        |
|----------------------------|---------------------------|-------------------|------------------------|--------------------------|-------------------|------------------------|
|                            | <b>Acquisition cost</b>   | <b>Write-down</b> | <b>Carrying amount</b> | <b>Acquisition cost</b>  | <b>Write-down</b> | <b>Carrying amount</b> |
| Merchandise                | 228,751                   | (6,966)           | 221,785                | 232,871                  | (6,913)           | 225,958                |
| Finished goods             | 1,851                     | (346)             | 1,505                  | 1,931                    | (363)             | 1,568                  |
| Work in process            | 2,309                     | (436)             | 1,873                  | 2,895                    | (347)             | 2,548                  |
| Raw materials and supplies | 25,178                    | (1,502)           | 23,676                 | 31,141                   | (1,369)           | 29,772                 |
|                            | <b>258,089</b>            | <b>(9,250)</b>    | <b>248,839</b>         | <b>268,838</b>           | <b>(8,992)</b>    | <b>259,846</b>         |

**7. Investment Securities**

(1) Details of short-term investment securities as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                          | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|--------------------------|---------------------------|--------------------------|
| Beneficiary certificates | 87,402                    | 107,364                  |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**7. Investment Securities, Continued**

(2) Details of long-term investment securities as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                 | September 30, 2017 | December 31, 2016 |
|---------------------------------|--------------------|-------------------|
| <b>Equity securities:</b>       |                    |                   |
| Marketable equity securities(*) | 545,333            | 526,363           |
| Unlisted equity securities      | 97,578             | 95,300            |
| Equity investments              | 185,592            | 200,103           |
|                                 | 828,503            | 821,766           |
| <b>Debt securities:</b>         |                    |                   |
| Investment bonds                | 4,600              | 6,755             |
|                                 | 833,103            | 828,521           |

(\*) During the nine-month period ended September 30, 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.

In addition, the Group sold 1,357,367 shares of Kakao Corp. in exchange for 112,649 million in cash during the nine-month period ended September 30, 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.



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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**8. Assets and Liabilities Classified as Held for Sale**

During the nine-month period ended September 30, 2017, the shareholders of the SK Planet Co., Ltd., a subsidiary of the Parent Company, resolved to spin off its advertising department for sale and SK Planet Co., Ltd. entered into a share purchase agreement with S.M. Culture & Contents Co., Ltd. On October 1, 2017, the advertising business was spun off as a standalone entity under the name S.M. Contents & Communications Co., Ltd. On October 24, 2017, SK Planet Co., Ltd sold all of its shares of S.M. Contents & Communications Co., Ltd.

Details of assets and liabilities classified as held for sale are as follows:

*(In millions of won)*

|  | <b>As of September 30, 2017</b> |
|--|---------------------------------|
| Assets classified as held for sale:      | 116,095                         |
| Current assets                           | 113,678                         |
| Cash and cash equivalents                | 28,872                          |
| Accounts receivable trade                | 36,586                          |
| Accounts receivable other                | 45,179                          |
| Other current assets                     | 3,041                           |
| Non-current assets                       | 2,417                           |
| Liabilities classified as held for sale: | 111,095                         |
| Current liabilities                      | 110,308                         |
| Accounts payable other                   | 104,156                         |
| Other current liabilities                | 6,152                           |
| Non-current liabilities                  | 787                             |

As of September 30, 2017, assets and liabilities classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

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**9. Investments in Associates and Joint Ventures**

- (1) Investments in associates and joint ventures accounted for using the equity method as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|  | Country        | September 30, 2017<br>Ownership<br>(%) | September 30, 2017<br>Carrying<br>amount | December 31, 2016<br>Ownership<br>(%) | December 31, 2016<br>Carrying<br>amount |
|--|----------------|--|--|---------------------------------------|---|
| <b>Investments in associates:</b>                  |                |  |  |                                       |   |
| SK China Company Ltd.(*1)                          | China          | 27.3                                   | 558,080                                  | 9.6                                   | 46,354                                  |
| Korea IT Fund(*2)                                  | Korea          | 63.3                                   | 257,099                                  | 63.3                                  | 263,850                                 |
| KEB HanaCard Co., Ltd.(*3)                         | Korea          | 15.0                                   | 279,977                                  | 15.0                                  | 265,798                                 |
| NanoEnTek, Inc.                                    | Korea          | 28.5                                   | 39,068                                   | 28.5                                  | 39,514                                  |
| SK Industrial Development China Co.,<br>Ltd.(*1)   | Hong Kong      |  |  | 21.0                                  | 74,717                                  |
| SK Technology Innovation Company                   | Cayman Islands | 49.0                                   | 45,393                                   | 49.0                                  | 47,488                                  |
| HappyNarae Co., Ltd.(*4)                           | Korea          | 45.0                                   | 19,660                                   | 42.5                                  | 17,236                                  |
| SK hynix Inc.                                      | Korea          | 20.1                                   | 7,530,235                                | 20.1                                  | 6,132,122                               |
| SK MENA Investment B.V.                            | Netherlands    | 32.1                                   | 15,557                                   | 32.1                                  | 15,451                                  |
| SKY Property Mgmt. Ltd.(*1)                        | Virgin Island  |  |  | 33.0                                  | 263,225                                 |
| Xinan Tianlong Science and Technology<br>Co., Ltd. | China          | 49.0                                   | 25,879                                   | 49.0                                  | 25,880                                  |
| Daehan Kanggun BcN Co., Ltd. and others            |                |  | 113,316                                  |                                       | 115,181                                 |
| Sub-total  |                |  | 8,884,264                                |                                       | 7,306,816                               |
| <b>Investments in joint ventures:</b>              |                |  |  |                                       |   |
| Dogus Planet, Inc.(*5)                             | Turkey         | 50.0                                   | 18,757                                   | 50.0                                  | 20,081                                  |
| PT XL Planet Digital(*5)                           | Indonesia      | 50.0                                   | 25,267                                   | 50.0                                  | 27,512                                  |
| Finnq Co., Ltd.(*6)                                | Korea          | 49.0                                   | 20,134                                   | 49.0                                  | 24,174                                  |
| Celcom Planet and others                           |                |  | 19,208                                   |                                       | 25,740                                  |
| Sub-total  |                |  | 83,366                                   |                                       | 97,507                                  |
| Total  |                |  | 8,967,630                                |                                       | 7,404,323                               |

- (\*1) During the nine-month period ended September 30, 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; and 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 Company 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 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.
- (\*4) The Group acquired 40,000 shares of HappyNarae Co., Ltd. at 688 million in cash during the nine-month period ended September 30, 2017.
- (\*5) The ownership interest is owned by SK Planet Co., Ltd.

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**9. Investments in Associates and Joint Ventures, Continued**

(1) Investments in associates and joint ventures accounted for using the equity method as of September 30, 2017 and December 31, 2016 are as follows, Continued:

(\*6) Investment in Finnq 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 September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won, except for share data)*

|                 | September 30, 2017                 |                  |              | December 31, 2016                  |                  |              |
|-----------------|------------------------------------|------------------|--------------|------------------------------------|------------------|--------------|
|                 | Market price per share<br>(In won) | Number of shares | Market price | Market price per share<br>(In won) | Number of shares | Market price |
| NanoEnTek, Inc. | 4,665                              | 6,960,445        | 32,470       | 5,020                              | 6,960,445        | 34,941       |
| SK hynix Inc.   | 82,900                             | 146,100,000      | 12,111,690   | 44,700                             | 146,100,000      | 6,530,670    |

(3) The financial information of significant associates as of and for the nine-month period ended September 30, 2017 and as of and for the year ended December 31, 2016 are as follows:

*(In millions of won)*

|                         | SK hynix Inc.   | KEB HanaCard Co., Ltd. | Korea IT Fund | SK China Company Ltd. |
|-------------------------|---|------------------------|---------------|-----------------------|
|                         | <b>As of September 30, 2017</b>                           |                        |               |                       |
| Current assets          | 14,557,910  | 7,167,768              | 132,585       | 870,013               |
| Non-current assets      | 26,172,544  | 543,003                | 273,362       | 1,000,577             |
| Current liabilities     | 5,642,786   | 1,128,501              |               | 58,601                |
| Non-current liabilities | 4,183,169   | 5,073,613              |               | 75,148                |
|                         | <b>For the nine-month period ended September 30, 2017</b> |                        |               |                       |
| Revenue                 | 21,081,881  | 1,127,603              | 11,743        | 29,172                |

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|                                   |           |        |       |         |
|-----------------------------------|-----------|--------|-------|---------|
| Profit (loss) for the period      | 7,422,720 | 97,352 | 2,068 | (2,978) |
| Other comprehensive income (loss) | (105,461) | 360    | 4,108 | 13,347  |
| Total comprehensive income        | 7,317,259 | 97,712 | 6,176 | 10,369  |

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For the nine-month periods ended September 30, 2017 and 2016

**9. Investments in Associates and Joint Ventures, Continued**

- (3) The financial information of significant associates as of and for the nine-month period ended September 30, 2017 and as of and for the year ended December 31, 2016 are as follows, Continued:

*(In millions of won)*

|                                   | <b>SK hynix<br/>Inc.</b>                    | <b>KEB HanaCard<br/>Co., Ltd.</b> | <b>SKY Property<br/>Mgmt. Ltd.</b> | <b>Korea<br/>IT<br/>Fund</b> |
|-----------------------------------|---|-----------------------------------|------------------------------------|------------------------------|
|                                   | <b>As of December 31, 2016</b>              |                                   |                                    |                              |
| 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                             |                              |
|                                   | <b>For the year ended December 31, 2016</b> |                                   |                                    |                              |
| 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                       |

- (4) The condensed financial information of joint ventures as of and for the nine-month period ended September 30, 2017 and as of and for the year ended December 31, 2016 are as follows:

*(In millions of won)*

|   | <b>Dogus<br/>Planet,<br/>Inc.</b> | <b>PT XL Planet<br/>Digital</b> | <b>Finnq Co. Ltd.</b> |
|---|-----------------------------------|---------------------------------|-----------------------|
|   | <b>As of September 30, 2017</b>   |                                 |                       |
| Current assets                                    | 44,845                            | 7,451                           | 39,267                |
| Cash and cash equivalents                         | 30,122                            | 3,220                           | 3,311                 |
| Non-current assets                                | 24,020                            | 48,609                          | 18,517                |
| Current liabilities                               | 31,184                            | 4,993                           | 3,715                 |
| Accounts payable, other payables and<br>provision | 1,450                             | 2,073                           | 1,224                 |
| Non-current liabilities                           | 168                               | 532                             | 13,862                |

|                               | <b>For the nine-month period ended September 30, 2017</b> |          |         |
|-------------------------------|---|----------|---------|
| Revenue                       | 56,212  | 4,459    |         |
| Depreciation and amortization | (4,357)   | (856)    | (58)    |
| Interest income               | 430   | 109      | 425     |
| Interest expense              | (3)   | (116)    |         |
| Income tax benefit            |   | 5,672    |         |
| Loss for the period           | (1,603)   | (17,295) | (8,246) |
| Total comprehensive loss      | (1,603)   | (17,295) | (8,246) |

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For the nine-month periods ended September 30, 2017 and 2016

**9. Investments in Associates and Joint Ventures, Continued**

- (4) The condensed financial information of joint ventures as of and for the nine-month period ended September 30, 2017 and as of and for the year ended December 31, 2016 are as follows, Continued:

*(In millions of won)*

|  | <b>Dogus<br/>Planet,<br/>Inc.</b>           | <b>PT XL Planet<br/>Digital</b> | <b>Finnq Co. Ltd.</b> |
|--|---|---------------------------------|-----------------------|
|  | <b>As of December 31, 2016</b>              |                                 |                       |
| 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                   |
|  | <b>For the year ended December 31, 2016</b> |                                 |                       |
| 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)                 |



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For the nine-month periods ended September 30, 2017 and 2016

**9. Investments in Associates and Joint Ventures, Continued**

- (5) Reconciliations of financial information of significant associates to carrying amounts of investments in associates in the consolidated financial statements as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                           | Net assets | Ownership interests (%) | September 30, 2017                                 |                               | Carrying amount |
|---------------------------|------------|-------------------------|--|-------------------------------|-----------------|
|                           |            |                         | Net assets attributable to the ownership interests | Cost-book value differentials |                 |
| <b>Associates:</b>        |            |                         |  |                               |                 |
| SK hynix Inc.(*1,2)       | 30,896,135 | 20.1                    | 6,393,658  | 1,136,577                     | 7,530,235       |
| KEB HanaCard Co., Ltd.    | 1,508,657  | 15.0                    | 226,299  | 53,678                        | 279,977         |
| Korea IT Fund             | 405,947    | 63.3                    | 257,099  |                               | 257,099         |
| SK China Company Ltd.(*1) | 1,734,732  | 27.3                    | 473,061  | 85,019                        | 558,080         |

*(In millions of won)*

|                             | Net assets | Ownership interests (%) | December 31, 2016                                  |                               | Carrying amount |
|-----------------------------|------------|-------------------------|--|-------------------------------|-----------------|
|                             |            |                         | Net assets attributable to the ownership interests | Cost-book value differentials |                 |
| <b>Associates:</b>          |            |                         |  |                               |                 |
| 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 investee's total shares outstanding.



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**9. Investments in Associates and Joint Ventures, Continued**

- (6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)***For the nine-month period ended September 30, 2017**

|  | <b>Beginning<br/>balance</b> | <b>Acquisition<br/>and<br/>Disposal</b> | <b>Share of<br/>profits<br/>(losses)</b> | <b>Other<br/>compre-<br/>hensive<br/>income<br/>(loss)</b> | <b>Other<br/>increase<br/>(decrease)</b> | <b>Ending<br/>balance</b> |
|--|------------------------------|---|--|--|--|---------------------------|
| <b>Investments in associates:</b>                |                              |   |  |  |  |                           |
| SK China Company Ltd.(*)                         | 46,354                       | 113,587                                 | (524)                                    | (1,355)  | 400,018                                  | 558,080                   |
| Korea IT Fund(*)                                 | 263,850                      |   | (8,718)                                  | 3,370  | (1,403)                                  | 257,099                   |
| KEB HanaCard Co., Ltd.                           | 265,798                      |   | 14,259                                   | (80)   |  | 279,977                   |
| NanoEnTek, Inc.                                  | 39,514                       |   | (451)                                    | 5  |  | 39,068                    |
| SK Industrial Development China<br>Co., Ltd.     | 74,717                       |   | 5,154                                    | (1,092)  | (78,779)                                 |                           |
| SK Technology Innovation Company                 | 47,488                       |   | 331                                      | (2,426)  |  | 45,393                    |
| HappyNarae Co., Ltd.                             | 17,236                       | 688                                     | 1,690                                    | 46   |  | 19,660                    |
| SK hynix Inc.(*)                                 | 6,132,122                    |   | 1,512,697                                | (26,924)   | (87,660)                                 | 7,530,235                 |
| SK MENA Investment B.V.                          | 15,451                       |   | 99                                       | 7  |  | 15,557                    |
| SKY Property Mgmt. Ltd.                          | 263,225                      |   | 2,362                                    | 1,141  | (266,728)                                |                           |
| Xian Tianlong Science and<br>Technology Co., Ltd | 25,880                       |   | (1)                                      |  |  | 25,879                    |
| Daehan Kanggun BcN Co., Ltd. and<br>others(*)    | 115,181                      | (3,533)                                 | 5,085                                    | (2,041)  | (1,376)                                  | 113,316                   |
| Sub-total  | 7,306,816                    | 110,742                                 | 1,531,983                                | (29,349)   | (35,928)                                 | 8,884,264                 |
| <b>Investments in joint ventures:</b>            |                              |   |  |  |  |                           |
| Dogus Planet, Inc.                               | 20,081                       |   | (802)                                    | (522)  |  | 18,757                    |
| PT XL Planet Digital                             | 27,512                       | 9,036                                   | (8,648)                                  | (2,633)  |  | 25,267                    |
| Finnq Co. Ltd.                                   | 24,174                       |   | (4,040)                                  |  |  | 20,134                    |
| Celcom Planet and others.                        | 25,740                       |   | (6,143)                                  | (389)  |  | 19,208                    |
| Sub-total  | 97,507                       | 9,036                                   | (19,633)                                 | (3,544)  |  | 83,366                    |
|  | 7,404,323                    | 119,778                                 | 1,512,350                                | (32,893)   | (35,928)                                 | 8,967,630                 |

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

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**9. Investments in Associates and Joint Ventures, Continued**

- (6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the nine-month periods ended September 30, 2017 and 2016 are as follows, Continued:

*(In millions of won)***For the nine-month period ended September 30, 2016**

|  | <b>Beginning<br/>balance</b> | <b>Acquisition<br/>and<br/>Disposal</b> | <b>Share of<br/>profits<br/>(losses)</b> | <b>Other<br/>compre-<br/>hensive<br/>loss</b> | <b>Other<br/>decrease</b> | <b>Ending<br/>balance</b> |
|--|------------------------------|---|--|---|---------------------------|---------------------------|
| <b>Investments in associates:</b>                |                              |   |  |   |                           |                           |
| SK China Company Ltd.                            | 43,814                       |   | 1,788                                    | (3,122)                                       |                           | 42,480                    |
| Korea IT Fund(*)                                 | 260,456                      |   | 11,172                                   | (5,387)                                       | (6,082)                   | 260,159                   |
| KEB HanaCard Co., Ltd.                           | 254,177                      |   | 9,135                                    | (67)  |                           | 263,245                   |
| Candle Media Co., Ltd.                           | 20,144                       | (19,393)                                | (673)                                    | (78)  |                           |                           |
| NanoEnTek, Inc.                                  | 45,008                       |   | (2,496)                                  | (1,198)                                       |                           | 41,314                    |
| SK Industrial Development China Co.,<br>Ltd.     | 86,324                       |   | (5,925)                                  | (9,705)                                       |                           | 70,694                    |
| SK Technology Innovation Company                 | 45,891                       |   | 160                                      | (2,973)                                       |                           | 43,078                    |
| HappyNarae Co., Ltd.                             | 17,095                       |   | (850)                                    | (42)  |                           | 16,203                    |
| SK hynix Inc.(*)                                 | 5,624,493                    |   | 246,887                                  | (74,568)                                      | (73,050)                  | 5,723,762                 |
| SK MENA Investment B.V.                          | 14,929                       |   | 43                                       | (950)   |                           | 14,022                    |
| SKY Property Mgmt. Ltd.                          | 251,166                      |   | 15,932                                   | (24,350)                                      |                           | 242,748                   |
| Xian Tianlong Science and Technology<br>Co., Ltd | 25,767                       |   | (13)                                     |   |                           | 25,754                    |
| Daehan Kanggun BcN Co., Ltd. and<br>others       | 161,058                      | (21,581)                                | (6,265)                                  | (1,766)                                       | (1,380)                   | 130,066                   |
| <b>Sub-total</b>                                 | <b>6,850,322</b>             | <b>(40,974)</b>                         | <b>268,895</b>                           | <b>(124,206)</b>                              | <b>(80,512)</b>           | <b>6,873,525</b>          |
| <b>Investments in joint ventures:</b>            |                              |   |  |   |                           |                           |
| Dogus Planet, Inc.                               | 15,118                       | 18,848                                  | (8,831)                                  | (2,692)                                       |                           | 22,443                    |
| PT. Melon Indonesia                              | 4,339                        |   | 918                                      | (49)  |                           | 5,208                     |
| Celcom Planet                                    | 3,406                        | 17,488                                  | (16,666)                                 |   |                           | 4,228                     |
| PT XL Planet Digital                             | 23,108                       | 27,571                                  | (18,386)                                 |   |                           | 32,293                    |
| Finnq Co., Ltd.                                  |                              | 24,500                                  | (4)                                      |   |                           | 24,496                    |
| <b>Sub-total</b>                                 | <b>45,971</b>                | <b>88,407</b>                           | <b>(42,969)</b>                          | <b>(2,741)</b>                                |                           | <b>88,668</b>             |

|       |           |        |         |           |          |           |
|-------|-----------|--------|---------|-----------|----------|-----------|
| Total | 6,896,293 | 47,433 | 225,926 | (126,947) | (80,512) | 6,962,193 |
|-------|-----------|--------|---------|-----------|----------|-----------|

(\*) Dividends received from the associates are deducted from the carrying amount during the nine-month period ended September 30, 2016.

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**9. Investments in Associates and Joint Ventures, Continued**

- (7) The Group discontinued the application of equity method to the following investees due to their carrying amounts being reduced to zero. The details of cumulative unrecognized equity method losses as of September 30, 2017 are as follows:

| <i>(In millions of won)</i>     | Unrecognized loss                                  |                 | Unrecognized change in equity                      |                 |
|---------------------------------|--|-----------------|--|-----------------|
|                                 | For the nine-month period ended September 30, 2017 | Cumulative loss | For the nine-month period ended September 30, 2017 | Cumulative loss |
| Wave City Development Co., Ltd. | 3,790  | 7,080           |  |                 |
| Celcom Planet. and others       | 12,646   | 23,437          |  | 365             |
|                                 | 16,436   | 30,517          |  | 365             |

**10. Property and Equipment**

Changes in property and equipment for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)***For the nine-month period ended September 30, 2017**

|                          | Beginning balance | Acquisition | Disposal | Transfer    | Depreciation | Impairment | Business combinations |       | Ending balance |
|--------------------------|-------------------|-------------|----------|-------------|--------------|------------|-----------------------|-------|----------------|
|                          |                   |             |          |             |              |            | (*1)                  | (*2)  |                |
| Land                     | 835,909           | 2,938       | (4,406)  | 18,288      |              |            |                       |       | 852,729        |
| Buildings                | 899,972           | 221         | (459)    | 23,249      | (38,663)     |            |                       |       | 884,320        |
| Structures               | 358,955           | 13,845      | (74)     | 2,679       | (26,235)     |            |                       |       | 349,170        |
| Machinery                | 7,036,050         | 323,535     | (16,727) | 991,658     | (1,649,521)  | (5)        | (34)                  |       | 6,684,956      |
| Other                    | 563,034           | 463,835     | (5,616)  | (394,202)   | (106,770)    | (2,213)    | 4                     | (625) | 517,447        |
| Construction in progress | 680,292           | 672,040     | (1,845)  | (1,037,525) |              |            |                       |       | 312,962        |

|            |           |          |           |             |         |   |       |           |
|------------|-----------|----------|-----------|-------------|---------|---|-------|-----------|
| 10,374,212 | 1,476,414 | (29,127) | (395,853) | (1,821,189) | (2,218) | 4 | (659) | 9,601,584 |
|------------|-----------|----------|-----------|-------------|---------|---|-------|-----------|

(\*1) Other includes property and equipment acquired as a result of IRIVER LIMINTED's purchase of S.M. LIFE DESIGN COMPANY INC. during the nine-month period ended September 30, 2017.

(\*2) The assets of advertising department of SK Planet Co., Ltd., a subsidiary of the Parent Company was classified as held for sale during the nine-month period ended September 30, 2017.



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**10. Property and Equipment, Continued**

Changes in property and equipment for the nine-month periods ended September 30, 2017 and 2016 are as follows, Continued:

*(In millions of won)*

|                          | For the nine-month period ended September 30, 2016 |             |          |           |              |            | Ending balance |
|--------------------------|--|-------------|----------|-----------|--------------|------------|----------------|
|                          | Beginning balance                                  | Acquisition | Disposal | Transfer  | Depreciation | Impairment |                |
| Land                     | 812,947  | 1,764       | (2,881)  | 12,564    |              |            | 824,394        |
| Buildings                | 911,129  | 1,504       | (8,603)  | 22,167    | (37,666)     |            | 888,531        |
| Structures               | 344,221  | 11,265      | (15)     | 9,837     | (24,830)     |            | 340,478        |
| Machinery                | 7,342,009  | 368,633     | (26,126) | 522,214   | (1,605,325)  | (883)      | 6,600,522      |
| Other                    | 473,438  | 414,793     | (3,976)  | (275,251) | (106,076)    |            | 502,928        |
| Construction in progress | 487,512  | 509,635     | (7,419)  | (356,059) |              |            | 633,669        |
|                          | 10,371,256   | 1,307,594   | (49,020) | (64,528)  | (1,773,897)  | (883)      | 9,790,522      |

**11. Intangible Assets**

- (1) Details of the changes in intangible assets for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                        | For the nine-month period ended September 30, 2017 |             |          |          |              |   | Ending balance |
|------------------------|--|-------------|----------|----------|--------------|---|----------------|
|                        | Beginning balance                                  | Acquisition | Disposal | Transfer | Amortization | Classified as held for sale(*) Impairment |                |
| Frequency usage rights | 2,580,828  |             |          |          | (302,916)    |   | 2,277,912      |
| Land usage rights      | 20,834   | 2,836       | (905)    | 200      | (6,033)      |   | 16,932         |
| Industrial rights      | 121,200  | 2,280       | (19)     | (2,165)  | (5,299)      | (1)                                       | 115,996        |

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|                       |           |        |          |         |           |       |         |           |
|-----------------------|-----------|--------|----------|---------|-----------|-------|---------|-----------|
| Development costs     | 4,871     | 1,925  |          |         | (2,487)   |       |         | 4,309     |
| Facility usage rights | 41,788    | 1,689  | (36)     | 122     | (6,266)   |       |         | 37,297    |
| Customer relations    | 6,652     | 918    |          |         | (2,751)   |       |         | 4,819     |
| Club memberships      | 74,039    | 4,598  | (2,880)  | 87      |           |       | (1,349) | 74,495    |
| Other                 | 926,142   | 59,570 | (7,340)  | 417,189 | (268,534) | (233) | (359)   | 1,126,435 |
|                       | 3,776,354 | 73,816 | (11,180) | 415,433 | (594,286) | (233) | (1,709) | 3,658,195 |

(\*) The advertising department of SK Planet Co., Ltd., a subsidiary of the Parent Company was classified as held for sale during the nine-month period ended September 30, 2017.

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**11. Intangible Assets, Continued**

- (1) Details of the changes in intangible assets for the nine-month periods ended September 30, 2017 and 2016 are as follows Continued:

*(In millions of won)*

|                        | For the nine-month period ended September 30, 2016 |             |          |          |              |            | Ending balance |
|------------------------|--|-------------|----------|----------|--------------|------------|----------------|
|                        | Beginning balance                                  | Acquisition | Disposal | Transfer | Amortization | Impairment |                |
| Frequency usage rights | 1,103,517  | 1,254,664   |          |          | (220,514)    |            | 2,137,667      |
| Land usage rights      | 26,576   | 5,127       | (1,840)  |          | (7,010)      |            | 22,853         |
| Industrial rights      | 116,542  | 3,768       | (141)    | (185)    | (4,959)      |            | 115,025        |
| Development costs      | 7,472  | 1,300       |          | 338      | (3,021)      | (278)      | 5,811          |
| Facility usage rights  | 48,019   | 1,015       | (4)      | 71       | (6,444)      |            | 42,657         |
| Customer relations     | 7,175  | 504         |          |          | (2,971)      |            | 4,708          |
| Club memberships       | 91,507   | 7,348       | (6,570)  |          |              | (20)       | 92,265         |
| Other                  | 903,976  | 58,189      | (7,941)  | 72,854   | (247,182)    | (2,048)    | 777,848        |
|                        | 2,304,784  | 1,331,915   | (16,496) | 73,078   | (492,101)    | (2,346)    | 3,198,834      |

- (2) Details of frequency usage rights as of September 30, 2017 are as follows:

*(In millions of won)*

|                | Amount    | Description   | Commencement of amortization | Completion of amortization |
|----------------|-----------|---|------------------------------|----------------------------|
| 800MHz license | 152,040   | Frequency usage rights relating to CDMA and LTE service | Jul. 2011                    | Jun. 2021                  |
| 1.8GHz license | 533,885   | Frequency usage rights relating to LTE service          | Sept. 2013                   | Dec. 2021                  |
| WiBro license  | 3,544     | WiBro service   | Mar. 2012                    | Mar. 2019                  |
| 2.6GHz license | 1,123,125 |   | Sept. 2016                   | Dec. 2026                  |

|                |           |  |           |           |
|----------------|-----------|--|-----------|-----------|
| 2.1GHz license | 465,318   | Frequency usage rights<br>relating to LTE service<br>Frequency usage rights<br>relating to W-CDMA and<br>LTE service | Dec. 2016 | Dec. 2021 |
|                | 2,277,912 |  |           |           |

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**12. Borrowings and Debentures**

(1) Short-term borrowings as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                       | <b>Lender</b>  | <b>Annual<br/>interest<br/>rate</b> | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|-----------------------|----------------|-------------------------------------|-------------------------------|------------------------------|
| Short-term borrowings | Shinhan Bank   | 2.93%                               | 30,000                        |                              |
|                       | IBK Securities | 1.50%                               | 50,000                        |                              |
|                       | Woori Bank     | 2.88%                               |                               | 2,614                        |
|                       |                |                                     | 80,000                        | 2,614                        |

(2) Changes in long-term borrowings for the nine-month period ended September 30, 2017 are as follows:

*(In millions of won)*

|                                     | <b>Lender</b>          | <b>Annual<br/>interest<br/>rate</b> | <b>Maturity</b> | <b>Book<br/>value</b> |
|-------------------------------------|------------------------|-------------------------------------|-----------------|-----------------------|
| Current                             |                        |                                     |                 | 33,191                |
| Non-current                         |                        |                                     |                 | 139,716               |
| As of January 1, 2017               |                        |                                     |                 | 172,907               |
| New long-term borrowings:           |                        |                                     |                 |                       |
|                                     | Korea Development Bank | 3.20%                               | Mar. 31, 2020   | 30,000                |
|                                     | KEB Hana Bank          | 3.23%                               | Feb. 28, 2019   | 40,000                |
| Repayments of long-term borrowings: |                        |                                     |                 |                       |
|                                     | Kookmin Bank           | 1.29%                               | Mar. 15, 2017   | (500)                 |
|                                     | Kookmin Bank           | 1.86%                               | Mar. 15, 2018   | (2,150)               |
|                                     | Korea Development Bank | 2.20%                               | Jul. 30, 2019   | (9,750)               |

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|                          |                      |       |               |         |
|--------------------------|----------------------|-------|---------------|---------|
|                          | Korea Development    |       |               |         |
|                          | Bank                 | 2.20% | Jul. 30, 2019 | (2,500) |
|                          | Export Kreditnamnden | 1.70% | Apr. 29, 2022 | (6,407) |
| Other changes(*)         |                      |       |               | (3,659) |
| Current                  |                      |       |               | 39,911  |
| Non-current              |                      |       |               | 178,030 |
| As of September 30, 2017 |                      |       |               | 217,941 |

(\*) Other changes include the effects on foreign currency translation of foreign currency-denominated long-term borrowings and changes in present value discount during the nine-month period ended September 30, 2017.

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**12. Borrowings and Debentures, Continued**

(3) Changes in debentures for the nine-month period ended September 30, 2017 are as follows:

*(In millions of won, thousands of other currencies)*

|                               | Purpose          | Annual interest rate | Maturity      | Face value  | Book value  |
|-------------------------------|------------------|----------------------|---------------|-------------|-------------|
| Current                       |                  |                      |               | 856,014     | 855,276     |
| Non-current                   |                  |                      |               | 6,354,450   | 6,338,930   |
| As of January 1, 2017         |                  |                      |               | 7,210,464   | 7,194,206   |
| Debentures newly issued:      |                  |                      |               |             |             |
| Unsecured private bonds       | Refinancing fund | 1.93%                | Apr. 25, 2020 | 60,000      | 59,703      |
|                               |                  | 2.17%                | Apr. 25, 2022 | 120,000     | 119,498     |
|                               |                  | 2.55%                | Apr. 25, 2027 | 100,000     | 99,592      |
| Unsecured private bonds       | Operating and    |                      |               |             |             |
|                               | refinancing fund | 2.65%                | Apr. 25, 2032 | 90,000      | 89,663      |
| Unsecured private bonds(*1)   | Operating fund   | 2.26%                | Feb. 3, 2022  | 150,000     | 149,348     |
| Convertible bonds(*2)         | Facility fund    | 1.00%                | Dec. 23, 2019 | 4,770       | 4,688       |
| Debentures repaid::           |                  |                      |               |             |             |
| Unsecured private Swiss bonds | Operating fund   | 1.75%                | June 12, 2017 | (349,119)   | (349,119)   |
|                               |                  |                      |               | CHF 300,000 | CHF 300,000 |
| Unsecured private bonds(*1)   |                  | 4.28%                | Jan. 19, 2017 | (100,000)   | (100,000)   |
| Unsecured private bonds(*3)   |                  | 3.48%                | May 29, 2017  | (20,000)    | (20,000)    |
| Other changes(*4):            |                  |                      |               | (101,943)   | (94,315)    |
| Current                       |                  |                      |               | 1,532,702   | 1,530,803   |
| Non-current                   |                  |                      |               | 5,631,470   | 5,622,461   |
| As of September 30, 2017      |                  |                      |               | 7,164,172   | 7,153,264   |

(\*1) Unsecured private bonds were issued by SK Broadband Co., Ltd.

- (\*2) During the nine-month period ended September 30, 2017, the Parent Company sold the convertible bonds issued by IRIVER LIMITED to third parties.
- (\*3) Unsecured private bonds were issued by PS&Marketing Corporation.
- (\*4) Other changes include the effects on foreign currency translation of foreign currency-denominated long-term borrowings and changes in present value discount during the nine-month period ended September 30, 2017.



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**13. Long-term Payables - other**

(1) Long-term payables - other as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|   | <b>September 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|---|-------------------------------|------------------------------|
| Payables related to acquisition of frequency usage rights | 1,322,936                     | 1,602,943                    |
| Other(*)  | 19,235                        | 21,647                       |
|   | <b>1,342,171</b>              | <b>1,624,590</b>             |

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

(2) As of September 30, 2017 and December 31, 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)*

|   | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|---|---------------------------|--------------------------|
| Long-term payables - other                              | 1,710,255                 | 2,013,122                |
| Present value discount on long-term payables - other    | (86,855)                  | (108,406)                |
|   | <b>1,623,400</b>          | <b>1,904,716</b>         |
| Less current installments of long-term payables - other | (300,464)                 | (301,773)                |
| Carrying amount at period end                           | <b>1,322,936</b>          | <b>1,602,943</b>         |

(3) The repayment schedule of the principal amount of long-term payables - other related to acquisition of frequency usage rights as of September 30, 2017 is as follows:

*(In millions of won)*

|                   | <b>Amount</b> |
|-------------------|---------------|
| 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     |

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**14. Provisions**

Changes in provisions for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | For the nine-month period ended September 30, 2017 |          |             |          |       | As of September 30, 2017 |         |             |
|--|--|----------|-------------|----------|-------|--------------------------|---------|-------------|
|  | Beginning<br>balance                               | Increase | Utilization | Reversal | Other | Ending<br>balance        | Current | Non-current |
| Provision for installment of handset subsidy | 24,710   | 2        | (6,735)     |          |       | 17,977                   | 17,977  |             |
| Provision for restoration                    | 64,679   | 7,981    | (2,633)     | (396)    | 92    | 69,723                   | 39,626  | 30,097      |
| Emission allowance                           | 2,788  | 3,573    | (518)       | (2,283)  |       | 3,560                    | 3,560   |             |
| Other provisions                             | 5,740  | 4,074    | (5,624)     |          |       | 4,190                    | 4,190   |             |
|  | 97,917   | 15,630   | (15,510)    | (2,679)  | 92    | 95,450                   | 65,353  | 30,097      |

*(In millions of won)*

|  | For the nine-month period ended September 30, 2016 |          |             |          |       | As of September 30, 2016 |         |             |
|--|--|----------|-------------|----------|-------|--------------------------|---------|-------------|
|  | Beginning<br>balance                               | Increase | Utilization | Reversal | Other | Ending<br>balance        | Current | Non-current |
| Provision for installment of handset subsidy | 5,670  |          | (1,019)     |          |       | 4,651                    | 1,213   | 3,438       |
| Provision for restoration                    | 59,954   | 4,405    | (586)       | (863)    | (65)  | 62,845                   | 29,332  | 33,513      |
| Emission allowance                           | 1,477  | 1,016    | (169)       |          |       | 2,324                    | 2,324   |             |
| Other provisions                             | 3,104  | 2,370    | (319)       |          |       | 5,155                    | 5,155   |             |
|  | 70,205   | 7,791    | (2,093)     | (863)    | (65)  | 74,975                   | 38,024  | 36,951      |

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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**15. Defined Benefit Liabilities(Assets)**

(1) Details of defined benefit liabilities(assets) as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|  | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|--|---------------------------|--------------------------|
| Present value of defined benefit obligations | 673,043                   | 595,667                  |
| Fair value of plan assets                    | (553,102)                 | (555,175)                |
| <b>Defined benefit assets(*)</b>             | <b>(379)</b>              | <b>(30,247)</b>          |
| Defined benefit liabilities                  | 120,320                   | 70,739                   |

(\*) Since the Group entities have no legally enforceable rights 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 in the statements of financial position.

(2) Changes in defined benefit obligations for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                                  | <b>For the nine-month period ended</b> |                           |
|----------------------------------|--|---------------------------|
|                                  | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Beginning balance                | 595,667                                | 525,269                   |
| Current service cost             | 95,482                                 | 85,323                    |
| Interest cost                    | 11,800                                 | 9,884                     |
| Remeasurement:                   |  |                           |
| - Adjustment based on experience | 6,482                                  | 9,542                     |
| Benefit paid                     | (42,745)                               | (32,415)                  |
| Others                           | 6,357                                  | 2,248                     |
| Ending balance                   | 673,043                                | 599,851                   |

(3) Changes in plan assets for the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | <b>For the nine-month period ended</b> |                           |
|-----------------------------|--|---------------------------|
|                             | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Beginning balance           | 555,175                                | 426,413                   |
| Interest income             | 10,275                                 | 7,401                     |
| Remeasurement               | (2,422)                                | (5,182)                   |
| Contribution                | 39,601                                 | 45,009                    |
| Benefit paid                | (52,523)                               | (26,286)                  |
| Others                      | 2,996                                  | 1,723                     |
| Ending balance              | 553,102                                | 449,078                   |

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**15. Defined Benefit Liabilities(Assets), Continued**

- (4) Total cost of benefit plan, which is recognized in profit and loss (included in labor in the statement of income) and capitalized into construction-in-progress, for the nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i> | <b>For the nine-month period ended</b> |                           |
|-----------------------------|--|---------------------------|
|                             | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Current service cost        | 95,482                                 | 85,323                    |
| Net interest cost           | 1,525                                  | 2,483                     |
|                             | <b>97,007</b>                          | <b>87,806</b>             |

**16. Derivative Instruments**

The derivative contracts that matured or newly entered into during the nine-month period ended September 30, 2017 is as follows:

*(In thousands of other currencies)***Borrowing**

| <b>date</b>   | <b>Hedging Instrument(Hedged item)</b>  | <b>Hedged risk</b>    | <b>Financial institution</b>  | <b>Duration of contract</b>  |
|---------------|---|-----------------------|-------------------------------|------------------------------|
| Jun. 12, 2012 | Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds with face value of CHF 300,000) | Foreign currency risk | Citibank and four other banks | Jun. 12, 2012 ~ Jun.12, 2017 |
| 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 |

**17. Share Capital and Capital Surplus and Others**

The Parent Company's outstanding share capital consists entirely of common stocks with a par value of 500. The number of authorized, issued and outstanding common stocks and the details of capital surplus and others as of September 30, 2017 and December 31, 2016 are as follows:

(In millions of won, except for share data)

|                                    | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|------------------------------------|---------------------------|--------------------------|
| Number of authorized shares        | 220,000,000               | 220,000,000              |
| Number of issued shares            | 80,745,711                | 80,745,711               |
| <b>Share capital:</b>              |                           |                          |
| Common stock                       | 44,639                    | 44,639                   |
| <b>Capital surplus and others:</b> |                           |                          |
| Paid-in surplus                    | 2,915,887                 | 2,915,887                |
| Treasury shares                    | (2,260,626)               | (2,260,626)              |
| Hybrid bonds                       | 398,518                   | 398,518                  |
| Share option(Note 18)              | 279                       |                          |
| Others (*)                         | (857,591)                 | (854,000)                |
|                                    | <b>196,467</b>            | <b>199,779</b>           |

(\*) 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.

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**17. Share Capital and Capital Surplus and Others, Continued**

There were no changes in share capital for the nine-month periods ended September 30, 2017 and 2016 and details of shares outstanding as of September 30, 2017 and 2016 are as follows:

| <i>(In shares)</i> | September 30, 2017 |                |                    | September 30, 2016 |                |                    |
|--------------------|--------------------|----------------|--------------------|--------------------|----------------|--------------------|
|                    | Issued shares      | Treasury stock | Outstanding shares | Issued shares      | Treasury stock | Outstanding shares |
| Issued shares      | 80,745,711         | 10,136,551     | 70,609,160         | 80,745,711         | 10,136,551     | 70,609,160         |

**18. 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 in the Parent Company. The terms and conditions related to the grants of the share options under the share option program are as follows:

|                              | 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                                   |
| Exercise period              | Mar. 25, 2019 ~<br>Mar. 24, 2022          | Mar. 25, 2020 ~<br>Mar. 24, 2023          | Mar. 25, 2021 ~<br>Mar. 24, 2024          |
| Vesting conditions           | 2 years service<br>from the grant<br>date | 3 years service<br>from the grant<br>date | 4 years service<br>from the grant<br>date |

- (2) Share compensation expense recognized during the nine-month period ended September 30, 2017 and the remaining share compensation expense to be recognized in subsequent periods are as follows:



| <i>(In millions of won)</i>                              | <b>Share<br/>compensation expense</b> |
|--|---------------------------------------|
| During the nine-month period ended<br>September 30, 2017 | 279                                   |
| In subsequent periods                                    | 1,112                                 |
|  | 1,391                                 |

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

|   | <b>1-1</b> | <b>1-2</b> | <b>1-3</b> |
|---|------------|------------|------------|
| 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    |
| Fair value per share (in won)                           | 27,015     | 20,240     | 15,480     |

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**19. Retained Earnings**

Retained earnings as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|   | September 30, 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                              | 3,977,646          | 3,173,405         |
|   | 17,242,404         | 15,953,164        |

**20. Reserves**

(1) Details of reserves, net of taxes, as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|   | September 30, 2017 | December 31, 2016 |
|---|--------------------|-------------------|
| Valuation gain on available-for-sale financial assets           | 138,581            | 12,534            |
| Other comprehensive loss of investments in associates           | (211,927)          | (179,167)         |
| Valuation loss on derivatives                                   | (84,815)           | (96,418)          |
| Foreign currency translation differences for foreign operations | 14,115             | 36,868            |
|   | (144,046)          | (226,183)         |

(2) Changes in reserves for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                               | <b>For the nine-month period ended September 30, 2017</b>    |  |                                      |  |              |
|-------------------------------|--|--|--------------------------------------|--|--------------|
|                               | <b>Valuation gain on available-for-sale financial assets</b> | <b>Other comprehensive loss of investments in associates</b> | <b>Valuation loss on derivatives</b> | <b>Foreign currency translation differences for foreign operations</b> | <b>Total</b> |
| Balance at January 1, 2017    | 12,534   | (179,167)  | (96,418)                             | 36,868   | (226,183)    |
| Changes, net of taxes         | 126,047  | (32,760)   | 11,603                               | (22,753)   | 82,137       |
| Balance at September 30, 2017 | 138,581  | (211,927)  | (84,815)                             | 14,115   | (144,046)    |

*(In millions of won)*

|                               | <b>For the nine-month period ended September 30, 2016</b>           |  |                                      |  |              |
|-------------------------------|---|--|--------------------------------------|--|--------------|
|                               | <b>Valuation gain (loss) on available-for-sale financial assets</b> | <b>Other comprehensive loss of investments in associates</b> | <b>Valuation loss on derivatives</b> | <b>Foreign currency translation differences for foreign operations</b> | <b>Total</b> |
| Balance at January 1, 2016    | 232,316   | (169,520)  | (83,200)                             | 29,707   | 9,303        |
| Changes, net of taxes         | (155,593)   | (127,038)  | (14,349)                             | (40,977)   | (337,957)    |
| Balance at September 30, 2016 | 76,723  | (296,558)  | (97,549)                             | (11,270)   | (328,654)    |

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**21. Other Operating Expenses**

Details of other operating expenses for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | 2017   |   | 2016   |   |
|--|--|---|--|---|
|  | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| <b>Other Operating Expenses:</b>         |  |   |  |   |
| Communication                            | 7,246  | 21,243  | 7,065  | 25,215  |
| Utilities                                | 82,975   | 221,226                                       | 77,450   | 209,862                                       |
| Taxes and dues                           | 10,393   | 20,347  | 10,628   | 28,469  |
| Repair                                   | 78,718   | 242,259                                       | 81,588   | 237,077                                       |
| Research and development                 | 103,192  | 292,657                                       | 85,469   | 253,580                                       |
| Training                                 | 9,078  | 22,109  | 8,237  | 22,028  |
| Bad debt for accounts receivable - trade | 5,716  | 24,146  | 10,052   | 32,695  |
| Travel                                   | 6,053  | 17,675  | 6,310  | 18,428  |
| Supplies and other                       | 40,573   | 114,800                                       | 28,958   | 82,110  |
|  | 343,944  | 976,462                                       | 315,757  | 909,464                                       |

**22. Other Non-operating Income and Expenses**

Details of other non-operating income and expenses for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | 2017   |   | 2016   |   |
|--|--|---|--|---|
|  | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| <b>Other Non-operating Income:</b>                               |  |   |  |   |
| Fees revenues  | 90   | 276   | 158  | 425   |
| Gain on disposal of property and equipment and intangible assets | 4,230  | 12,206  | 2,645  | 4,893   |

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|  |        |         |        |         |
|--|--------|---------|--------|---------|
| Others   | 5,173  | 10,481  | 9,322  | 48,131  |
|  | 9,493  | 22,963  | 12,125 | 53,449  |
| <b>Other Non-operating Expenses:</b>                               |        |         |        |         |
| Loss on impairment of property and equipment and intangible assets |        | 2,451   | 2,432  | 3,229   |
| Loss on disposal of property and equipment and intangible assets   | 7,329  | 20,503  | 19,296 | 37,495  |
| Donations  | 30,445 | 67,950  | 23,115 | 70,253  |
| Bad debt for accounts receivable - others                          |        | 225     | 4,195  | 7,604   |
| Loss on impairment of investment assets                            | 319    | 6,735   | 3,109  | 14,977  |
| Others   | (52)   | 41,537  | 10,532 | 20,336  |
|  | 38,041 | 139,401 | 62,679 | 153,894 |

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**23. Finance Income and Costs**

- (1) Details of finance income and costs for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|   | 2017   |   | 2016   |   |
|---|--|---|--|---|
|   | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| <b>Finance Income:</b>  |  |   |  |   |
| Interest income   | 18,472   | 58,440  | 14,642   | 39,037  |
| Gain on sale of accounts receivable - trade                                 | 4,414  | 13,504  | 4,853  | 12,708  |
| Dividends   | 1,833  | 12,416  | 3,388  | 18,230  |
| Gain on foreign currency transactions                                       | 3,557  | 11,196  | 2,475  | 9,988   |
| Gain on foreign currency translations                                       | 672  | 3,269   | 4,353  | 5,389   |
| Gain on disposal of long-term investment securities                         | 1,890  | 4,653   | 3,150  | 320,052                                       |
| Gain on valuation of derivatives  | 285  | 1,195   | 1,024  | 4,708   |
| Gain relating to financial liabilities at fair value through profit or loss |  |   | 1,048  | 1,225   |
| Gain relating to financial assets at fair value through profit or loss      | 30   | 30  |  |   |
|   | 31,153   | 104,703                                       | 34,933   | 411,337                                       |

*(In millions of won)*

|   | 2017   |   | 2016   |   |
|---|--|---|--|---|
|   | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| <b>Finance Costs:</b>                       |  |   |  |   |
| Interest expense                            | 72,015   | 221,501                                       | 74,657   | 217,066                                       |
| Loss on sale of accounts receivable - trade | 2,294  | 7,249   |  |   |
| Loss on foreign currency transactions       | 4,104  | 13,323  | 6,001  | 13,393  |
| Loss on foreign currency translations       |  | 3,387   | 7,023  | 8,707   |

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|   |        |         |        |         |
|---|--------|---------|--------|---------|
| Loss on disposal of long-term investment securities                         |        | 36,024  | 310    | 444     |
| Loss on settlement of derivatives   |        | 8,910   | 1,518  | 1,837   |
| Loss relating to financial liabilities at fair value through profit or loss | 38     | 567     |        |         |
| Others  | 1,993  | 14,515  |        |         |
|   | 80,444 | 305,476 | 89,509 | 241,447 |

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For the nine-month periods ended September 30, 2017 and 2016

**23. Finance Income and Costs, Continued**

- (2) Details of interest income included in finance income for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | 2017   |   | 2016   |   |
|--|--|---|--|---|
|  | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| Interest income on cash equivalents and short-term financial instruments | 7,234  | 20,773  | 4,616  | 14,962  |
| Interest income on installment receivables and others                    | 11,238   | 37,667  | 10,026   | 24,075  |
|  | 18,472   | 58,440  | 14,642   | 39,037  |

- (3) Details of interest expenses included in finance costs for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                                 | 2017   |   | 2016   |   |
|---------------------------------|--|---|--|---|
|                                 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| Interest expenses on borrowings | 2,562  | 8,701   | 1,659  | 6,617   |
| Interest expenses on debentures | 55,042   | 168,360                                       | 61,557   | 182,532                                       |
| Others                          | 14,411   | 44,440  | 11,441   | 27,917  |
|                                 | 72,015   | 221,501                                       | 74,657   | 217,066                                       |

- (4) Details of impairment losses on financial assets for the nine-month periods ended September 30, 2017 and 2016 are as follows:



*(In millions of won)*

|                                     | 2017   |   | 2016   |   |
|-------------------------------------|--|---|--|---|
|                                     | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| Accounts receivable - trade         | 5,716  | 24,146  | 10,052   | 32,695  |
| Other receivables                   |  | 225   | 4,195  | 7,604   |
| Available-for-sale financial assets | 1,992  | 14,515  |  |   |
|                                     | 7,708  | 38,886  | 14,247   | 40,299  |

**24. Income Tax Expense**

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

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**25. Earnings per Share**

(1) Basic earnings per share

- 1) Basic earnings per share for the nine-month periods ended September 30, 2017 and 2016 are calculated as follows:

*(In millions of won, shares)*

|  | 2017                                  |                                      | 2016                                  |                                      |
|--|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|
|  | Three-month period ended September 30 | Nine-month period ended September 30 | Three-month period ended September 30 | Nine-month period ended September 30 |
| Profit attributable to owners of the Parent Company on common shares | 795,826                               | 2,009,849                            | 325,102                               | 1,187,084                            |
| Interest on hybrid bonds   |                                       | (8,420)                              |                                       | (8,420)                              |
| Profit for the period available for common shares                    | 795,826                               | 2,001,429                            | 325,102                               | 1,178,664                            |
| Weighted average number of common shares outstanding                 | 70,609,160                            | 70,609,160                           | 70,609,160                            | 70,609,160                           |
| Basic earnings per share (in won)                                    | 11,271                                | 28,345                               | 4,604                                 | 16,693                               |

- 2) The weighted average number of common shares outstanding for the nine-month periods ended September 30, 2017 and 2016 are calculated as follows:

*(In shares)*

|   | Number of shares | Weighted number of shares             |                                      |
|---|------------------|---------------------------------------|--------------------------------------|
|   |                  | Three-month period ended September 30 | Nine-month period ended September 30 |
| Issued common shares at January 1, 2017 | 80,745,711       | 80,745,711                            | 80,745,711                           |
| Effect of treasury shares               | (10,136,551)     | (10,136,551)                          | (10,136,551)                         |

|  |            |            |            |
|--|------------|------------|------------|
| Weighted average number of common shares outstanding at September 30, 2017 | 70,609,160 | 70,609,160 | 70,609,160 |
|--|------------|------------|------------|

*(In shares)*

|  | Number of shares | Weighted number of shares             |                                      |
|--|------------------|---------------------------------------|--------------------------------------|
|  |                  | Three-month period ended September 30 | Nine-month period ended September 30 |
| Issued common shares at January 1, 2016                                    | 80,745,711       | 80,745,711                            | 80,745,711                           |
| Effect of treasury shares  | (10,136,551)     | (10,136,551)                          | (10,136,551)                         |
| Weighted average number of common shares outstanding at September 30, 2016 | 70,609,160       | 70,609,160                            | 70,609,160                           |

## (2) Diluted earnings per share

For the nine-month periods ended September 30, 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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For the nine-month periods ended September 30, 2017 and 2016

**26. Categories of Financial Instruments**

(1) Financial assets by category as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                  | <b>September 30, 2017</b>  |   |                                  |   |              |
|----------------------------------|--|---|----------------------------------|---|--------------|
|                                  | <b>Financial<br/>assets at fair<br/>value through<br/>profit or<br/>loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivatives<br/>designated as<br/>hedging<br/>instrument</b> | <b>Total</b> |
| Cash and cash equivalents        |  |   | 1,447,178                        |   | 1,447,178    |
| Financial instruments            | 20,029   |   | 605,470                          |   | 625,499      |
| Short-term investment securities |  | 87,402  |                                  |   | 87,402       |
| Long-term investment securities  |  | 833,103   |                                  |   | 833,103      |
| Accounts receivable trade        |  |   | 2,142,302                        |   | 2,142,302    |
| Loans and other receivables(*)   |  |   | 1,674,285                        |   | 1,674,285    |
| Derivative financial assets      | 8,563  |   |                                  | 106,387   | 114,950      |
|                                  | 28,592   | 920,505   | 5,869,235                        | 106,387   | 6,924,719    |

*(In millions of won)*

|                                  | <b>December 31, 2016</b>   |   |                                  |   |              |
|----------------------------------|--|---|----------------------------------|---|--------------|
|                                  | <b>Financial<br/>assets at<br/>fair<br/>value<br/>through<br/>profit or<br/>loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivatives<br/>designated as<br/>hedging<br/>instrument</b> | <b>Total</b> |
| 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

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For the nine-month periods ended September 30, 2017 and 2016

**26. Categories of Financial Instruments, Continued**

(1) Financial assets by category as of September 30, 2017 and December 31, 2016 are as follows, Continued:

(\*) Details of loans and other receivables as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                     | September 30, 2017 | December 31, 2016 |
|-------------------------------------|--------------------|-------------------|
| Short-term loans                    | 74,406             | 58,979            |
| Accounts receivable other           | 1,004,635          | 1,121,444         |
| Accrued income                      | 4,999              | 2,780             |
| Other current assets                | 2,403              | 3,937             |
| Long-term loans                     | 54,061             | 65,476            |
| Long-term accounts receivable-other | 243,348            | 149,669           |
| Guarantee deposits                  | 290,433            | 298,964           |
|                                     | 1,674,285          | 1,701,249         |

(2) Financial liabilities by category as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                  | September 30, 2017   |  |   |           |
|----------------------------------|--|--|---|-----------|
|                                  | Financial<br>liabilities<br>at fair<br>value<br>through<br>profit or<br>loss | Financial<br>liabilities<br>measured at<br>amortized<br>cost | Derivatives<br>designated as<br>hedging<br>instrument | Total     |
| Accounts payable trade           |  | 257,105  |   | 257,105   |
| Derivative financial liabilities |  |  | 62,782  | 62,782    |
| Borrowings                       |  | 297,941  |   | 297,941   |
| Debentures(*1)                   | 60,167   | 7,093,097  |   | 7,153,264 |

|   |        |            |        |            |
|---|--------|------------|--------|------------|
| Accounts payable - other and others<br>(*2) |        | 4,127,713  |        | 4,127,713  |
|   | 60,167 | 11,775,856 | 62,782 | 11,898,805 |

*(In millions of won)***December 31, 2016**

|   | <b>Financial<br/>liabilities at fair<br/>value<br/>through<br/>profit or<br/>loss</b> | <b>Financial<br/>liabilities<br/>measured at<br/>amortized cost</b> | <b>Derivatives<br/>designated as<br/>hedging instrument</b> | <b>Total</b> |
|---|---|---|---|--------------|
| 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<br>(*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 September 30, 2017 and December 31, 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.

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**26. Categories of Financial Instruments, Continued**

(2) Financial liabilities by category as of September 30, 2017 and December 31, 2016 are as follows, Continued:

(\*2) Details of accounts payable other and others as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|   | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|---|---------------------------|--------------------------|
| Accounts payable other                        | 1,262,442                 | 1,767,799                |
| Withholdings                                  | 1,766                     | 1,525                    |
| Accrued expenses                              | 1,201,981                 | 1,125,816                |
| Current portion of long-term payables - other | 301,002                   | 301,773                  |
| Long-term payables - other                    | 1,342,171                 | 1,624,590                |
| Other non-current liabilities                 | 18,351                    | 21,231                   |
|   | <b>4,127,713</b>          | <b>4,842,734</b>         |

**27. Financial Risk Management**

(1) Financial risk management

The Group is exposed to credit risk, liquidity risk and market risk. Market risk is the risk related to the changes in market prices, such as foreign exchange rates, 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, and 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 foreign operations. Major foreign currencies where the currency risk occur are USD, JPY and EUR. The Group determines the currency risk management policy after considering the nature of business and the presence of methods that mitigate the currency risk for each Group entities. Currency risk occurs on forecasted transactions and recognized assets and liabilities which are denominated in a currency other than the functional currency of each Group entity. The Group manages currency risk arising from business transactions by using currency forwards, etc.

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For the nine-month periods ended September 30, 2017 and 2016

**27. 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 September 30, 2017 are as follows:

*(In millions of won, thousands of foreign currencies)*

|        | Assets             |                 | Liabilities        |                 |
|--------|--------------------|-----------------|--------------------|-----------------|
|        | Foreign currencies | Won translation | Foreign currencies | Won translation |
| USD    | 134,269            | 153,966         | 1,835,464          | 2,104,726       |
| EUR    | 28,227             | 38,131          | 169                | 228             |
| JPY    | 652,616            | 6,660           | 257,593            | 2,629           |
| AUD    |                    |                 | 299,930            | 269,949         |
| Others |                    | 609             |                    | 181             |
|        |                    | 199,366         |                    | 2,377,713       |

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

As of September 30, 2017, a hypothetical change in exchange rates by 10% would have increased (reduced) the Group's income before income taxes as follows:

*(In millions of won)*

|     | If increased by 10% | If decreased by 10% |
|-----|---------------------|---------------------|
| USD | 5,615               | (5,615)             |
| EUR | 3,791               | (3,791)             |

|        |       |         |
|--------|-------|---------|
| JPY    | 403   | (403)   |
| Others | 43    | (43)    |
|        | 9,852 | (9,852) |

(ii) Equity price risk

The Group has listed and non-listed equity securities for its liquidity management and operating purpose. As of September 30, 2017, available-for-sale equity instruments measured at fair value amount to 736,384 million.

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**27. Financial Risk Management, Continued**

## (1) Financial risk management, Continued

## 1) Market risk, Continued

## (iii) Interest rate risk

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

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

As of September 30, 2017, the floating-rate borrowings and debentures of the Group are 183,100 million and 344,010 million, respectively, and the Group has entered into interest rate swap agreements for some of floating-rate borrowings and debentures to hedge interest rate risk.

If the interest rate increases (decreases) 1% with all other variables held constant, income before income taxes for the nine-month period ended September 30, 2017, would change by 714 million due to the interest expense on floating-rate borrowings that are exposed to interest rate risk.

## 2) Credit risk

The maximum credit exposure as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                     | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|-------------------------------------|---------------------------|--------------------------|
| Cash and cash equivalents           | 1,447,018                 | 1,505,082                |
| Financial instruments               | 625,499                   | 469,705                  |
| Available-for-sale financial assets | 4,600                     | 6,755                    |
| Accounts receivable - trade         | 2,142,302                 | 2,261,311                |
| Loans and other receivables         | 1,674,285                 | 1,701,249                |

|                             |           |           |
|-----------------------------|-----------|-----------|
| Derivative financial assets | 114,950   | 214,770   |
|                             | 6,008,654 | 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.

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**27. Financial Risk Management, Continued**

(1) Financial risk management, Continued

2) Credit risk, Continued

The Group establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been 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 from transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Group has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets as of September 30, 2017.

3) Liquidity risk

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

Contractual maturities of financial liabilities as of September 30, 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            | 257,105         | 257,105                | 257,105          |             |                   |
| Borrowings(*)                       | 297,941         | 310,824                | 125,592          | 185,232     |                   |
| Debentures(*)                       | 7,153,264       | 8,314,841              | 1,740,630        | 3,761,871   | 2,812,340         |
| Accounts payable - other and others | 4,127,713       | 4,293,605              | 2,782,791        | 1,093,284   | 417,530           |
|                                     | 11,836,023      | 13,176,375             | 4,906,118        | 5,040,387   | 3,229,870         |

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

(\*) Includes interest payables.

As of September 30, 2017, periods in which cash flows from cash flow hedge derivatives are expected to occur are as follows:

*(In millions of won)*

|             | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Less than<br/>1 year</b> | <b>1 - 5 years</b> | <b>More than<br/>5 years</b> |
|-------------|----------------------------|-----------------------------------|-----------------------------|--------------------|------------------------------|
| Assets      | 106,387                    | 110,090                           | 28,857                      | 72,719             | 8,514                        |
| Liabilities | (62,782)                   | (62,172)                          | (62,551)                    | 379                |                              |
|             | 43,605                     | 47,918                            | (33,694)                    | 73,098             | 8,514                        |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**27. Financial Risk Management, Continued****(2) Capital management**

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

Debt-equity ratio as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                    | <b>September 30, 2017</b> | <b>December 31, 2016</b> |
|--------------------|---------------------------|--------------------------|
| Total liabilities  | 14,447,741                | 15,181,233               |
| Total equity       | 17,476,085                | 16,116,430               |
| Debt-equity ratios | 82.67%                    | 94.20%                   |

**(3) Fair value**

- 1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of September 30, 2017 are as follows:

*(In millions of won)*

|  | <b>September 30, 2017</b> |                |                |                | <b>Total</b> |
|--|---------------------------|----------------|----------------|----------------|--------------|
|  | <b>Carrying amount</b>    | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |              |
| <b>Financial assets that are measured at fair value:</b> |                           |                |                |                |              |
| Financial assets at fair value through profit or loss    | 28,592                    |                | 28,592         |                | 28,592       |
| Derivative financial assets                              | 106,387                   |                | 106,387        |                | 106,387      |
| Available-for-sale financial assets                      | 736,384                   | 545,333        | 87,402         | 103,649        | 736,384      |
|  | 871,363                   | 545,333        | 222,381        | 103,649        | 871,363      |

**Financial liabilities that are measured at fair value:**



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|  |         |         |         |
|--|---------|---------|---------|
| Financial liabilities at fair value through profit or loss | 60,167  | 60,167  | 60,167  |
| Derivative financial liabilities                           | 62,782  | 62,782  | 62,782  |
|  | 122,949 | 122,949 | 122,949 |

**Financial liabilities that are not measured at fair value:**

|                            |           |           |           |
|----------------------------|-----------|-----------|-----------|
| Borrowings                 | 297,941   | 299,038   | 299,038   |
| Debentures                 | 7,093,097 | 7,484,684 | 7,484,684 |
| Long-term payables - other | 1,643,173 | 1,748,929 | 1,748,929 |
|                            | 9,034,211 | 9,532,651 | 9,532,651 |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**27. Financial Risk Management, Continued**

(3) Fair value, Continued

- 2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2016 are as follows:

*(In millions of won)*

|  | Carrying<br>amount | December 31, 2016 |           |         | Total     |
|--|--------------------|-------------------|-----------|---------|-----------|
|  |                    | Level 1           | Level 2   | Level 3 |           |
| <b>Financial assets that are measured at fair value</b>          |                    |                   |           |         |           |
| 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   |
| <b>Financial liabilities that are measured at fair value</b>     |                    |                   |           |         |           |
| 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   |
| <b>Financial liabilities that are not measured at fair value</b> |                    |                   |           |         |           |
| 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 184,121 million and 194,600 million as of September 30, 2017 and December 31, 2016, respectively, are measured at cost in accordance with K-IFRS 1039 since they are equity instruments which do not have quoted price in an active market for the identical instruments and for which fair value cannot be reliably measured using other valuation methods.

Fair value of the financial instruments that are traded in an active market (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.

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Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**27. Financial Risk Management, Continued**

## (3) Fair value, Continued

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.

Interest rates used by the Group for the fair value measurement as of September 30, 2017 are as follows:

|                            | <b>Interest rate</b> |
|----------------------------|----------------------|
| Derivative instruments     | 1.22 ~ 1.89%         |
| Borrowings and debentures  | 2.20 ~ 2.36%         |
| Long-term payables - other | 2.00 ~ 2.44%         |

- 3) There have been no transfers between Level 2 to Level 1 for the nine-month period ended September 30, 2017 and changes of financial assets classified as Level 3 for the nine-month period ended September 30, 2017 are as follows:

(In millions of won)

|                                     | <b>Balance<br/>at<br/>January 1,<br/>2017</b> | <b>Acquisition</b> | <b>Transfer</b> | <b>Other<br/>comprehensive<br/>loss</b> | <b>Disposal</b> | <b>Balance at<br/>September 30, 2017</b> |
|-------------------------------------|---|--------------------|-----------------|---|-----------------|--|
| Available-for-sale financial assets | 107,558                                       | 2,277              | 3,949           | (3,185)                                 | (6,950)         | 103,649                                  |

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Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**27. 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 September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

|                                      |   |                      | <b>September 30, 2017</b>  |  |                   |
|--------------------------------------|---|----------------------|--|--|-------------------|
|                                      | <b>Gross financial instruments recognized</b> | <b>Amount offset</b> | <b>Net financial instruments presented on the statements of financial position</b> | <b>Relevant financial instruments not offset</b> | <b>Net amount</b> |
| <b>Financial assets:</b>             |   |                      |  |  |                   |
| Derivatives(*)                       | 31,048  |                      | 31,048   | (31,048)   |                   |
| Accounts receivable trade and others | 89,584  | (89,176)             | 408  |  | 408               |
|                                      | 120,632                                       | (89,176)             | 31,456   | (31,048)   | 408               |
| <b>Financial liabilities:</b>        |   |                      |  |  |                   |
| Derivatives(*)                       | 62,404  |                      | 62,404   | (31,048)   | 31,356            |
| Accounts payable other and others    | 89,206  | (89,176)             | 30   |  | 30                |
|                                      | 151,610                                       | (89,176)             | 62,434   | (31,048)   | 31,386            |

*(In millions of won)*

|  |   |                      | <b>December 31, 2016</b>   |  |                   |
|--|---|----------------------|--|--|-------------------|
|  | <b>Gross financial instruments recognized</b> | <b>Amount offset</b> | <b>Net financial instruments presented on the statements of financial position</b> | <b>Relevant financial instruments not offset</b> | <b>Net amount</b> |

**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.

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**28. Transactions with Related Parties**

## (1) List of related parties

| <b><u>Relationship</u></b>  | <b><u>Company</u></b>   |
|-----------------------------|---|
| Ultimate Controlling Entity | SK Holdings Co., Ltd.   |
| Joint ventures              | Dogus Planet, Inc. and 5 others   |
| Associates                  | SK hynix Inc. and 43 others   |
| Others                      | The Ultimate Controlling Entity's other subsidiaries and associates, etc. |

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

## (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 nine-month periods ended September 30, 2017 and 2016 are as follows:

| <i>(In millions of won)</i>    | 2017   |   | 2016   |   |
|--------------------------------|--|---|--|---|
|                                | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 | Three-month<br>period<br>ended<br>September 30 | Nine-month<br>period<br>ended<br>September 30 |
| Salaries                       | 332  | 1,831   | 220  | 1,421   |
| Defined benefits plan expenses | 83   | 175   | 48   | 376   |
| Share option                   | 135  | 279   |  |   |
|                                | 550  | 2,285   | 268  | 1,797   |

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





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SK TELECOM CO., LTD. and Subsidiaries

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For the nine-month periods ended September 30, 2017 and 2016

**28. Transactions with Related Parties, Continued**

- (3) Transactions with related parties for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

| Scope                       | Company                                 | For the nine-month period ended September 30, 2017 |                                      |                                       |                                      |                                       |                                      |
|-----------------------------|---|--|--------------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|
|                             |   | Operating revenue and others                       |                                      | Operating expense and others          |                                      | Acquisition of property and equipment |                                      |
|                             |   | Three-month period ended September 30              | Nine-month period ended September 30 | Three-month period ended September 30 | Nine-month period ended September 30 | Three-month period ended September 30 | Nine-month period ended September 30 |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1)               | 7,664  | 18,544                               | 99,615                                | 478,937                              | 34,542                                | 171,181                              |
| Associates                  | F&U Credit information Co., Ltd.        | 709  | 2,079                                | 12,948                                | 40,085                               |                                       | 37                                   |
|                             | HappyNarae Co., Ltd.                    | 126  | 2,897                                | 9,127                                 | 22,159                               | 22,928                                | 38,289                               |
|                             | SK hynix Inc.(*2)                       | 20,202   | 121,367                              | 11                                    | 157                                  |                                       |                                      |
|                             | KEB HanaCard Co., Ltd.                  | 4,455  | 13,629                               | 3,780                                 | 11,223                               |                                       |                                      |
|                             | Others(*3)                              | 315  | 3,527                                | 672                                   | 27,144                               |                                       | 151                                  |
|                             |   | 25,807   | 143,499                              | 26,538                                | 100,768                              | 22,928                                | 38,477                               |
| Other                       | SK Engineering & Construction Co., Ltd. | 880  | 3,965                                | 219                                   | 795                                  |                                       |                                      |
|                             | SK Networks Co., Ltd.                   | 6,372  | 16,405                               | 289,320                               | 817,631                              | 390                                   | 671                                  |
|                             | SK Networks service Co., Ltd.           | 217  | 295                                  | 29,058                                | 69,075                               | 521                                   | 2,210                                |
|                             | SK Telesys Co., Ltd.                    | 114  | 276                                  | 16,973                                | 36,124                               | 43,306                                | 90,173                               |
|                             | SK Energy Co., Ltd.                     | 2,942  | 5,275                                | 140                                   | 560                                  |                                       |                                      |
|                             | SK Innovation Co., Ltd.                 | 2,619  | 6,278                                | 183                                   | 673                                  |                                       |                                      |
|                             | SK TNS Co., Ltd                         | 34   | 101                                  | 8,897                                 | 16,395                               | 132,813                               | 227,539                              |
|                             | SK infosec Co., Ltd.                    | 407  | 910                                  | 12,031                                | 39,230                               | 3,146                                 | 7,802                                |
|                             |   | 6  | 14                                   | 11,519                                | 33,231                               | 9,849                                 | 30,707                               |

SKC INFRA  
SERVICE Co., Ltd.

|        |        |         |         |           |         |         |
|--------|--------|---------|---------|-----------|---------|---------|
| Others | 6,778  | 21,051  | 7,353   | 22,001    | 17      | 17      |
|        | 20,369 | 54,570  | 375,693 | 1,035,715 | 190,042 | 359,119 |
|        | 53,840 | 216,613 | 501,846 | 1,615,420 | 247,512 | 568,777 |

(\*1) Operating expenses 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 1,403 million of dividends received from Korea IT Fund.

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For the nine-month periods ended September 30, 2017 and 2016

**28. Transactions with Related Parties, Continued**

- (3) Transactions with related parties for the nine-month periods ended September 30, 2017 and 2016 are as follows, Continued:

*(In millions of won)*

| Scope                       | Company                                 | For the nine-month period ended September 30, 2016 |                                 |                                  |                                 |                                       |                                 |                                  |                                 |                                  |                                 |
|-----------------------------|---|--|---------------------------------|----------------------------------|---------------------------------|---------------------------------------|---------------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                             |   | Operating revenue and others                       |                                 | Operating expense and others     |                                 | Acquisition of property and equipment |                                 | Loans                            |                                 | Collection of loans              |                                 |
|                             |   | Three-month period ended Sep. 30                   | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30      | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 | Three-month period ended Sep. 30 | Nine-month period ended Sep. 30 |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1)               | 5,984  | 16,988                          | 119,102                          | 567,221                         | 69,386                                | 118,972                         |                                  |                                 |                                  |                                 |
| Associates                  | F&U Credit information Co., Ltd.        | 560  | 1,630                           | 11,998                           | 35,335                          |                                       |                                 |                                  |                                 |                                  |                                 |
|                             | HappyNarae Co., Ltd.                    | 73   | 225                             | 5,418                            | 11,139                          | 7,479                                 | 11,788                          |                                  |                                 |                                  |                                 |
|                             | SK hynix Inc.(*2)                       | 9,027  | 94,331                          | 83                               | 373                             |                                       |                                 |                                  |                                 |                                  |                                 |
|                             | SK Wyverns Baseball Club Co., Ltd.      | 328  | 948                             | 2                                | 14,971                          |                                       |                                 |                                  |                                 |                                  |                                 |
|                             | KEB HanaCard Co., Ltd.                  | 4,929  | 14,928                          | 3,667                            | 11,146                          |                                       |                                 |                                  |                                 |                                  |                                 |
|                             | Others(*3)                              | 2  | 6,084                           | 1,085                            | 3,800                           | 316                                   | 359                             | 1,100                            | 1,290                           | 2,990                            |                                 |
|                             |   | 14,919   | 118,146                         | 22,253                           | 76,764                          | 7,795                                 | 12,147                          | 1,100                            | 1,290                           | 2,990                            |                                 |
| Other                       | SK Engineering & Construction Co., Ltd. | 1,053  | 4,083                           | 265                              | 1,427                           | 1,245                                 | 1,890                           |                                  |                                 |                                  |                                 |

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|                               |        |         |         |           |         |         |       |       |       |
|-------------------------------|--------|---------|---------|-----------|---------|---------|-------|-------|-------|
| SK Networks Co., Ltd.         | 3,299  | 8,486   | 301,420 | 834,915   |         | 16      |       |       |       |
| SK Networks service Co., Ltd. | 234    | 1,020   | 23,506  | 68,336    | 1,492   | 2,101   |       |       |       |
| SK Telesys Co., Ltd.          | 392    | 525     | 38,860  | 57,216    | 30,076  | 84,669  |       |       |       |
| SK TNS Co., Ltd               | 29     | 76      | 11,575  | 28,960    | 103,969 | 195,310 |       |       |       |
| SK Energy Co., Ltd.           | 2,300  | 5,048   | 163     | 618       |         |         |       |       |       |
| SK Gas Co., Ltd.              | 721    | 1,662   |         | 2         |         |         |       |       |       |
| Others                        | 9,676  | 26,737  | 21,043  | 47,637    | 14,985  | 21,273  |       |       |       |
|                               | 17,704 | 47,637  | 396,832 | 1,039,111 | 151,767 | 305,259 |       |       |       |
| Total                         | 38,607 | 182,771 | 538,187 | 1,683,096 | 228,948 | 436,378 | 1,100 | 1,290 | 2,990 |

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

(\*2) Operating revenue and others include 73,050 million of dividends received from SK Hynix Inc. which was deducted from the investment in associates.

(\*3) Operating revenue and others include 6,082 million of dividends received from the Korea IT Fund.

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**28. Transactions with Related Parties, Continued**

(4) Account balances with related parties as of September 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

| Scope                       | Company  | Loans  | September 30, 2017  |   |
|-----------------------------|--|--------|---|---|
|                             |  |        | Accounts receivable<br>Accounts receivable<br>trade and<br>others | Accounts payable<br>Accounts payable -<br>other and<br>others |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.                          |        | 4,399   | 72,418  |
| Associates                  | HappyNarae Co., Ltd.                           |        | 4   | 3,235   |
|                             | F&U Credit information Co., Ltd.               |        | 74  | 581   |
|                             | SK hynix Inc.                                  |        | 22,762  |   |
|                             | Wave City Development Co., Ltd.                |        | 38,412  |   |
|                             | Daehan Kanggun BcN Co., Ltd.(*)                | 22,147 |   |   |
|                             | KEB HanaCard Co., Ltd.                         |        | 1,455   | 8,252   |
|                             | Xian Tianlong Science and Technology Co., Ltd. | 8,287  |   |   |
|                             | Others   | 813    | 1,202   | 3,379   |
|                             |  | 31,247 | 63,909  | 15,447  |
| Other                       | SK Engineering & Construction Co., Ltd.        |        | 1,102   | 152   |
|                             | SK Networks. Co., Ltd.                         |        | 4,965   | 225,028   |
|                             | SK Networks Services Co., Ltd.                 |        |   | 1,388   |
|                             | SK Telesys Co., Ltd.                           |        | 33  | 15,756  |
|                             | SK TNS Co., Ltd.                               |        | 10  | 6,884   |
|                             | SK Innovation Co., Ltd.                        |        | 9,327   | 148   |
|                             | SK Energy Co., Ltd.                            |        | 4,241   | 211   |
|                             | Others   |        | 3,697   | 20,536  |

|  |        |        |         |
|--|--------|--------|---------|
|  |        | 23,375 | 270,103 |
|  | 31,247 | 91,683 | 357,968 |

(\*) As of September 30, 2017, the Parent Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as allowances for doubtful accounts.

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**28. Transactions with Related Parties, Continued**

- (4) Account balances with related parties as of September 30, 2017 and December 31, 2016 are as follows, Continued:

*(In millions of won)*

| Scope                       | Company  | Loans  | December 31, 2016                          |   |
|-----------------------------|--|--------|--|---|
|                             |  |        | Accounts receivable<br>trade and<br>others | Accounts payable<br>other and<br>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                                     |

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|                     |        |         |
|---------------------|--------|---------|
| SK Energy Co., Ltd. | 1,213  | 113     |
| Others              | 4,552  | 30,218  |
|                     | 12,213 | 391,033 |
|                     | 31,247 | 82,385  |
|                     |        | 571,711 |

- (\*) As of December 31, 2016, the Parent Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as allowances for doubtful accounts.
- (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 September 30, 2017, the Group provides with USD12,240,000 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 nine-month periods ended September 30, 2017 and 2016 as presented in Note 9.



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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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**29. Commitments and Contingencies**

(1) Collateral assets and commitments

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases on buildings in the amount of 5,606 million as of September 30, 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 September 30, 2017.

(2) Legal claims and litigations

As of September 30, 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 nine-month period ended September 30, 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 868,899 million as of September 30, 2017 which the Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable other and long-term accounts receivable other.

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**30. Statements of Cash Flows**

- (1) Adjustments for income and expenses from operating activities for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|  | <b>For the nine-month period ended</b> |                           |
|--|--|---------------------------|
|  | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Interest income  | (58,440)                               | (39,037)                  |
| Dividends  | (12,416)                               | (18,230)                  |
| Gain on foreign currency translation   | (3,269)                                | (5,389)                   |
| Gain relating to financial liabilities at fair value through profit or loss      |  | (1,225)                   |
| Gain relating to financial assets at fair value through profit or loss           | (30)                                   |                           |
| Gain on disposal of long-term investments securities                             | (4,653)                                | (320,052)                 |
| Gain on valuation of derivatives   | (1,195)                                | (4,708)                   |
| Gain on sale of accounts receivable - trade                                      | (13,504)                               | (12,708)                  |
| Gain relating to investments in subsidiaries, associates and joint ventures, net | (1,567,730)                            | (228,813)                 |
| Gain on disposal of property, equipment and intangible assets                    | (12,206)                               | (4,893)                   |
| Other income   | (18)                                   | (794)                     |
| Interest expenses  | 221,501                                | 217,066                   |
| Loss on foreign currency translation   | 3,387                                  | 8,707                     |
| Loss on disposal of long-term investments securities                             | 36,024                                 | 444                       |
| Other finance costs  | 14,515                                 |                           |
| Loss on settlement of derivatives  | 8,910                                  | 1,837                     |
| Loss relating to financial liabilities at fair value through profit or loss      | 567                                    |                           |
| Loss on sale of accounts receivable - trade                                      | 7,249                                  |                           |
| Bad debt for accounts receivable - trade   | 24,146                                 | 32,695                    |
| Income tax expense   | 479,738                                | 346,646                   |
| Depreciation and amortization  | 2,415,475                              | 2,266,101                 |

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|  |           |           |
|--|-----------|-----------|
| Impairment loss on property and equipment and intangible assets  | 2,451     | 3,229     |
| Loss on disposal of property and equipment and intangible assets | 20,503    | 37,495    |
| Retirement benefit expenses                                      | 97,007    | 87,806    |
| Share option   | 279       |           |
| Loss on impairment of investment assets                          | 6,735     | 14,977    |
| Bad debt for accounts receivable - other                         | 225       | 7,604     |
| Other expenses   | 3,503     | 21,320    |
|  | 1,668,754 | 2,410,078 |

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the nine-month periods ended September 30, 2017 and 2016

**30. Statements of Cash Flows, Continued**

- (2) Changes in assets and liabilities from operating activities for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|                                       | <b>For the nine-month period ended</b> |                           |
|---------------------------------------|--|---------------------------|
|                                       | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Accounts receivable - trade           | 54,890                                 | (2,254)                   |
| Accounts receivable - other           | 80,087                                 | (484,036)                 |
| Accrued income                        | 140                                    | 441                       |
| Advance payments                      | 1,786                                  | 10,864                    |
| Prepaid expenses                      | (21,383)                               | (21,616)                  |
| Value-Added Tax refundable            | 2,980                                  | (1,527)                   |
| Inventories                           | 8,195                                  | (6,125)                   |
| Long-term accounts receivable - other | (93,611)                               | (226,167)                 |
| Guarantee deposits                    | 16,465                                 | (3,449)                   |
| Accounts payable - trade              | (97,921)                               | 37,497                    |
| Accounts payable - other              | (40,541)                               | (117,347)                 |
| Advanced receipts                     | (4,148)                                | 7,966                     |
| Withholdings                          | (36,464)                               | 210,506                   |
| Deposits received                     | (3,602)                                | (1,974)                   |
| Accrued expenses                      | 34,194                                 | 207,212                   |
| Value-Added Tax payable               | 12,898                                 | 7,685                     |
| Unearned revenue                      | (10,893)                               | (34,438)                  |
| Provisions                            | (3,673)                                | 905                       |
| Long-term provisions                  | (1,067)                                | (20)                      |
| Plan assets                           | 12,922                                 | (18,723)                  |
| Retirement benefit payment            | (42,745)                               | (32,415)                  |
| Others                                | (2,036)                                | (11,549)                  |
|                                       | <b>(133,527)</b>                       | <b>(478,564)</b>          |

- (3) Significant non-cash transactions for the nine-month periods ended September 30, 2017 and 2016 are as follows:

*(In millions of won)*

|   | <b>For the nine-month period ended</b> |                           |
|---|--|---------------------------|
|   | <b>September 30, 2017</b>              | <b>September 30, 2016</b> |
| Increase (decrease) in accounts payable - other relating to the acquisition of property and equipment and intangible assets | (414,270)                              | 800,734                   |