

SK TELECOM CO LTD  
Form 20-F  
April 29, 2019  
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As filed with the Securities and Exchange Commission on April 29, 2019

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the fiscal year ended December 31, 2018**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**For the transition period from to**

**Commission file number 1-14418**

**SK Telecom Co., Ltd.**

*(Exact name of Registrant as specified in its charter)*

**SK Telecom Co., Ltd.**

*(Translation of Registrant's name into English)*

**The Republic of Korea**

*(Jurisdiction of incorporation or organization)*

**SK T-Tower**

**65, Eulji-ro, Jung-gu, Seoul, Korea**

*(Address of principal executive offices)*

**Ms. Hye Young Jung**

**65, Eulji-ro, Jung-gu, Seoul, Korea**

**Telephone No.: +82-2-6100-2114**

**Facsimile No.: +82-2-6100-7827**

*(Name, telephone, email and/or facsimile number and address of company contact person)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

| <b>Title of Each Class</b>   | <b>Name of Each Exchange on Which Registered</b> |
|--|--|
| American Depositary Shares, each representing one-ninth of one share of Common Stock | New York Stock Exchange                          |
| Common Stock, par value 500 per share  | New York Stock Exchange*                         |

\* Not for trading, but only in connection with the registration of the American Depositary Shares.

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**71,869,828 shares of common stock, par value 500 per share (not including 8,875,883 shares of common stock held by the company as treasury shares).**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** **No**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. **Yes** **No**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). **Yes** **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definitions of "accelerated filer," "large accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                                |                          |                              |                                |
|--------------------------------|--------------------------|------------------------------|--------------------------------|
| <b>Large accelerated filer</b> | <b>Accelerated filer</b> | <b>Non-accelerated filer</b> | <b>Emerging growth company</b> |
|--------------------------------|--------------------------|------------------------------|--------------------------------|

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

|                  |  |              |
|------------------|--|--------------|
| <b>U.S. GAAP</b> | <b>International Financial Reporting Standards as issued by the International Accounting Standards Board</b> | <b>Other</b> |
|------------------|--|--------------|

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 **Item 18**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** **No**



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**CERTAIN DEFINED TERMS AND CONVENTIONS USED IN THIS ANNUAL REPORT**

All references to Korea contained in this annual report shall mean The Republic of Korea. All references to the Government shall mean the government of The Republic of Korea. All references to 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. All references to U.S. shall mean the United States of America.

All references to MHz contained in this annual report shall mean megahertz, a unit of frequency denoting one million cycles per second. All references to GHz shall mean gigahertz, a unit of frequency denoting one billion cycles per second. All references to Mbps shall mean one million bits per second and all references to Gbps shall mean one billion bits per second. All references to GB shall mean gigabytes, which is one billion bytes. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

All references to Won, or in this annual report are to the currency of Korea and all references to Dollars, U.S. dollars or US\$ are to the currency of the United States of America.

The Ministry of Science and ICT (the MSIT) is charged with regulating information and telecommunications, and the Korea Communications Commission (the KCC) is charged with regulating the public interest aspects of and fairness in broadcasting. Subscriber information for the wireless and fixed-line telecommunications industry set forth in this annual report are derived from information published by the MSIT unless expressly stated otherwise.

The consolidated financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (the IASB). As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016 included in this annual report.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis.

**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements, as defined in Section 27A of the U.S. Securities Act of 1933, as amended (the Securities Act), and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, considering, depends, estimate, expect, intend, plan, planning, planned, project and similar expressions. Events, actions or results may, might, should or could occur, be taken or be achieved.

Forward-looking statements in this annual report include, but are not limited to, statements about the following:

- our ability to anticipate and respond to various competitive factors affecting the telecommunications industry, including new services that may be introduced, changes in consumer preferences, economic conditions and discount pricing strategies by competitors;



our implementation of fifth generation wireless technology, which we call 5G technology;

our plans for capital expenditures in 2019 for a range of projects, including investments to expand and further commercialize our newly implemented 5G network, investments to improve and expand our fourth generation long-term evolution ( LTE ) network and long-term evolution advanced ( LTE-A ) services, investments to improve and expand our Wi-Fi network, investments to develop our Internet of Things

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( IoT ) solutions and platform services business portfolio, including artificial intelligence ( AI ) solutions, investments in research and development of 5G technology, investments in businesses that can potentially leverage our 5G network, and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth businesses, as well as initiatives related to our ongoing businesses in the ordinary course;

our efforts to make significant investments to build, develop and broaden our businesses, including developing our next-generation growth businesses in IoT solutions, media, e-commerce, security and other innovative products and services offered through our platform services, including AI solutions;

our ability to comply with governmental rules and regulations, including the regulations of the Government related to telecommunications providers, the Mobile Device Distribution Improvement Act ( MDDIA ), rules related to our status as a market-dominating business entity under the Korean Monopoly Regulation and Fair Trade Act (the Fair Trade Act ) and the effectiveness of steps we have taken to comply with such regulations;

our ability to effectively manage our bandwidth and to timely and efficiently implement new bandwidth-efficient technologies and our intention to participate in, and acquire additional bandwidth pursuant to, frequency bandwidth auctions held by the MSIT;

our expectations and estimates related to interconnection fees, rates charged by our competitors, regulatory fees, operating costs and expenditures, working capital requirements, principal repayment obligations with respect to long-term borrowings, bonds and obligations under capital leases, and research and development expenditures and other financial estimates;

the success of our various joint ventures and investments, including SK Hynix, Inc. ( SK Hynix ), a memory-chip maker;

our ability to successfully attract and retain subscribers; and

the growth of the telecommunications industry in Korea and other markets in which we do business and the effect that economic, political or social conditions have on our number of subscribers and results of operations. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. Risks and uncertainties associated with our business include, but are not limited to, risks related to changes in the regulatory environment, technology changes, potential litigation and governmental actions, changes in the competitive environment, political changes, foreign exchange currency risks, foreign ownership limitations, credit risks and other risks and uncertainties that are more fully described under the heading Item 3.D. Risk Factors and elsewhere in this annual report. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect

future events or circumstances.

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**PART I**

**Item 1. *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS***

**Item 1.A. *Directors and Senior Management***

Not applicable.

**Item 1.B. *Advisers***

Not applicable.

**Item 1.C. *Auditors***

Not applicable.

**Item 2. *OFFER STATISTICS AND EXPECTED TIMETABLE***

Not applicable.

**Item 3. *KEY INFORMATION***

**Item 3.A. *Selected Financial Data***

You should read the selected consolidated financial and operating data below in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report. The selected consolidated financial data set forth below as of and for each of the five years ended December 31, 2018 have been derived from our audited consolidated financial statements and related notes thereto, which have been prepared in accordance with IFRS as issued by the IASB.

In addition to preparing consolidated financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with Korean International Financial Reporting Standards ( K-IFRS ) as adopted by the Korean Accounting Standards Board (the KASB ), which we are required to file with the Financial Services Commission of Korea (the FSC ) and the Korea Exchange Inc. (the Korea Exchange ) under the Financial Investment Services and Capital Markets Act (the FSCMA ). English translations of such financial statements are furnished to the U.S. Securities and Exchange Commission (the SEC ) on Form 6-K. K-IFRS requires operating profit, which is calculated as operating revenue less operating expense, to be separately presented on the consolidated statement of income. Operating expense represents expenses incurred in our main operating activities and includes cost of goods sold and selling, general and administrative expenses. The presentation of operating profit in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report differs from the presentation of operating profit in the consolidated statements of income prepared in

accordance with K-IFRS for the corresponding periods in certain respects. For additional information, see Item 5.A. Operating Results Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

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|  | Year Ended December 31,  |            |            |            |            |
|--|--|------------|------------|------------|------------|
|  | 2018   | 2017       | 2016       | 2015       | 2014       |
|  | (In billions of Won, except per share and number of shares data) |            |            |            |            |
| <b>STATEMENT OF INCOME DATA</b>                                      |  |            |            |            |            |
| Operating Revenue and Other  |  |            |            |            |            |
| Income   | 16,945.9   | 17,552.0   | 17,158.3   | 17,167.6   | 17,220.3   |
| Revenue  | 16,874.0   | 17,520.0   | 17,091.8   | 17,136.7   | 17,163.8   |
| Other income   | 71.9   | 32.0       | 66.5       | 30.9       | 56.5       |
| Operating Expense  | 16,112.1   | 16,327.4   | 15,854.9   | 15,672.2   | 15,612.4   |
| Operating Profit   | 833.8  | 1,224.6    | 1,303.4    | 1,495.4    | 1,607.8    |
| Profit before Income Tax   | 3,976.0  | 3,403.3    | 2,096.1    | 2,035.4    | 2,253.8    |
| Profit from Continuing Operations                                    | 3,132.0  | 2,657.6    | 1,660.1    | 1,515.9    | 1,799.3    |
| Profit for the Year  | 3,132.0  | 2,657.6    | 1,660.1    | 1,515.9    | 1,799.3    |
| Basic Earnings per Share <sup>(1)</sup>                              | 44,066   | 36,582     | 23,497     | 20,988     | 25,154     |
| Diluted Earnings per Share <sup>(2)</sup>                            | 44,066   | 36,582     | 23,497     | 20,988     | 25,154     |
| Basic Earnings per Share from Continuing Operations <sup>(1)</sup>   | 44,066   | 36,582     | 23,497     | 20,988     | 25,154     |
| Diluted Earnings per Share from Continuing Operations <sup>(2)</sup> | 44,066   | 36,582     | 23,497     | 20,988     | 25,154     |
| Dividends Declared per Share (Won)                                   | 10,000   | 10,000     | 10,000     | 10,000     | 9,400      |
| Dividends Declared per Share (US\$) <sup>(3)</sup>                   | 9.0  | 9.4        | 8.3        | 8.6        | 8.6        |
| Weighted Average Number of Shares                                    | 70,622,976   | 70,609,160 | 70,609,160 | 71,551,966 | 70,936,336 |

|   | As of December 31,   |          |          |          |          |
|---|----------------------|----------|----------|----------|----------|
|   | 2018                 | 2017     | 2016     | 2015     | 2014     |
|   | (In billions of Won) |          |          |          |          |
| <b>STATEMENT OF FINANCIAL POSITION DATA</b> |                      |          |          |          |          |
| Working Capital (Deficit) <sup>(4)</sup>    | 1,111.3              | (907.3)  | (447.5)  | (96.3)   | (337.2)  |
| Property and Equipment, Net                 | 10,718.4             | 10,144.9 | 10,374.2 | 10,371.3 | 10,567.7 |
| Total Assets                                | 42,369.1             | 33,428.7 | 31,297.7 | 28,581.4 | 27,941.2 |
| Non-current Liabilities <sup>(5)</sup>      | 13,172.3             | 8,290.4  | 8,737.1  | 7,950.8  | 7,272.7  |
| Share Capital                               | 44.6                 | 44.6     | 44.6     | 44.6     | 44.6     |
| Total Equity                                | 22,349.3             | 18,029.2 | 16,116.4 | 15,374.1 | 15,248.3 |

|   | As of December 31,                           |           |           |           |           |
|---|--|-----------|-----------|-----------|-----------|
|   | 2018   | 2017      | 2016      | 2015      | 2014      |
|   | (In billions of Won, except percentage data) |           |           |           |           |
| <b>OTHER FINANCIAL DATA</b>               |  |           |           |           |           |
| Capital Expenditures <sup>(6)</sup>       | 2,792.4                                      | 2,715.9   | 2,490.5   | 2,478.8   | 3,008.0   |
| Research and Development Expense          | 387.7  | 395.3     | 344.8     | 315.8     | 390.9     |
| Depreciation and Amortization Expense     | 3,126.1                                      | 3,097.5   | 2,941.9   | 2,845.3   | 2,714.7   |
| Net Cash Provided by Operating Activities | 4,332.6                                      | 3,855.8   | 4,243.2   | 3,778.1   | 3,677.4   |
| Net Cash Used in Investing Activities     | (4,047.7)                                    | (3,070.6) | (2,462.2) | (2,880.5) | (3,683.2) |

|  |         |         |           |         |         |
|--|---------|---------|-----------|---------|---------|
| Net Cash Used in Financing Activities              | (238.3) | (826.6) | (1,044.8) | (964.6) | (559.4) |
| Margins (% of Operating Revenue and Other Income): |         |         |           |         |         |
| Operating Margin <sup>(7)</sup>                    | 4.9%    | 7.0%    | 7.6%      | 8.7%    | 9.3%    |
| Net Margin <sup>(8)</sup>                          | 18.5%   | 15.1%   | 9.7%      | 8.8%    | 10.4%   |

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|   | <b>As of or for the year ended December 31,</b> |             |             |             |             |
|---|---|-------------|-------------|-------------|-------------|
|   | <b>2018</b>                                     | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
| <b>SELECTED OPERATING DATA</b>                          |   |             |             |             |             |
| Population of Korea (in millions) <sup>(9)</sup>        | 51.8  | 51.8        | 51.7        | 51.5        | 51.3        |
| Our Wireless Penetration <sup>(10)</sup>                | 59.6%   | 58.3%       | 57.2%       | 55.6%       | 55.1%       |
| Number of Employees <sup>(11)</sup>                     | 39,909  | 30,608      | 25,844      | 25,992      | 25,689      |
| Our Wireless Subscribers (in thousands) <sup>(12)</sup> | 30,882  | 30,195      | 29,595      | 28,626      | 28,279      |
| Our LTE Subscribers (in thousands) <sup>(13)</sup>      | 24,796  | 22,865      | 21,078      | 18,980      | 16,737      |
| Our LTE Penetration <sup>(14)</sup>                     | 80.3%   | 75.7%       | 71.2%       | 66.3%       | 59.2%       |
| Average Monthly Data                                    |   |             |             |             |             |
| Usage per Subscriber <sup>(15)</sup>                    | 7.1 GB  | 6.0 GB      | 5.2 GB      | 3.9 GB      | 3.0 GB      |
| Average Monthly Churn Rate <sup>(16)</sup>              | 1.2%  | 1.5%        | 1.5%        | 1.5%        | 2.0%        |
| Cell Sites  | 54,203  | 52,132      | 54,986      | 55,085      | 50,158      |

- (1) Basic earnings per share is calculated by dividing profit attributable to owners of SK Telecom by the weighted average number of common shares outstanding during the period. Basic earnings per share from continuing operations is calculated by dividing profit from continuing operations attributable to owners of SK Telecom by the weighted average number of common shares outstanding during the period.
- (2) Diluted earnings per share is calculated by dividing profit attributable to owners of SK Telecom adjusted for dilution by the potential dilutive weighted average number of common shares outstanding during the period, taking into account the conversion of outstanding convertible bonds. Diluted earnings per share from continuing operations is calculated by dividing profit from continuing operations attributable to owners of SK Telecom adjusted for dilution by the potential dilutive weighted average number of common shares outstanding during the period, taking into account the conversion of outstanding convertible bonds.
- (3) The Dollar amounts shown for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 were translated at the rate of Won 1,112.9 to US\$1.00, Won 1,067.4 to US\$1.00, Won 1,203.7 to US\$1.00, Won 1,169.3 to US\$1.00 and Won 1,090.9 to US\$1.00, respectively, the noon buying rates for cable transfers in New York City certified for customs purposes by the Federal Reserve Bank of New York in effect at the end of the respective years.
- (4) Working capital means current assets minus current liabilities.



- (5) Our monetary assets and liabilities denominated in foreign currencies are valued at the exchange rates prevailing at the end of each reporting period. See note 4(19) of the notes to our consolidated financial statements.
- (6) Consists of cash outflows for the acquisition of property and equipment.
- (7) Operating revenue and other income and operating profit used in the calculation of these ratios exclude the operating revenue and other income and operating profit from discontinued operations.
- (8) Net margin represents profit for the year divided by operating revenue and other income.
- (9) Population numbers reflect the number of registered residents as published by the Ministry of the Interior and Safety of Korea.
- (10) Our wireless penetration is determined by dividing our wireless subscribers by total estimated population, as of the end of the period.
- (11) Includes regular employees and temporary employees. See Item 6.D. Employees.
- (12) Wireless subscribers include those subscribers who are temporarily deactivated, including (i) subscribers who voluntarily deactivate temporarily for a period of up to three months no more than twice a year and (ii) subscribers with delinquent accounts who may be involuntarily deactivated up to two months before permanent deactivation, which we determine based on various factors, including prior payment history. The number of subscribers as of December 31, 2018, 2017, 2016, 2015 and 2014 include 3.5 million subscribers, 3.4 million subscribers, 3.2 million subscribers, 2.7 million subscribers and 2.1 million subscribers, respectively, of mobile virtual network operators ( MVNO ) that lease our wireless networks.
- (13) The number of LTE subscribers as of December 31, 2018, 2017 and 2016 include 0.6 million subscribers, 0.5 million subscribers and 0.3 million subscribers, respectively, of MVNOs that lease our LTE network.

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- (14) Our LTE wireless penetration is determined by dividing our LTE subscribers by our total wireless subscribers, as of the end of the period.
- (15) Average monthly data usage per LTE subscriber is determined by dividing the total GBs of data usage for the last month of the period by the average number of LTE subscribers for such month.
- (16) The average monthly churn rate for a period is the number calculated by dividing the sum of voluntary and involuntary deactivations during the period by the simple average of the number of subscribers at the beginning and end of the period, then dividing that number by the number of months in the period. Churn includes subscribers who upgrade to a next-generation service, such as LTE, by terminating their service and opening a new subscriber account.

**Item 3.B. Capitalization and Indebtedness**

Not applicable.

**Item 3.C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**Item 3.D. Risk Factors**

**Risks Relating to Our Business**

***Competition may reduce our market share and harm our results of operations and financial condition.***

We face substantial competition across all our businesses, including our wireless telecommunications business. We expect competition to intensify as a result of the development of new technologies, products and services. We expect that such trends will continue to put downward pressure on the rates we can charge our subscribers.

Historically, there has been considerable consolidation in the telecommunications industry, resulting in the current competitive landscape comprising three mobile and fixed network operators in the Korean market, us, KT Corporation ( KT ) and LG Uplus Corp. ( LG U+ ). Each of our competitors has substantial financial, technical, marketing and other resources to respond to our business offerings.

The collective market share of our competitors amounts to approximately 52.8%, in terms of number of wireless subscribers, as of December 31, 2018. We also compete for subscriber activations with MVNOs, including MVNOs that lease our networks. MVNOs generally provide rate plans that are relatively cheaper than similar rate plans of the wireless network providers from which they lease their networks, including us. In addition, other companies may enter the wireless network services market. New entries into such market have historically required obtaining requisite licenses from the MSIT. However, pursuant to an amendment to the Telecommunications Business Act, which will become effective in June 2019, companies meeting certain regulatory criteria may become a network service provider by registering with the MSIT without a separate license requirement, which may have the effect of encouraging new entries into the Korean wireless network services market in the future.

We believe the increase in market share of MVNOs and the entrance of new mobile network operators in the wireless telecommunications market may further increase competition in the telecommunications sector, as well as cause downward price pressure on the fees we charge for our services, which, in turn, may have a material adverse effect on our results of operations, financial position and cash flows.

Our fixed-line telephone service competes with KT and LG U+, as well as other providers of voice over Internet protocol ( VoIP ) services. As of December 31, 2018, our market share of the fixed-line telephone and VoIP service market was 16.0% (including the services provided by SK Broadband Co., Ltd. ( SK Broadband ) and SK Telink Co., Ltd. ( SK Telink )) in terms of number of subscribers compared to KT with 57.7% and LG U+ with 17.4%. In addition, our broadband Internet access and Internet protocol TV ( IPTV ) services provided through SK Broadband compete with other providers of such services, including KT, LG U+ and cable companies. As of December 31, 2018, our market share of the broadband Internet market was 25.4% in terms of number of

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subscribers compared to KT with 41.0% and LG U+ with 18.9%. As of December 31, 2018, our market share of the pay TV market (which includes IPTV, cable TV and satellite TV) was 14.1% compared to KT with 23.3% and LG U+ with 11.9% and the collective market share of other pay TV providers with 50.7%.

Recently, the Korean fixed-line telecommunications industry has been going through significant consolidation involving major cable television service providers. In January 2019, LG U+ announced its plan to acquire a majority equity stake in CJ Hello Co., Ltd. ( CJ Hello ), which is one of the largest cable television and other fixed-line telecommunication services providers in Korea. In April 2019, SK Broadband entered into an agreement with Tbroad Co., Ltd., a leading cable television and other fixed-line telecommunication services provider in Korea with consolidated total assets of Won 1,192.3 billion and consolidated total revenue of Won 684.1 billion as of and for the year ended December 31, 2018, and two of its subsidiaries, Tbroad Dongdaemun Broadcasting Co., Ltd. and Korea Digital Cable Media Center Co. Ltd., (collectively, Tbroad ), pursuant to which Tbroad will merge with and into SK Broadband. Upon the completion of such merger, which is expected to occur by early 2020, we expect to own approximately 74.4% of SK Broadband's total outstanding shares. In addition, SK Telecom signed a separate share purchase agreement with Tbroad Co., Ltd. to acquire a 55.0% equity interest in Tbroad Nowon Broadcasting Co., Ltd. ( Tbroad Nowon ), another subsidiary of Tbroad Co., Ltd., for a purchase price of Won 10.4 billion. While the completion of each of these transactions is currently pending, successful completion of such transactions, as well as further consolidation in the fixed-line telecommunications industry, may result in increased competition, as the entities emerging from such consolidation and other remaining players in the industry may actively pursue expanding or protecting their respective market shares.

Furthermore, the Government has historically enforced regulations on cable TV and IPTV service providers that prohibited them from having a market share of more than one-third of the total number of subscribers in the relevant pay TV market on each of their respective platforms. In June 2015, the Government amended the regulation to impose the same limit on the market share of the entire pay TV market, including satellite TV service providers as well. Such amended regulation, however, expired in June 2018, which has led to the speculation that KT, currently the dominant market player in both the IPTV and satellite TV markets, may further increase its market share by acquiring other players in the pay TV market. While the expiration of such regulation has prompted the submission of a number of bills in the National Assembly to extend its application, it is uncertain whether such bill will be passed. If such regulation is not extended, it may have a material adverse effect on our IPTV business.

Continued competition from other wireless and fixed-line service providers has also resulted in, and may continue to result in, a substantial level of deactivations among our subscribers. Subscriber deactivations, or churn, may significantly harm our business and results of operations. In 2018, the monthly churn rate in our wireless telecommunications business ranged from 1.2% to 1.3%, with an average monthly churn rate of 1.2%, which decreased from 1.5% in 2017. Intensification of competition in the future may cause our churn rates to increase, which in turn may cause us to increase our marketing expenses as a percentage of sales to attract and retain subscribers.

With respect to the e-commerce business operated by Eleven Street Co., Ltd. ( Eleven Street ), 11st, our marketplace business, faces intense competition from various e-commerce providers, including online open marketplaces such as Gmarket, Auction and Interpark and online social commerce operators such as Coupang, Ticket Monster and Wemakeprice. We also face competition from traditional retailers with online and mobile shopping portals such as SSG.com and Lotte.com, home shopping providers with online and mobile shopping portals such as CJ Mall by CJ O Shopping, GS Shop by GS Homeshopping and Hyundai Hmall by Hyundai Homeshopping, and various online marketplaces for specific consumer segments or product groups. The industry in which 11st competes is evolving rapidly and is intensely competitive, and we face a broad array of competitors domestically and increasingly, internationally.

Our ability to compete successfully in all of the businesses in which we operate will depend on our ability to anticipate and respond to various competitive factors affecting the respective industries, including new services that may be introduced, changes in consumer preferences, economic conditions and discount pricing strategies by competitors.

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***Inability to successfully implement or adapt our network and technology to meet the continuing technological advancements affecting the wireless telecommunications industry will likely have a material adverse effect on our financial condition, results of operation, cash flows and business.***

The telecommunications industry has been characterized by continual improvement and advances in technology, and this trend is expected to continue. We and our competitors have continually implemented technology upgrades from our basic code division multiple access ( CDMA ) network to our wideband code division multiple access ( WCDMA ) network, and subsequently to LTE and 5G technologies. Since first commencing our LTE services in July 2011 and LTE-A services, which use carrier aggregation technology that combines spectrum frequencies to improve data transmission speeds, in June 2013, we have developed and launched various upgraded LTE networks and services providing faster network speeds, enhanced connectivity and broader coverage areas. Additionally, in order to promote the growth of our IoT solutions business, we deployed new networks nationwide, namely our high-speed LTE-M network in March 2016, our low-cost Low-Power Wide-Area network based on LoRa technology (our LoRa network ) in July 2016, as well as our LTE Cat.M1 network in April 2018. We believe that these new networks will support the active development and provision of diverse IoT solutions at a lower cost. For a more detailed description of our backbone networks, including our 5G network, see Item 4.B. Business Overview Cellular Services Digital Wireless Network.

Our business could also be harmed if we fail to implement, or adapt to, future technological advancements in the telecommunications sector in a timely manner, such as the implementation of 5G technology. Following the commencement of the operation of our 5G network on a limited basis for business customers in December 2018 in a few major commercial districts in Seoul and other metropolitan areas, we launched wireless service plans using the 5G network in April 2019 following the commencement of sales of the first 5G-compatible smartphones. We are in the process of expanding our 5G network coverage, beginning with the Seoul metropolitan area and other major cities. KT and LG U+ have also rolled out their respective 5G wireless service plans in April 2019. In addition, we plan to continue upgrading and enhancing our LTE network, which we expect will continue to be used broadly by our subscriber base during the near future, as we and our competitors continue to build up 5G networks and services and wireless service users gradually migrate to the 5G network over time. The more successful operation of an LTE or 5G network or development of improved LTE or 5G technology by a competitor, including better market acceptance of a competitor's LTE or 5G services, could materially and adversely affect our existing wireless telecommunications businesses as well as the returns on future investments we may make in our LTE network or our other businesses.

In addition to introducing new technologies and offerings, we must phase out outdated and unprofitable technologies and services. For example, as of January 2019, we discontinued our wireless broadband Internet access ( WiBro ) services, and we also plan to phase out CDMA services by the end of 2019. If we are unable to do so on a cost-effective basis, our results of operations could be adversely affected.

***Implementation of new wireless technology and enhancement of existing wireless technology have required, and may continue to require, significant capital and other expenditures, which we may not recoup.***

We have made, and intend to continue to make, capital investments to develop, launch and enhance our wireless service. In 2018, 2017 and 2016, we spent Won 1,735.6 billion, Won 1,597.0 billion and Won 1,508.0 billion, respectively, in capital expenditures to build and enhance our wireless networks. Our continued implementation of 5G services, which use a higher frequency spectrum than our LTE services, will require additional cell sites and other infrastructure, which may result in an increase in our capital expenditures in the future. We also plan to make further capital investments related to our wireless services in the future, including services that can potentially leverage our 5G network. Our wireless technology-related investment plans are subject to change, and will depend, in part, on market demand for LTE and 5G services, the competitive landscape for provision of such services and the

development of competing technologies. There may not be sufficient demand for services based on our latest wireless technologies, as a result of competition or otherwise, to permit us to recoup or profit from our wireless technology-related capital investments.

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***Our businesses are subject to extensive Government regulation and any change in Government policy relating to the telecommunications industry could have a material adverse effect on our results of operations, financial condition and cash flows.***

Most of our businesses are subject to extensive governmental supervision and regulation.

***Rate Regulation.*** The Government has periodically reviewed the rates charged by wireless telecommunications service providers and has, from time to time, released public policy guidelines or suggested rate reductions. Although these guidelines or suggestions were not binding, we have implemented some rate reductions in response to them. For example, under the MDDIA, wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving subsidies. In June 2017, the State Affairs Planning Advisory Committee of Korea announced that it would encourage wireless telecommunications service providers, including us, to increase the applicable discount rate offered to subscribers from 20% to 25%, which we adopted in September 2017, and to offer additional discounts to low income customers, including those on government welfare programs and senior citizen recipients of the basic pension, which we implemented in December 2017 and July 2018, respectively. See [Item 4.B. Business Overview Law and Regulation Rate Regulation](#) and [Item 5.A. Operating Results Overview New Rate Regulations](#). Such discounts have contributed to a decrease in the monthly revenue per subscriber of our wireless telecommunications services. See [Item 5.A. Operating Results Overview Decrease in Monthly Revenue per Subscriber](#). The Government may suggest other rate reductions in the future, and any further rate reductions we make in response to such suggestion may adversely affect our results of operations.

***Selection of Technology Standards.*** The Government also plays an active role in the selection of technology to be used by telecommunications operators in Korea. For example, the Government adopted the WCDMA and CDMA2000 technologies as the only standards available in Korea for implementing third generation services. The MSIT may impose similar restrictions on the choice of technology used in future telecommunications services, and it is possible that technologies promoted by the Government in the future may not provide the best commercial returns for us.

***Frequency Allocation.*** The Government sets the policies regarding the use of frequencies and allocates the spectrum of frequencies used for wireless telecommunications. See [Item 4.B. Business Overview Law and Regulation Frequency Allocation](#). The reallocation of the spectrum to our existing competitors could increase competition among wireless telecommunications service providers, which may have an adverse effect on our business.

***MVNOs.*** Pursuant to the Telecommunications Business Act, certain wireless telecommunications service providers designated by the MSIT, which currently include only us, are required to lease their networks or allow use of their networks (collectively, a wholesale lease) to other network service providers, such as an MVNO, that have requested such a wholesale lease in order to provide their own services using the leased networks. To date, thirteen MVNOs have commenced providing wireless telecommunications services using the networks leased from us. We believe that leasing a portion of our bandwidth capacity to an MVNO impairs our ability to use our bandwidth in ways that would generate maximum revenues and strengthens our MVNO competitors by granting them access and lowering their costs to enter into and operate in our markets. Accordingly, our profitability has and may continue to be adversely affected.

***Interconnection.*** Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Our interconnection arrangements, including the interconnection rates we pay and interconnection rates we charge, affect our revenues and operating results. The MSIT determines the basic framework for interconnection arrangements, including policies relating to interconnection rates in Korea. The KCC, which determined such basic framework under the previous Government, changed the basic



framework for interconnection arrangements several times. We cannot assure you that we will not be adversely affected by the MSIT's interconnection policies and future changes to such policies. See Item 4.B. Business Overview Interconnection Domestic Calls.

*Regulatory Action.* The MSIT may revoke our licenses or suspend any of our businesses if we fail to comply with its rules, regulations and corrective orders, including the rules restricting beneficial ownership and control or

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any violation of the conditions of our licenses. Alternatively, in lieu of suspension of our business, the KCC may levy a monetary penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years. For information about the penalties imposed on us for violating Governmental regulations, see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings KCC Proceedings. Such penalties, which may include the revocation of cellular licenses, suspension of business or imposition of monetary penalties by the KCC, could have a material adverse effect on our business. We believe we are currently in compliance with the material terms of all our cellular licenses.

***We are subject to additional regulations as a result of our dominant market position in the wireless telecommunications sector, which could harm our ability to compete effectively.***

The Government endeavors to promote competition in the Korean telecommunications markets through measures designed to prevent a dominant service provider from exercising its market power and deterring the emergence and development of viable competitors. We have been designated by the MSIT as the dominant network service provider in respect of our wireless telecommunications business. As such, we are subject to additional regulations to which certain of our competitors are not subject. For example, under current Government regulations, we must obtain prior approval from the MSIT to raise our existing rates or introduce new rates. Multiple bills have been proposed to the National Assembly to change the approval requirement to a simple reporting requirement, which is the requirement for our competitors. However, there is no assurance as to which of these bills, if any, will be passed. See Item 4.B. Business Overview Law and Regulation Rate Regulation. The MSIT could also require us to charge higher usage rates than our competitors for future services or to take certain actions earlier than our competitors, as when the KCC required us to introduce number portability earlier than our competitors, KT and LG U+.

We also qualify as a market-dominating business entity under the Fair Trade Act, which subjects us to additional regulations and we are prohibited from engaging in any act of abusing our position as a market-dominating entity. See Item 4.B. Business Overview Law and Regulation Competition Regulation. The additional regulations to which we are subject has affected our competitiveness in the past and may materially hurt our profitability and impede our ability to compete effectively against our competitors in the future.

***Declines in the market value of our equity holdings in SK Hynix and the results of operations of SK Hynix could have a material adverse effect on the market price of our common shares and American Depositary Shares ( ADSs ) as well as our results of operation.***

As of December 31, 2018, we held a 20.1% equity interest in SK Hynix, which is listed on the KRX KOSPI Market of the Korea Exchange (the KRX KOSPI Market ) and is one of the world's largest memory-chip makers by revenue. As of December 31, 2018, the fair value of our holding in SK Hynix was Won 8,839.1 billion. We received dividend payments of Won 146.1 billion in 2018, Won 87.7 billion in 2017 and Won 73.1 billion in 2016 related to such shareholding.

From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged downturns, which often occur in connection with a deterioration of global economic conditions, and is subject to intense competition. For example, SK Hynix and its subsidiaries, on a consolidated basis, incurred net losses of Won 158.8 billion and Won 56.0 billion in 2012 and 2011, respectively, primarily due to increased supply and weak demand for semiconductor products. Although the memory semiconductor industry has recovered since then and SK Hynix has been reporting net profits since 2013, the industry is subject to cyclical fluctuations and we expect that there may be future downturns in the industry. Accordingly, SK Hynix's operating results would be adversely affected if it fails to compete successfully or decrease manufacturing costs at an adequate level. Our share of any net losses incurred by SK Hynix would be reflected in our income statement as share of losses related to investments in

associates.

Accordingly, declines in the market value of our equity holdings in SK Hynix and the results of operations of SK Hynix could have a material adverse effect on the market price of our common shares and ADSs as well as our results of operation.

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***We may fail to successfully complete, integrate or realize the anticipated benefits of our new acquisitions or joint ventures, and such transactions may negatively impact our business.***

We continue to seek opportunities to develop new businesses that we believe are complementary to our existing product and service portfolio and expand our global business through selective acquisitions. Accordingly, we are often engaged in evaluating potential transactions and other strategic alternatives, some of which may be significant in size. For example, in April 2019, in furtherance of our efforts to enhance the competitiveness of our media business and to promote its future growth, we entered into an agreement with Content Alliance Platform Inc. ( Content Alliance Platform ), a joint venture among the three major terrestrial broadcasters in Korea that operates the mobile over-the-top ( OTT ) service POOQ, pursuant to which we will transfer our mobile OTT service oksusu business to Content Alliance Platform to pursue a combination of the two mobile OTT services and participate in a capital increase by Content Alliance Platform through a third-party allotment for a cash consideration of Won 90.0 billion. Furthermore, in April 2019, we signed an agreement to acquire a 34.6% interest in Incross Co., Ltd., a digital advertising company, for an aggregate purchase price of Won 53.5 billion, in light of potential synergies with our media and e-commerce businesses. Also in April 2019, SK Broadband entered into a merger agreement with Tbroad, a leading cable television and other fixed-line telecommunication services provider in Korea, to enhance our capabilities and increase our market share in the fixed-line business. The completion of each of these transactions is subject to regulatory approvals and other closing conditions.

In recent years, we acquired a 46.2% interest in SM Mobile Communications Co., Ltd. ( SM Mobile Communications ) for Won 12.1 billion in 2016, which was subsequently merged into our consolidated subsidiary Dreamus Company (formerly known as IRIVER LIMITED) ( Dreamus ), and we acquired Life Design Company Inc. (formerly known as S.M. Life Design Company Japan Inc.) ( Life Design ) for Won 30.0 billion in 2017, in light of potential synergies that may be achieved through the entertainment business. Furthermore, in order to strengthen our security business and explore potential synergies with our wireless and fixed-line business portfolio, we acquired a 55.0% interest in Life & Security Holdings Co., Ltd. ( LSH ), which owns 100% of ADT CAPS Co., Ltd., a leading Korean physical security service company, and two sister companies, CAPSTEC Co., Ltd. and ADT SECURITY Co., Ltd. (collectively, ADT Caps ), for Won 696.7 billion in October 2018. We also acquired a 100% interest in SK Infosec Co., Ltd. ( SK Infosec ), Korea's leading information security company, in a share exchange transaction pursuant to which we issued 1,260,668 treasury shares with an aggregate book value of Won 281.2 billion in exchange for all of the outstanding common shares of SK Infosec in December 2018 from SK Holdings Co., Ltd. ( SK Holdings ), our largest shareholder. In 2018, we also increased our interest in id Quantique SA ( id Quantique ), a leading provider of quantum cryptography solutions for data security based in Switzerland, from 4.6% as of December 31, 2017 to 65.6% as of December 31, 2018, through the acquisition of additional shares with Won 55.2 billion in cash and Won 5.7 billion in contribution-in-kind. For a more detailed description of our recent investments in new businesses, see Item 5.B. Liquidity and Capital Resources Capital Requirements Investments in New Growth Businesses.

While we are hoping to benefit from a range of synergies from our recent or future acquisitions as well as develop new growth engines for our business, we may not be able to successfully complete or integrate such acquisitions or new businesses and may fail to realize the expected benefits in the near term, or at all. In addition, when we enter into new businesses with partners through joint ventures or other strategic alliances, we and those partners may have disagreements with respect to strategic directions or other aspects of business, or may otherwise be unable to coordinate or cooperate with each other, any of which could materially and adversely affect our operations in such businesses. Our business may be negatively impacted if we fail to successfully integrate or realize the anticipated benefits of such transactions.

***Due to the existing high penetration rate of wireless telecommunications services in Korea, we are unlikely to maintain our subscriber growth rate, which could adversely affect our results of operations.***

According to data published by the MSIT and the historical population data published by the Ministry of the Interior and Safety, the penetration rate for the Korean wireless telecommunications industry as of December 31, 2018 was approximately 126.1%, which is relatively high compared to many industrialized countries. Therefore, we expect that the penetration rate for wireless telecommunications service in Korea will remain relatively stable. As a result of the already high penetration rate in Korea for wireless telecommunications services coupled with our

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leading market share, we expect our subscriber growth rate to decrease. Slowed growth in the penetration rate without a commensurate increase in revenues through the introduction of new services and increased use of our services by existing subscribers would likely have a material adverse effect on our financial condition, results of operations and cash flows.

***Our business and results of operations may be adversely affected if we fail to acquire adequate additional spectrum or use our bandwidth efficiently to accommodate subscriber growth and subscriber usage.***

One of the principal limitations on a wireless network's subscriber capacity is the amount of spectrum available for use by the network. We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our CDMA services, 10 MHz of bandwidth in the 2.1 GHz spectrum for our WCDMA services, 30 MHz of bandwidth in the 2.1 GHz spectrum, 20 MHz of bandwidth in the 800 MHz spectrum, 35 MHz of bandwidth in the 1.8 GHz spectrum and 60 MHz of bandwidth in the 2.6 GHz spectrum for our LTE services, as well as 100 MHz of bandwidth in the 3.5 GHz spectrum for our 5G services. We also plan to use 800 MHz of bandwidth in the 28 GHz spectrum for our 5G services in the future.

The growth of our wireless data businesses has been a significant factor in the increased utilization of our bandwidth, since wireless data applications are generally more bandwidth-intensive than voice services. In particular, the increasing popularity of smartphones and data intensive applications among smartphone users has recently been a major factor for the high utilization of our bandwidth. This trend has been offset in part by the implementation of new technologies, such as our multi-band LTE-A services utilizing 4x4 multiple input multiple output ( MIMO ) technology and our five-band LTE-A technology, which enables more efficient usage of our bandwidth than was possible on our basic LTE network. However, if the current trend of increased data transmission use by our subscribers continues or accelerates, or if the volume of the multimedia content we offer through our wireless data services substantially grows, our bandwidth capacity requirements are likely to increase. While we believe that we can address the capacity constraint issue through system upgrades and efficient allocation of bandwidth, inability to address such capacity constraints in a timely manner may adversely affect our business, results of operations, financial position and cash flows. In the event we are unable to maintain sufficient bandwidth capacity, our subscribers may perceive a general slowdown of wireless telecommunications services. Growth of our wireless telecommunications business will depend in part upon our ability to effectively manage our bandwidth capacity and to implement efficiently and in a timely manner new bandwidth-efficient technologies if they become available. We cannot assure you that bandwidth constraints will not adversely affect the growth of our wireless telecommunications business. Furthermore, we may be required to pay a substantial amount to acquire additional bandwidth capacity in the future in order to meet increasing bandwidth demand and we may not be successful in acquiring the necessary bandwidth to meet such demand, which may adversely affect our financial condition and results of operations.

***We rely on key researchers and engineers and senior management, and the loss of the services of any such personnel or the inability to attract and retain them may negatively affect our business.***

Our success depends to a significant extent upon the continued service of our research and development and engineering personnel, and on our ability to continue to attract, retain and motivate qualified researchers and engineers. In particular, our focus on leading the market in introducing new services has meant that we must aggressively recruit engineers with expertise in cutting-edge technologies. We also depend on the services of experienced key senior management, and if we lose their services, it would be difficult to find and integrate replacement personnel in a timely manner, or at all.

The loss of the services of any of our key research and development and engineering personnel or senior management without adequate replacement, or the inability to attract new qualified personnel, would have a material adverse effect

on our operations.

***We need to observe certain financial and other covenants under the terms of our debt instruments, the failure to comply with which would put us in default under those instruments.***

Certain of our debt instruments contain financial and other covenants with which we are required to comply on an annual and semi-annual basis. The financial covenants with respect to SK Telecom's debt instruments include,

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but are not limited to, a maximum net debt-to-EBITDA ratio of 3.50 and a minimum interest coverage ratio of 4.00, each as determined on a separate financial statement basis. The debt arrangements also contain negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

If we breach our financial or other covenants, our financial condition will be adversely affected to the extent we are not able to cure such breaches or repay the relevant debt.

***We may have to make further financing arrangements to meet our capital expenditure requirements and debt payment obligations.***

As a network-based wireless telecommunications provider, we have had, and expect to continue to have, significant capital expenditure requirements as we continue to build out, maintain and upgrade our networks. We spent Won 2,792.4 billion for capital expenditures in 2018. We expect to spend a higher amount for capital expenditures in 2019 compared to 2018 for a range of projects, including investments to expand and further commercialize our newly implemented 5G network, investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our IoT solutions and platform services business portfolio, including AI solutions, investments in research and development of 5G technology, investments in businesses that can potentially leverage our 5G network, and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth businesses, as well as initiatives related to our ongoing businesses in the ordinary course.

In particular, we continue to make significant capital investments to expand and upgrade our wireless networks in response to growing bandwidth demand by our subscribers. Bandwidth usage by our subscribers has rapidly increased in recent years primarily due to the increasing popularity of smartphones and data intensive applications among smartphone users. If heavy usage of bandwidth-intensive services grows beyond our current expectations, we may need to invest more capital than currently anticipated to expand the bandwidth capacity of our networks or our customers may have a suboptimal experience when using our services. Any of these events could adversely affect our competitive position and have a material adverse effect on our business, financial condition, results of operation and cash flow. For a more detailed discussion of our capital expenditure plans and a discussion of other factors that may affect our future capital expenditures, see Item 5.B. Liquidity and Capital Resources – Capital Requirements – Capital Expenditures.

As of December 31, 2018, we had Won 2,175.7 billion in contractual payment obligations due in 2019, which mostly involve repayment of debt obligations and payments related to frequency licenses. See Item 5.B. Liquidity and Capital Resources – Contractual Obligations and Commitments.

We have not arranged firm financing for all of our current or future capital expenditure plans and contractual payment obligations. We have, in the past, obtained funds for our proposed capital expenditure and payment obligations from various sources, including our cash flow from operations as well as from financings, primarily debt and equity financings. Any material adverse change in our operational or financial condition could impact our ability to fund our capital expenditure plans and contractual payment obligations. Still volatile financial market conditions may also curtail our ability to obtain adequate funding. Inability to fund such capital expenditure requirements may have a material adverse effect on our financial condition, results of operations and business. In addition, although we currently anticipate that the capital expenditure levels estimated by us will be adequate to meet our business needs,



such estimates may need to be adjusted based on developments in technology and markets. In the event we are unable to meet any such increased expenditure requirements or to obtain adequate financing for such requirements, on terms acceptable to us, or at all, this may have a material adverse effect on our financial condition, results of operations and business.

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***Termination or impairment of our relationship with a small number of key suppliers for network equipment and for leased lines could adversely affect our results of operations, financial position and cash flows.***

We purchase wireless network equipment from a small number of suppliers. To date, we have purchased substantially all of the equipment for our networks from Samsung Electronics Co., Ltd. ( Samsung Electronics ), Ericsson-LG Co., Ltd. ( Ericsson-LG ) and Nokia Siemens Networks B.V. We believe Samsung Electronics currently manufactures approximately half of the wireless handsets sold to our subscribers. Although other manufacturers sell the equipment we require, sourcing such equipment from other manufacturers could result in unanticipated costs in the maintenance and enhancement of our wireless networks. Inability to obtain the equipment needed for our networks in a timely manner may have an adverse effect on our business, financial condition, results of operations and cash flows.

We cannot assure you that we will be able to continue to obtain the necessary equipment from one or more of our suppliers. Any discontinuation or interruption in the availability of equipment from our suppliers for any reason could have an adverse effect on our results of operations. Inability to lease adequate lines at commercially reasonable rates may impact the quality of the services we offer and may also damage our reputation and our business.

***Our business relies on technology developed by us, and our business will suffer if we are unable to protect our proprietary rights.***

We own numerous patents and trademarks worldwide, and have applications for patents pending in many countries. In addition to active research and development efforts, our success depends in part on our ability to obtain patents and other intellectual property rights covering our services.

We may be required to defend against charges of infringement of patent or other proprietary rights of third parties. Although we have not experienced any significant patent or other intellectual property disputes, we cannot be certain that any significant patent or other intellectual property disputes will not occur in the future. Defending our patent and other proprietary rights could require us to incur substantial expense and to divert significant resources of our technical and management personnel, and could result in our loss of rights to employ certain technologies to provide services.

***Malicious and abusive Internet practices could impair our services and we may be subject to significant legal and financial exposure, damage to our reputation and a loss of confidence of our customers.***

Our business involves the storage and transmission of large amounts of confidential information, and cybersecurity breaches expose us to a risk of loss of this information, which may lead to improper use or disclosure of such information, ensuing potential liability and litigation, any of which could harm our reputation and adversely affect our business. For example, in July 2011, there was a leak of personal information of subscribers of websites operated by SK Communications Co., Ltd. ( SK Communications ), our consolidated subsidiary. Various lawsuits were filed against SK Communications alleging that the leak was caused by its poor management of subscribers' personal information. As of December 31, 2018, all twelve of such lawsuits were concluded, with eleven of them ending in final judgments in favor of SK Communications and one withdrawn by the plaintiffs.

Our cybersecurity measures may also be breached due to employee error, malfeasance or otherwise. Instituting appropriate access controls and safeguards across all our information technology infrastructure is challenging. Furthermore, outside parties may attempt to fraudulently induce employees to disclose sensitive information in order to gain access to our data or our customers' data or accounts, or may otherwise obtain access to such data or accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these

techniques or to implement adequate preventative measures. If an actual or perceived breach of our cybersecurity occurs or the market perception of the effectiveness of our cybersecurity measures is harmed, we may incur significant legal and financial exposure, including legal claims and regulatory fines and penalties, damage to our reputation and a loss of confidence of our customers, which could have an adverse effect on our business, financial condition and results of operations.

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In addition, our wireless and fixed-line subscribers increasingly utilize our network to access the Internet and, as a consequence, we or they may become victim to common malicious and abusive Internet activities, such as unsolicited mass advertising (*i.e.*, spam), hacking of personal information and dissemination of viruses, worms and other destructive or disruptive software. These activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers and damage to our or our customers equipment and data. Significant incidents could lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to us to service our customers and protect our network. Any significant loss of our subscribers or revenue due to incidents of malicious and abusive Internet practices or significant increase in costs of serving those subscribers could adversely affect our business, financial condition and results of operations.

***Labor disputes may disrupt our operations.***

Although we are not experiencing any significant labor disputes, there can be no assurance that we will not experience labor disputes in the future, including protests and strikes, which could disrupt our business operations and have an adverse effect on our financial condition and results of operation.

Every two years, the union and management negotiate and enter into a new collective bargaining agreement that has a two-year duration, which is focused on employee benefits and welfare. Employee wages are separately negotiated on an annual basis. Although we consider our relations with our employees to be good, there can be no assurance that we will be able to maintain such a working relationship with our employees and will not experience labor disputes resulting from disagreements with the labor union in the future.

***Concerns that radio frequency emissions may be linked to various health concerns could adversely affect our business and we could be subject to litigation relating to these health concerns.***

In the past, allegations that serious health risks may result from the use of wireless telecommunications devices or other transmission equipment have adversely affected share prices of some wireless telecommunications companies in the United States. In May 2011, the International Agency for Research on Cancer (the IARC), a part of the World Health Organization, announced that it has classified radiofrequency electromagnetic fields associated with wireless phone use as possibly carcinogenic to humans, based on an increased risk for glioma, a malignant type of brain cancer. The IARC conducts research on the causes of human cancer and the mechanisms of carcinogenesis and aims to develop scientific strategies for cancer control. We cannot assure you that these health concerns will not adversely affect our business. Several class action and personal injury lawsuits have been filed in the United States against several wireless phone manufacturers and carriers, asserting product liability, breach of warranty and other claims relating to radio transmissions to and from wireless phones. Certain of these lawsuits have been dismissed. We could be subject to liability or incur significant costs defending lawsuits brought by our subscribers or other parties who claim to have been harmed by or as a result of our services. In addition, the actual or perceived risk of wireless telecommunications devices could have an adverse effect on our business by reducing the number of our subscribers or the usage per subscriber.

***Our ability to deliver services may be disrupted due to a systems failure, shutdown in our networks or natural disaster.***

Our services are currently carried through our wireless and fixed-line networks, which could be vulnerable to damage or interruptions in operations due to fires, floods, earthquakes, power losses, telecommunication failures, network software flaws, unauthorized access, computer viruses and similar events, which may occur from time to time. The occurrence of any of these events could impact our ability to deliver services, we may be liable for damages to our customers caused by such interruptions, our reputation may be damaged and our customers may lose confidence in us,

which could have a negative effect on our results of operations.

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***Depreciation of the value of the Won against the Dollar and other major foreign currencies may have a material adverse effect on our results of operations and the market value of our common shares and ADSs.***

Substantially all of our revenues are denominated in Won. Depreciation of the Won may materially affect our results of operations because, among other things, it causes:

an increase in the amount of Won required by us to make interest and principal payments on our foreign currency-denominated debt; and

an increase, in Won terms, of the costs of equipment that we purchase from overseas sources which we pay for in Dollars or other foreign currencies.

Fluctuations in the exchange rate between the Won and the Dollar will affect the Dollar equivalent of the Won price of the our common shares on the KRX KOSPI Market. These fluctuations also will affect:

the amounts a registered holder or beneficial owner of ADSs will receive from the American Depositary Receipt ( ADR ) depositary in respect of dividends, which will be paid in Won to the ADR depositary and converted by the ADR depositary into Dollars;

the Dollar value of the proceeds that a holder will receive upon sale in Korea of our common shares; and

the secondary market price of our ADSs.

***If SK Holdings causes us to breach the foreign ownership limitations on our common shares, we may experience a change of control.***

The Telecommunications Business Act currently sets a 49.0% limit on the aggregate foreign ownership of our issued shares. Under the Telecommunications Business Act, as amended, a Korean entity, such as SK Holdings, is deemed to be a foreign entity if its largest shareholder (determined by aggregating the shareholdings of such shareholder and its related parties) is a foreigner and such shareholder (together with the shareholdings of its related parties) holds 15.0% or more of the issued voting stock of the Korean entity. As of December 31, 2018, SK Holdings owned 21,624,120 shares of our common stock, or 26.8%, of our issued shares. If SK Holdings were considered to be a foreign shareholder, then its shareholding in us would be included in the calculation of our aggregate foreign shareholding and our aggregate foreign shareholding (based on our foreign ownership level as of December 31, 2018, which we believe was 41.8%) would exceed the 49.0% ceiling on foreign shareholding. As of December 31, 2018, the two largest foreign shareholders of SK Holdings each held a 3.5% stake therein.

If our aggregate foreign shareholding limit is exceeded, the MSIT may issue a corrective order to us, the breaching shareholder (including SK Holdings if the breach is caused by an increase in foreign ownership of SK Holdings) and the foreign shareholder which owns in the aggregate 15.0% or more of SK Holdings. Furthermore, if SK Holdings is considered a foreign shareholder, it will be prohibited from exercising its voting rights with respect to the shares held in excess of the 49.0% ceiling, which may result in a change in control of us. In addition, the MSIT will be prohibited from granting us licenses or permits necessary for entering into new telecommunications businesses until our

aggregate foreign shareholding is reduced to below 49.0%. For a description of further actions that the MSIT could take, see Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements.

### **Risks Relating to Korea**

#### *Unfavorable financial and economic developments in Korea may have an adverse effect on us.*

We are incorporated in Korea, and a substantial portion of our operations and assets are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices, increases in interest rates globally and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may

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continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated significantly. Furthermore, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index (known as the KOSPI ) and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy include:

adverse conditions or uncertainty in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as uncertainties regarding a future Brexit, including the possibility of additional countries exiting from the European Union;

increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, Euro or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;

a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or small- and medium-sized enterprise borrowers in Korea;

declines in consumer confidence and a slowdown in consumer spending;

the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

investigations of large Korean conglomerates and their senior management for possible misconduct;

social and labor unrest;

decreases in the market prices of Korean real estate;



a decrease in tax revenues or a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that would lead to an increased Government budget deficit;

financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean conglomerates;

increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;

geo-political uncertainty and the risk of further attacks by terrorist groups around the world;

natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;

the occurrence of severe health epidemics in Korea and other parts of the world (such as the Middle East Respiratory Syndrome outbreak in Korea in 2015);

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deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States commencing in March 2017 and the economic and other retaliatory measures imposed by China against Korea during the remainder of 2017);

political uncertainty or increasing strife among or within political parties in Korea;

hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;

increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;

political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and

an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

***Escalations in tensions with North Korea could have an adverse effect on us and the market value of our common shares and ADSs.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and has conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.

In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although bilateral summit meetings were held between Korea and North Korea in April, May and September 2018 and between the United States and North Korea in June 2018 and February 2019, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea or the United States and North Korea break down or further military hostilities occur, could

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have a material adverse effect on our business, results of operations and financial condition and the market value of our common shares and ADSs.

***Korea's legislation allowing class action suits related to securities transactions may expose us to additional litigation risk.***

The Securities-related Class Action Act of Korea enacted in January 2004 allows class action suits to be brought by shareholders of companies (including us) listed on the KRX KOSPI Market for losses incurred in connection with purchases and sales of securities and other securities transactions arising from (1) false or inaccurate statements provided in the registration statements, prospectuses, business reports, audit reports, semi-annual or quarterly reports and material fact reports and omission of material information in such documents, (2) insider trading, (3) market manipulation and (4) unfair trading. This law permits 50 or more shareholders who collectively hold 0.01% of the shares of a company to bring a class action suit against, among others, the issuer and its directors and officers. Because of the relatively recent enactment of the act, there is not enough judicial precedent to predict how the courts will apply the law. Litigation can be time-consuming and expensive to resolve, and can divert management time and attention from the operation of a business. We are not aware of any basis upon which such suit may be brought against us, nor are any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

***There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the Government in emergency circumstances.***

As we are a Korean company and operate in a business and cultural environment that is different from that of other countries, there are risks associated with investing in our securities that are not typical for investments in securities of companies in other jurisdictions.

Under the Korean Foreign Exchange Transactions Act, if the Government deems that certain emergency circumstances, including a significant disruption in the international balance of payments and international financial markets or extreme difficulty in carrying out currency, exchange rate or other macroeconomic policies due to the movement of capital between Korea and other countries, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Ministry of Economy and Finance (the MOEF ) for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations.

**Risks Relating to Securities**

***Sales of our shares by SK Holdings and/or other large shareholders may adversely affect the market value of our common shares and ADSs.***

Sales of substantial amounts of our common shares, or the perception that such sales may occur, could adversely affect the prevailing market value of our common shares or ADSs or our ability to raise capital through an offering of our common shares.

As of December 31, 2018, SK Holdings owned 26.8% of our total issued common shares and has not agreed to any restrictions on its ability to dispose of our shares. See Item 7.A. Major Shareholders. We can make no prediction as to the timing or amount of any sales of our common shares. We cannot assure you that future sales of our common shares, or the availability of our common shares for future sale, will not adversely affect the prevailing market value

of our common shares or ADSs from time to time.

***If an investor surrenders his or her ADSs to withdraw the underlying shares, he or she may not be allowed to deposit the shares again to obtain ADSs.***

Under the deposit agreement, holders of our common shares may deposit those shares with the ADR depositary's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the ADR depositary and receive our common shares. However, under the terms of the deposit agreement, as amended, the depositary

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bank is required to obtain our prior consent to any such deposit if, after giving effect to such deposit, the total number of our common shares represented by ADSs, which was 8,022,140 shares as of March 31, 2019, exceeds a specified maximum, subject to adjustment under certain circumstances. In addition, the depositary bank or the custodian may not accept deposits of our common shares for issuance of ADSs under certain circumstances, including (1) if it has been determined by us that we should block the deposit to prevent a violation of applicable Korean laws and regulations or our articles of incorporation or (2) if a person intending to make a deposit has been identified as a holder of at least 3.0% of our common shares. It is possible that we may not give the consent. Consequently, an investor who has surrendered his or her ADSs and withdrawn the underlying shares may not be allowed to deposit the shares again to obtain ADSs.

***An investor in our ADSs may not be able to exercise preemptive rights for additional new shares and may suffer dilution of his or her equity interest in us.***

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer a right to subscribe for additional new common shares or any other rights of similar nature, the ADR depositary, after consultation with us, may make the rights available to an ADS holder or use reasonable efforts to dispose of the rights on behalf of the ADS holder and make the net proceeds available to the ADS holder. The ADR depositary, however, is not required to make available to an ADS holder any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the Securities Act is in effect with respect to those shares; or

the offering and sale of those shares is exempt from, or is not subject to, the registration requirements of the Securities Act.

We are under no obligation to file any registration statement with respect to any ADSs. If a registration statement is required for an ADS holder to exercise preemptive rights but is not filed by us, the ADS holder will not be able to exercise his or her preemptive rights for additional shares. As a result, ADS holders may suffer dilution of their equity interest in us.

***Short selling of our ADSs by purchasers of securities convertible or exchangeable into our ADSs could materially adversely affect the market price of our ADSs.***

SK Holdings, through one or more special purpose vehicles, has engaged and may in the future engage in monetization transactions relating to its ownership interest in us. These transactions have included and may include offerings of securities that are convertible or exchangeable into our ADSs. Many investors in convertible or exchangeable securities seek to hedge their exposure in the underlying equity securities at the time of acquisition of the convertible or exchangeable securities, often through short selling of the underlying equity securities or similar transactions. Since a monetization transaction could involve debt securities linked to a significant number of our ADSs, we expect that a sufficient quantity of ADSs may not be immediately available for borrowing in the market to facilitate settlement of the likely volume of short selling activity that would accompany the commencement of a monetization transaction. This short selling and similar hedging activity could place significant downward pressure on the market price of our ADSs, thereby having a material adverse effect on the market value of ADSs owned by you.

***A holder of our ADSs may not be able to enforce a judgment of a foreign court against us.***

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of our ADSs to effect service of process within the United States, or to enforce against us any judgments obtained from the United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

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*We are generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries.*

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies, which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the SEC and listed on the New York Stock Exchange (the NYSE), we are subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002 (the

Sarbanes-Oxley Act). However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the NYSE. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information available could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

**Item 4. INFORMATION ON THE COMPANY****Item 4.A. History and Development of the Company**

As Korea's first wireless telecommunications service provider, we have a recognized history of leadership and innovation in the domestic telecommunications sector. Today, we remain Korea's leading wireless telecommunications services provider and have continued to pioneer the commercial development and implementation of state-of-the-art wireless technologies. We had 30.9 million wireless subscribers, including MVNO subscribers leasing our networks, as of December 31, 2018, representing a market share of 47.2%, the largest market share among Korean wireless telecommunications service providers. We believe we are also a leader in developing new products and services that reflect the increasing convergence of telecommunications technologies, as well as the growing synergies between the telecommunications sector and other industries, and are well-positioned to become Korea's leading platform service provider through our next-generation growth businesses in IoT solutions, media, e-commerce, security and other innovative products offered through our platform services, including AI solutions.

In February 2012, we acquired an equity stake in SK Hynix, one of the world's largest memory-chip makers by revenue, for an aggregate purchase price of Won 3.4 trillion, and became its largest shareholder. As of December 31, 2018, we held a 20.1% equity interest in SK Hynix.

On March 31, 2019, we had a market capitalization of approximately Won 20.3 trillion (US\$17.9 billion, as translated at the noon buying rate of March 31, 2019) or approximately 1.4% of the total market capitalization on the KRX KOSPI Market, making us the 11th largest company listed on the KRX KOSPI Market based on market capitalization on that date. Our ADSs, each representing one-ninth of one share of our common stock, have traded on the NYSE since June 27, 1996.

We are a corporation with limited liability organized under the laws of Korea. We established our telecommunications business in March 1984 under the name Korea Mobile Telecommunications Co., Ltd. We changed our name to SK Telecom Co., Ltd., effective March 21, 1997. In January 2002, we merged with Shinsegi Telecom Co., Ltd. (Shinsegi), which was then the third-largest wireless telecommunications service provider in Korea. Our registered office is at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 04539, Korea and our telephone number is +82-2-6100-2114. Our website address is <http://www.sktelecom.com>.



The SEC maintains a website (<http://www.sec.gov>), which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

### **Korean Telecommunications Industry**

Established in March 1984, we became the first wireless telecommunications service provider in Korea. We remained the sole provider of wireless telecommunications services until April 1996, when Shinsegi commenced cellular service. The Government began to introduce competition into the fixed-line and wireless telecommunications services markets in the early 1990 s. During this period, the Government allowed new competitors to enter the fixed-line sector, sold a controlling stake in us to the SK Group, and granted a cellular

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license to our first competitor, Shinsegi. In October 1997, three additional companies began providing wireless telecommunications services under Government licenses to provide wireless telecommunications services. In 2000 and 2001, the Korean wireless telecommunications market experienced significant consolidation. In January 2002, Shinsegi was merged into us. Additionally, two of the other wireless telecommunications services providers merged.

There are currently three mobile network operators in Korea: our company, KT and LG U+. As of December 31, 2018, the market share of the Korean wireless telecommunications market, in terms of number of subscribers, of KT and LG U+ was approximately 31.6% and 21.2%, respectively (compared to our market share of 47.2%), each including MVNO subscribers leasing the respective networks. As of December 31, 2018, MVNOs had a combined market share of 12.2%, of which MVNOs leasing our networks represented 5.4%, MVNOs leasing KT's networks represented 5.7% and MVNOs leasing LG U+'s networks represented 1.2%.

Telecommunications industry growth in Korea has been among the most rapid in the world, with fixed-line penetration being under five lines per 100 population in 1978 and increasing to 47.9 lines per 100 population as of December 31, 2006 before decreasing to 27.7 lines per 100 population as of December 31, 2018, and wireless penetration increasing from 7.0 subscribers per 100 population in 1996 to 126.1 subscribers per 100 population as of December 31, 2018. The table below sets forth certain subscription and penetration information regarding the Korean telecommunications industry as of the dates indicated:

|   | As of December 31,                                |        |        |        |        |
|---|---|--------|--------|--------|--------|
|   | 2018  | 2017   | 2016   | 2015   | 2014   |
|   | (In thousands, except for per population amounts) |        |        |        |        |
| Population of Korea <sup>(1)</sup>      | 51,826  | 51,779 | 51,696 | 51,529 | 51,328 |
| Wireless Subscribers                    | 65,360  | 62,651 | 60,287 | 57,937 | 56,310 |
| Wireless Subscribers per 100 Population | 126.1   | 121.0  | 116.6  | 112.4  | 109.7  |
| Telephone Lines in Service              | 14,334  | 15,039 | 15,746 | 16,341 | 16,939 |
| Telephone Lines per 100 Population      | 27.7  | 29.0   | 30.5   | 31.7   | 33.0   |

(1) Source: The Ministry of the Interior and Safety.

Since the introduction of short text messaging in 1998, Korea's wireless data market has grown rapidly. This growth has been driven, in part, by the rapid development of wireless Internet service since its introduction in 1999 and the implementation of LTE technology providing for fast data transmission speeds and large data transmission capacity. As of December 31, 2018, approximately 58.1 million Korean wireless subscribers owned Internet-enabled handsets capable of accessing wireless Internet services, including 50.8 million subscribers that own smartphones that have direct access to the Internet using mobile Internet technology. The table below sets forth certain penetration information regarding the number of Internet-enabled handsets, smartphones and wireless subscribers in Korea as of the dates indicated:

|  | As of December 31, |      |      |      |      |
|--|--------------------|------|------|------|------|
|  | 2018               | 2017 | 2016 | 2015 | 2014 |

(In thousands, except for percentage data)

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| Number of Wireless Internet-Enabled Handsets      | 58,074 | 56,576 | 55,085 | 53,737 | 52,833 |
| Number of Smartphones                             | 50,765 | 48,660 | 46,418 | 43,668 | 40,560 |
| Total Number of Wireless Subscribers              | 65,360 | 62,651 | 60,287 | 57,937 | 56,310 |
| Penetration of Wireless Internet-Enabled Handsets | 88.9%  | 90.3%  | 91.4%  | 92.8%  | 93.8%  |
| Penetration of Smartphones                        | 77.7%  | 77.7%  | 77.0%  | 75.4%  | 72.0%  |

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In addition to its well-developed wireless telecommunications sector, Korea has one of the largest Internet markets in the Asia Pacific region. From the end of 2005 to the end of 2018, the number of broadband Internet access subscribers increased from approximately 12.2 million to approximately 21.3 million. In connection with such growth in broadband Internet usage, the number of IPTV subscribers has also increased rapidly. The table below sets forth certain information regarding broadband Internet access subscribers and IPTV subscribers as of the dates indicated:

|  | <b>As of December 31,</b> |             |             |             |             |
|--|---------------------------|-------------|-------------|-------------|-------------|
|  | <b>2018</b>               | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|  | <b>(In thousands)</b>     |             |             |             |             |
| Number of Broadband Internet Access Subscribers <sup>(1)</sup> | 21,286                    | 20,989      | 20,349      | 19,818      | 19,199      |
| Number of IPTV Subscribers                                     | 16,599                    | 15,381      | 11,850      | 10,991      | 9,670       |

(1) Includes subscribers accessing Internet service using digital subscriber line, or xDSL, connections; cable modem connections; local area network, or LAN, connections; fiber-to-the-home, or FTTH, connections and satellite connections.

**Item 4.B. Business Overview**  
**Overview**

We are Korea's leading wireless telecommunications services provider and continue to pioneer the commercial development and implementation of state-of-the-art wireless and fixed-line technologies and services as well as develop our next-generation growth businesses in IoT solutions, media, e-commerce, security and other innovative products offered through our platform services, including AI solutions. Our operations are reported in four segments:

cellular services, which include wireless voice and data transmission services, sales of wireless devices, IoT solutions and platform services;

fixed-line telecommunication services, which include fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV and mobile OTT services) and business communications services;

e-commerce services, which include our open marketplace platform, 11st, and related ancillary services; and

other businesses, which include our portal service, marketing platform business, physical and information security business and certain other miscellaneous businesses.

**Our Business Strategy**

We believe that the current trends in the Korean telecommunications industry are characterized by technological change, evolving consumer needs and increasing digital convergence. Against the backdrop of these industry trends, we aim to maintain our leading position in the Korean market for wireless telecommunications services and actively develop our next-generation growth businesses in IoT solutions, media and e-commerce and other innovative products offered through our platform services. We plan to further utilize our big data analysis capabilities to create products and services that are tailored to our customers' evolving needs, as well as incorporate AI capabilities directly into many of the products and services we offer.

Our corporate vision is to "Create Customer's Pride" and provide enhanced customer value through integrated products and services that better meet our customers' needs. To take advantage of these industry trends and further realize our corporate vision and become a leader in information and communication technologies ( ICT ), we have undertaken the following strategic initiatives.

*Maintain our leadership in the wireless services business by offering customer-oriented products and services.* We plan to maintain our leadership in the wireless services business by accurately analyzing the needs of our subscribers and providing products and services that meet such needs. We plan to strengthen our customer relationships by engaging our subscribers to integrate our service offerings in various aspects

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of their daily lives such as T map, our interactive navigation service which we provide to all users free of charge, and oksusu, our mobile OTT service with a wide range of unique media offerings. We also provide bundled subscriptions to our wireless and fixed-line service offerings, and we believe such bundled subscriptions contribute to increased customer retention and acquisition of new subscribers for both our wireless and fixed-line services due to convenience. In addition, we believe our T Membership program, our membership service, also contributes to our subscriber retention with the breadth of membership benefits we provide through our membership partners.

*Develop our next-generation growth businesses.* We aim to develop our next-generation growth businesses in IoT solutions, media, e-commerce, security and other innovative products offered through our platform services, including AI solutions, which we believe complement and create synergies with our wireless and fixed-line services and through which we can generate new sources of revenue growth. We believe these services will enable us to increase the retention of our wireless subscribers as well as attract new customers.

*Develop our technological capabilities and new products and services to support our 5G network.* We aim to continue developing cutting-edge technologies that will be adopted as the technological standard for 5G services. In addition, we will seek to apply our 5G infrastructure and capabilities to our various other key businesses such as media, e-commerce and security to create unique new products and services geared to serve evolving customer needs. Furthermore, we aim to collaborate with various partners to identify new business opportunities that can potentially leverage our 5G network.

**Cellular Services**

We offer wireless voice and data transmission services, sell wireless devices and provide IoT solutions and innovative platform services through our cellular services segment. Our wireless voice and data transmission services are offered through our backbone networks that collectively can be accessed by approximately 99.0% of the Korean population. We had 30.9 million wireless subscribers, including MVNO subscribers leasing our networks, as of December 31, 2018, representing a market share of 47.2%, the largest market share among Korean wireless telecommunications service providers. The table below sets forth the number of subscribers, including subscribers of MVNOs that lease our wireless networks, using our various digital wireless networks as of the dates indicated:

|                     | 2018          | As of December 31, |               |               | 2014          |
|---------------------|---------------|--------------------|---------------|---------------|---------------|
|                     |               | 2017               | 2016          | 2015          |               |
|                     |               | (in thousands)     |               |               |               |
| <b>Network</b>      |               |                    |               |               |               |
| LTE                 | 24,796        | 22,865             | 21,078        | 18,980        | 16,737        |
| WCDMA               | 5,174         | 5,842              | 6,491         | 7,008         | 8,020         |
| CDMA <sup>(1)</sup> | 912           | 1,488              | 2,026         | 2,638         | 3,521         |
| <b>Total</b>        | <b>30,882</b> | <b>30,195</b>      | <b>29,595</b> | <b>28,626</b> | <b>28,279</b> |

(1) In February 2019, we announced our plan to phase out services using our CDMA wireless network by the end of 2019.

Following the commencement of the operation of our 5G network on a limited basis for business customers in December 2018, we launched wireless services using the 5G network in April 2019, and we plan to continue expanding our 5G network coverage and enhancing service quality.

In 2018, 2017 and 2016, our cellular services segment revenue was Won 12,378.9 billion, Won 13,262.1 billion and Won 13,004.9 billion, respectively, representing 73.3%, 75.7% and 76.1%, respectively, of our consolidated revenue.

### *Wireless Services*

We offer wireless voice transmission and data transmission services to our subscribers through our backbone networks. Our wireless telecommunications services are available to our subscribers receiving service under the SK

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Telecom brand. In addition, customers can obtain wireless telecommunications services that operate on our network from MVNOs that lease our wireless networks. We derive revenues from our wireless telecommunications service principally through monthly plan-based fees as described in [Rate Plans](#) below.

We provide a voice-over-LTE service, known as our [HD Voice](#) service, to all of our LTE subscribers featuring high-quality voice transmission, fast call connection, voice-to-video call switching and digital content sharing during calls. We also offer our subscribers a wide range of wireless data transmissions services. Our messaging service allows our subscribers to send and receive text, graphic, audio and video messages. In addition, our subscribers can access a wide variety of digital content and services through mobile applications providing music, video, gaming, news, commerce and financial services as well as solutions that enable subscribers to access the Internet and e-mail. We intend to continue to build our wireless data services as a platform for growth, extending our portfolio of wireless data services and developing new content for our subscribers.

Through service agreements with various foreign wireless telecommunications service providers, we offer cellular global roaming services, branded as our [T-Roaming](#) service. Global roaming services allow subscribers traveling abroad to make and receive calls using their regular mobile phone numbers. In addition, we provide global roaming service to foreigners traveling to Korea. In such cases, we generally receive a fee from the traveler's local wireless telecommunications service provider.

Through SK Telink, we also operate our MVNO business under the brand [SK 7Mobile](#), which we believe offers excellent quality at reasonable rates utilizing SK Telecom's wireless networks. SK Telink is focused on developing low-cost distribution channels and targeting niche customer segments that have a lower average revenue per user than that of SK Telecom's subscriber base.

In addition, we provide interconnection service to connect our networks to domestic and international fixed-line and other wireless networks. See [Interconnection](#) below.

***Wireless Device Sales***

We offer several categories of wireless devices, including smartphones and basic phones, tablets and other Internet access devices and wearable devices that are sold through an extensive distribution network, which consists of authorized exclusive dealers and independent retailers, as well as branch offices and stores directly operated by us through our wholly-owned subsidiary, PS&Marketing Co., Ltd. ([PS&Marketing](#)). As of December 31, 2018, approximately 24.0 million, or 77.6%, of our subscribers (including MVNO subscribers leasing our networks) owned smartphones that have direct access to the Internet compared to approximately 23.0 million subscribers, or 76.1%, as of December 31, 2017. We purchase a substantial majority of our wireless devices from Samsung Electronics, Apple and LG Electronics.

***Smartphones and Basic Phones.*** We offer smartphones that are enabled to utilize our digital wireless networks and run on various operating systems, such as Apple iOS and Google Android. We also offer basic phones that have the ability to access wireless Internet services.

***Tablets and Other Internet Devices.*** We offer tablets which can access the Internet via our digital wireless networks and a Wi-Fi connection. The tablets run primarily on the Apple iOS and Google Android operating systems. In addition, we also offer [T Pocket-Fi](#) devices that provide a mobile LTE connection and are capable of connecting multiple Wi-Fi enabled devices to the Internet at one time. We offer targeted rate plans for our [T Pocket-Fi](#) device. See [Rate Plans](#) below.



*Wearable Devices.* We offer various wearable devices including smart watches and T kids phone-Joon. These devices utilize our digital wireless networks and have specific features for the relevant target customer. For example, T kids phone-Joon is a wearable phone targeted towards children and provides simple calling, messaging and chat services as well as global positioning system ( GPS ) tracking capabilities. We offer targeted rate plans that are specific to these wearable devices. See Rate Plans below.

***IoT Solutions***

Through our IoT solutions business, we provide network access and enhanced services to support telemetry-type applications, which are characterized by machine-to-machine ( M2M ) wireless connections, to business

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customers, and a home monitoring service platform for residential customers. In order to promote the growth of our IoT solutions business, we deployed networks nationwide that are designed to support IoT devices, namely our high-speed LTE-M network in March 2016 and our LoRa network in July 2016. In April 2018, we increased the battery efficiency of our IoT devices by launching our LTE Cat.M1 technology and further enhanced our competitiveness in this business.

We provide network access and customized IoT solutions to our business customers. Our M2M services support devices that are used in a variety of market segments, including retail, utilities, security, automotive, agriculture and data analytics. For example, our Cloud Energy Management Solution ( Cloud EMS ) business provides a one-stop cloud computing-based energy management platform that collects and analyzes energy usage data from business customers and offers solutions to optimize and reduce their energy consumption. As of December 31, 2018, Cloud EMS had approximately 200 customers, mostly from energy-intensive industries such as the petrochemical and cement industries. With the launch of our 5G network in December 2018, we are focusing on developing IoT solutions for business customers that can leverage our 5G technology, such as smart factory, smart broadcasting and smart office solutions. In furtherance of such efforts, the Government and a number of private companies in the ICT sector, including us, formed a 5G Smart Factory Alliance in December 2018 in order to standardize and test the interoperability of technologies related to smart factory solutions based on our 5G network. In December 2018, we also launched our 5G-AI Machine Vision solution, which utilizes cameras to monitor the customer's manufacturing process and transmits images or videos to a cloud server through our 5G network to instantaneously detect manufacturing defects using AI technology.

We also provide Smart Home, a mobile application-based home monitoring service for residential customers. Smart Home is a paid subscription service available not only to our wireless and fixed-line service subscribers but also to subscribers of our competitors' wireless and fixed-line services. Through partnerships with more than 50 construction companies, we provided built-in Smart Home services to more than 58,000 homes as of December 31, 2018. Through Smart Home, users can control and monitor their home environment from their mobile devices and enhance the safety and convenience of their daily lives.

***Platform Services***

Through our platform services business, we seek to provide innovative products and services that meet our customers' evolving needs in an increasingly connected world. For example, we provide location-based services such as T map, which we provide to our and our competitors' wireless subscribers free of charge. T map uses GPS technology to transmit driving directions, real-time traffic updates and emergency rescue assistance to wireless devices. As of December 31, 2018, there were approximately 11.3 million monthly average users of our T map service. In September 2017, we also integrated NUGU, described in more detail below, into our T map service enabling users to use voice commands to operate their mobile devices while driving. In May 2018, we added calling and text messaging functions to the NUGU capabilities available on T map to enhance the convenience and safety of T map users. T map also offers a taxi-hailing service called T map Taxi. In January 2019, we signed an agreement with Grab, the leading ride-hailing service provider in Southeast Asia, to establish a joint venture called Grab Geo Holdings. Through this joint venture, we plan to launch a navigation service for Grab drivers based on T map's key technologies, including big data analysis algorithms and ultra-precise GPS solutions.

We also offer AI solutions through our platform services business. For example, in September 2016, we launched NUGU, the first intelligent virtual assistant service launched in Korea with Korean language capabilities based on advanced voice recognition technologies. NUGU currently offers a wide range of services including music streaming, connectivity with Smart Home and other IoT solutions for the home, food deliveries, and informational and other personal assistance services, and we plan to continually enhance its functionalities through software updates. Through

cloud-based deep-learning technology, NUGU is designed to evolve on its own as it collects more data about its users over time. We have integrated NUGU into our T map service as discussed above as well as our B tv service as further discussed in Fixed-line Telecommunication Services Advanced Media Platform (including IPTV and Mobile OTT Services). In July 2018, we launched NUGU candle, an AI light that offers NUGU-based services and changes its color and brightness based on the user's needs and preferences. In October 2018, we launched NUGU developers, a platform on which third-party developers can create and launch

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new services based on NUGU technology. We continue to explore ways in which we can leverage our NUGU technology to enhance our existing products and services.

We also provide a T phone service, which offers our customers a number of convenient call functions, such as a spam-call blocking function and a search function that informs customers of the phone numbers of shops, hospitals and other facilities closest to the customer's current location.

***Rate Plans***

We offer our wireless telecommunications services on both a postpaid and prepaid basis. Approximately 93.1% of our subscribers received our wireless telecommunications services on a postpaid basis as of December 31, 2018. Postpaid accounts primarily represent retail subscribers under contract with SK Telecom under which a subscriber is billed in advance a monthly fixed rate in return for a monthly network service allowance and usage for outgoing voice calls and wireless data services beyond the allowance is billed in arrears, where payment of the total amount of the bill is due at the end of the month. The standard contract period for our rate plans is 24 months, although our subscribers have the option to enter into shorter term contracts or no fixed-term contract at all. We provide various subsidies and discounts, including handset subsidies, depending on the length of the contract and the subscriber's chosen rate plan. Our prepaid service enables individuals to obtain wireless telecommunications services without a fixed-term contract by paying for all services in advance according to expected usage. We do not charge our customers for incoming calls, although we do receive interconnection charges from KT and other companies for calls from the fixed-line network terminating on our networks and interconnection revenues from other wireless network operators. See [Interconnection](#) below.

We also charge our customers a 10.0% value-added tax, which is included in the price of all of our rate plans. We can offset the value-added tax we collect from our customers against value-added tax refundable to us by the Korean tax authorities. We remit taxes we collect from our customers to the Korean tax authorities. We record revenues in our financial statements net of such taxes.

***Basic Rate Plans.*** We offer various postpaid account plans for smartphones and basic phones that are designed to meet a wide range of subscriber needs and interests. As of December 31, 2018, approximately 17 million subscribers have subscribed to our T plans or Band Data plans, which are our representative smartphone rate plans featuring unlimited domestic voice minutes and text messaging and a fixed or unlimited data transmission allowance per month that range from Won 33,000 to Won 100,000 per month and from Won 32,890 to Won 110,000 per month, respectively. Our Voice Free plans are available for our basic phones and feature a fixed allowance of voice minutes and 50 text messages per month with rates that range from Won 20,900 to Won 103,400 per month. We also offer a standard rate plan for Won 12,100 per month, through which the subscriber is charged per usage amount, other than on text message usage up to 50 messages per month. In April 2019, we introduced our rate plans for our 5G services featuring unlimited domestic voice minutes and text messaging and a fixed or unlimited data transmission allowance per month that range from Won 55,000 to Won 125,000 per month.

In addition, we provide a variety of differentiated rate plans for our customer segments such as our 0 plans for smartphone users who are 24 years old or younger featuring greater data allowance and premium benefits tailored for younger demographics, our Cookiz-mini plan for children who are 12 years old or younger, our T Global rate plans for foreigners featuring unlimited domestic voice minutes and text messaging, a fixed allowance of international voice minutes and data transmission per month and our Weekend Ting rate plans for teenagers featuring more data transmission allowance on weekends. We also provide T Signature rate plans for customers seeking unlimited wireless data usage for fixed rates and a multitude of other premium benefits such as mobile device insurance coverage and mobile device upgrades.

For our T Pocket-Fi device, we provide a fixed monthly data transmission allowance of 10 GB for Won 16,500 per month and 20 GB for Won 24,750 per month. With respect to the wearable devices that we offer, we offer targeted rate plans for smart watches that range from Won 11,000 to Won 12,100 per month, and the Cookiz rate plans for our T kids phone-Joon devices that range from Won 8,800 to Won 19,800 per month.

*Data Add-on Rate Plans.* We offer a variety of optional add-on rate plans that are designed to meet a wide range of subscriber needs with respect to increased data usage that followed the widespread use of smartphones and

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faster transmission speeds made possible by LTE technology. For example, we offer data plans that offer unlimited data based on time, place and occasion such as our *Subway Free* plan, which offers unlimited wireless data usage on subway platforms and inside subways and our *Commuter Free* plan, which offers unlimited wireless data usage during rush hour, each for a fixed rate of Won 9,900 per month. For certain rate plan subscribers, we also offer a daily allowance of 1 GB of oksusu access and a monthly allowance of 8,000 points to purchase media content on oksusu through our *okusu Safe* plan for Won 5,500 or Won 8,800 per month, depending on the subscribers' basic rate plan.

*Safe Option Premium* offers an additional daily data transmission allowance of 50 MB to subscribers who have used the maximum data transmission on their existing plan without incurring additional data transmission fees for a fixed rate of Won 8,800 per month. We also offer *T Data Coupons*, through which subscribers can purchase a fixed amount of data for a fixed price and can also be sent as *gifts* to family and friends that need additional data allowance. We believe that our data add-on rate plan offerings have contributed to the increase in data usage to 7.1 GB of average monthly data usage per LTE subscriber as of December 31, 2018 from 6.0 GB as of December 31, 2017.

*Roaming Plans.* We offer roaming services in more than 200 countries. We provide an automatic roaming service called *Safe Automatic T Roaming*, which provides 30 minutes of voice calls per day (including three minutes of free voice calls) for a maximum of Won 10,000 (with voice calls in excess of 30 minutes per day incurring additional charges) and data transmission at a rate of Won 563 per MB with a daily data transmission charge ceiling of Won 5,000. We also provide fixed-rate international roaming plans such as our *baro OnePass* plans, which provide data roaming services at different speeds depending on usage amount for Won 9,900 to Won 16,500 per day and are available in more than 160 countries, depending on the specific plan chosen, and our *baro* plans, which provide fixed data transmission allowances that can be used over a specified number of days in 98 countries in Asia, the Americas, Europe and Oceania, ranging from Won 29,000 to Won 59,000. With respect to international calls placed by a subscriber, unless the subscriber uses one of our fixed-rate international roaming plans, we bill the subscriber the international rate charged by the Korean international telephone service provider through which the call is routed. We remit to that provider the international charge less our usage charges. See *Interconnection* below.

***Digital Wireless Network***

We offer wireless voice and data transmission services throughout Korea using digital wireless networks, primarily consisting of our 5G network, LTE network, WCDMA network, CDMA network, Wi-Fi network and LoRa network. We continually upgrade and increase the capacity of our wireless networks to keep pace with advancements in technology, the growth of our subscriber base and the increased usage of voice and wireless data services by our subscribers. For more information about our capital expenditures relating to our wireless networks, see *Item 5.B. Liquidity and Capital Resources* *Capital Requirements* *Capital Expenditures*.

*5G Network.* We began the operation of our 5G network in December 2018 on a limited basis for business customers, beginning with a few major commercial districts in Seoul and other metropolitan areas. In April 2019, we launched wireless service plans using the 5G network following the commencement of sales of the first 5G-compatible smartphones, and we are in the process of expanding our 5G network coverage, beginning with the Seoul metropolitan area and other major cities. Our 5G services provide a maximum data transmission speed of 2.7 Gbps.

*LTE Network.* LTE technology has become widely accepted globally as the standard fourth generation technology and enables data to be transmitted at speeds faster than our CDMA and WCDMA networks. Since first commencing our LTE services in July 2011 and LTE-A services, which use carrier aggregation technology that combines spectrum frequencies to improve data transmission speeds, in June 2013, we have developed and launched various upgraded LTE networks and services providing faster network speeds, enhanced connectivity and broader coverage areas. In February 2018, we launched four-band LTE-A services utilizing 4x4 MIMO technology providing for data

transmission speeds of up to 1 Gbps, and in March 2019, we commenced five-band LTE-A services using 4x4 MIMO technology that provide data transmission speeds of up to 1.2 Gbps. With these developments in LTE technology, our LTE penetration increased to 80.3% as of December 31, 2018 compared to 49.3% as of December 31, 2013. We expect that wireless services based on LTE technology will continue to be used broadly by our users in the near future, as we and our competitors continue to build up 5G networks and

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services and wireless service users gradually migrate to the 5G network over time, and plan to continue to deploy improved LTE-A technology to increase the maximum data transmission speed of our services. For M2M connections relating to our IoT solutions, we launched our LTE-M services at speeds of up to 10 Mbps in March 2016, as well as our LTE Cat.M1 services at speeds of up to 0.03 Mbps in April 2018. Our continued upgrades to our LTE technology enables even faster data transmission speeds, as shown below.

| <b>Wireless network technology</b> | <b>Date of commencement of services</b> | <b>Maximum data transmission speed</b> |
|------------------------------------|---|--|
| LTE                                | July 2011                               | 75 Mbps                                |
| LTE-A                              | June 2013                               | 150 Mbps                               |
| Wideband LTE-A                     | June 2014                               | 225 Mbps                               |
| Tri-band LTE-A                     | December 2014                           | 300 Mbps                               |
| Five-band LTE-A                    | June 2017                               | 700 Mbps                               |
| Tri-band LTE-A with 4x4 MIMO       | June 2017                               | 900 Mbps                               |
| Four-band LTE-A with 4x4 MIMO      | February 2018                           | 1 Gbps                                 |
| Five-band LTE-A with 4x4 MIMO      | March 2019                              | 1.2 Gbps                               |

We believe that our advanced LTE technology and dense network infrastructure enable us to provide the fastest LTE data transmission network nationwide. In December 2018, the MSIT announced that our LTE network provided the fastest upload and download speeds among the three mobile network operators, KT, LG U+ and us. The nationwide average download speed of our LTE network was 195.5 Mbps compared to 144.5 Mbps for KT's LTE network and 112.0 Mbps for LG U+'s LTE network.

The faster data transmission speed of our LTE network has allowed us to offer significantly improved wireless data transmission services, providing our subscribers with faster wireless access to multimedia content. We have been building new access networks and evolved packet cores for our LTE network, while we utilize our existing WCDMA network for other parts of our LTE network.

*CDMA and WCDMA Networks.* CDMA technology is a continuous digital transmission technology that accommodates higher throughput than analog technology by using various coding sequences to allow concurrent transmission of voice and data signals for wireless communication. In January 1996, we launched our first wireless network based on CDMA technology and became the world's first to commercialize CDMA cellular service. In February 2019, we announced our plan to phase out CDMA services by the end of 2019.

WCDMA technology enables us to offer significantly faster and higher-quality voice and data transmission and supports more sophisticated wireless data transmission services than is possible through our CDMA network. Since first commencing our WCDMA services in Seoul in 2003, we have expanded our WCDMA network nationwide and implemented various technologies to improve data transmission speeds within our WCDMA network.

*Wi-Fi Network.* Wi-Fi technology enables our subscribers with Wi-Fi-capable devices such as smartphones, laptops and tablet computers to access mobile Internet. We started to build Wi-Fi access points in 2010 and, as of December 31, 2018, we had more than 130,000 Wi-Fi access points in public areas such as shopping malls, restaurants, coffee shops, subways and airports where, generally, the demand for high-speed wireless Internet service is high. While each Wi-Fi access point typically has a radius of approximately 20-30 meters, some of our Wi-Fi hot zones, which have multiple Wi-Fi access points, including those installed at public transportation facilities and amusement parks, have much wider service areas.



*LoRa Networks.* A Low-Power Wide-Area network based on LoRa technology is a type of telecommunications network designed to support communication among IoT devices. It can transmit data over tens of kilometers while consuming much less power than LTE networks, lowering costs for connectivity as well as lowering battery power usage. We completed the nationwide deployment of our LoRa network in July 2016. We expect that our LoRa network will provide the infrastructure necessary for the growth of not only our own IoT solutions business but also the IoT industry as a whole.

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### ***Network Infrastructure***

The principal components of our wireless networks are:

cell sites, which are physical locations equipped with transmitters, receivers and other equipment that communicate by radio signals with wireless handsets within range of the cell (typically a 3 to 40 kilometer radius);

switching stations, which switch voice and data transmissions to their proper destinations, which may be, for instance, a mobile phone of one of our subscribers (for which transmissions would originate and terminate on our wireless networks), a mobile phone of a KT or LG U+ subscriber (for which transmissions would be routed to KT's or LG U+'s wireless networks, as applicable), a fixed-line telephone number (for which calls would be routed to the public switched telephone network of a fixed-line network operator), an international number (for which calls would be routed to the network of a long distance service provider) or an Internet site; and

transmission lines, which link cell sites to switching stations and switching stations with other switching stations.

As of December 31, 2018, our 5G, LTE, WCDMA, CDMA and WiBro networks had an aggregate of 54,203 cell sites.

We have purchased substantially all of the equipment for our networks from Samsung Electronics, Ericsson, LG and Nokia Siemens Networks B.V. Most of the transmission lines we use, including virtually all of the lines linking switching stations, as well as a portion of the lines linking cell sites to switching stations, comprise optical fiber lines that we own and operate directly. However, we have not undertaken to install optical fiber lines to link every cell site and switching station. In places where we have not installed our own transmission lines, we have leased lines from KT and LG U+. We intend to increase the efficiency of our network utilization and provide optimal services by internalizing transmission lines.

We use a wireless network surveillance system. This system oversees the operation of cell sites and allows us to monitor our main equipment located throughout the country from one monitoring station. The automatic inspection and testing provided to the cell sites lets the system immediately rebalance to the most suitable setting, and the surveillance system provides for automatic dispatch of repair teams and quick recovery in emergency situations.

### ***Marketing, Distribution and Customer Service***

*Marketing.* Our marketing strategy is focused on offering solutions tailored to the needs of our various customer segments, promoting our brand and leveraging our extensive distribution network. Our marketing plan includes a coordinated program of television, print, radio, outdoor signage, Internet and point-of-sale media promotions designed to relay a consistent message across all of our markets. We market our wireless products and services under the T brand, which signifies the centrality of Telecommunications and Technology to our business and also seeks to emphasize our commitment to providing Top quality, Trustworthy products and services to our customers.

We have implemented certain information technology improvements in connection with our marketing strategy, including customer management systems, as well as more effective information security controls. We believe these upgrades have enhanced our ability to process and utilize marketing- and subscriber-related data, which, in turn, has helped us to develop more effective and targeted marketing strategies. We currently operate a customer information system designed to provide us with an extensive customer database. Our customer information system includes a billing system that provides us with comprehensive account information for internal purposes and enables us to efficiently respond to customer requests. Our customers can also change their rate plans, verify the charges accrued on their accounts, receive their bills online and send text messages to our other subscribers through our website at [www.tworld.co.kr](http://www.tworld.co.kr) and through our T world mobile application.

We strive to improve subscriber retention through our T Membership program, which is a membership service available to our wireless subscribers. Our T Membership program provides various membership benefits to its

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members such as discounts with our membership partners for dining, shopping, entertainment and travel, access to our online membership shopping mall and invitations to various promotional events. Although our competitors also have similar membership programs, we believe that our T Membership program has a competitive advantage over our competitors' membership programs due to our large subscriber base and breadth of membership benefits.

*Distribution.* We use a combination of an extensive network, including branch offices and stores, directly operated by us through our subsidiary, PS&Marketing, more than 3,500 authorized exclusive dealers and an extensive network of independent retailers in order to increase subscriber growth while reducing subscriber acquisition costs.

As part of our initiative to provide a differentiated customer service experience, we operate T Premium Stores that allow our potential and existing subscribers to experience certain of our services such as services that are available through our IoT solutions and platform services. As of December 31, 2018, we operated more than 440 T Premium Stores.

In addition, we operate an online distribution channel, T World Direct, through which subscribers can conveniently purchase wireless devices and subscribe to our services online. We also operate a dedicated online shop on 11st, our e-commerce marketplace. We intend to continue to develop our online distribution channel to leverage our offline distribution capabilities to provide convenience and additional value to our subscribers. For example, subscribers purchasing wireless devices through T World Direct can opt to pick up their devices at one of our offline stores.

Currently, authorized dealers are entitled to an initial commission for each new subscriber registered by the dealer, as well as an average ongoing commission calculated as a percentage of that subscriber's monthly plan-based rate for the first four years. In order to strengthen our relationships with our exclusive dealers, we offer a dealer financing plan, pursuant to which we provide to each authorized dealer a loan of up to Won 4.0 billion with a repayment period of up to three years. As of December 31, 2018, we had an aggregate of Won 61.8 billion outstanding in loans to authorized dealers.

*Customer Service.* We provide high-quality customer service directly through our two subsidiaries, Service Ace Co., Ltd. and Service Top Co., Ltd., rather than rely on outsourcing. Network O&S Co., Ltd. operates our switching stations and related transmission and power facilities and offers quality customer service primarily to our business customers. We have held the top position with respect to our telecommunications service and retail sales service in Korea's leading three customer satisfaction indices, the National Customer Satisfaction Index, the Korean Customer Satisfaction Index and the Korean Standard Service Quality Index, for 22 years, 21 years and 19 years, respectively.

**Fixed-line Telecommunication Services**

We offer fixed-line telephone, broadband Internet and advanced media platform services (including IPTV and mobile OTT services) and business communications services through our fixed-line telecommunication services segment. Our fixed-line telecommunications services are provided by our subsidiaries, SK Broadband and SK Telink. The following table sets forth historical information about our subscriber base for our fixed-line telecommunication services for the periods indicated:

|  | <b>As of December 31,</b> |             |             |
|--|---------------------------|-------------|-------------|
|  | <b>2018</b>               | <b>2017</b> | <b>2016</b> |
| Fixed-Line Telephone (including VoIP) <sup>(1)</sup> | 4,132,265                 | 4,322,767   | 4,494,766   |
| Broadband Internet                                   | 5,404,866                 | 5,232,648   | 5,000,871   |

|                     |           |           |           |
|---------------------|-----------|-----------|-----------|
| IPTV <sup>(2)</sup> | 4,729,238 | 4,370,416 | 3,967,603 |
|---------------------|-----------|-----------|-----------|

(1) Includes subscribers to VoIP services of SK Broadband and SK Telink.

(2) Includes subscribers to SK Broadband's B tv service and video-on-demand only service subscribers. In 2018, 2017 and 2016, our fixed-line telecommunication services segment revenue was Won 2,932.6 billion, Won 2,724.2 billion and Won 2,651.2 billion, respectively, representing 17.4%, 15.5% and 15.5%, respectively, of our consolidated revenue.

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As part of our efforts to enhance our capabilities and increase our market share in the fixed-line business, in April 2019, we entered into an agreement with Tbroad, a leading cable television and other fixed-line telecommunication services provider in Korea, pursuant to which Tbroad will merge with and into SK Broadband. The completion of such transaction is subject to regulatory approvals and other closing conditions. Upon the completion of the merger, which is expected to occur by early 2020, we expect to own approximately 74.4% of SK Broadband's total outstanding shares. In addition, SK Telecom signed a separate share purchase agreement with Tbroad Co., Ltd. to acquire a 55.0% equity interest in Tbroad Nowon.

***Fixed-line Telephone Services***

Our fixed-line telephone services comprise local, domestic long distance, international long distance and VoIP services. VoIP is a technology that transmits voice data through an Internet Protocol network. As of December 31, 2018, we had approximately 4.1 million fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink). Our fixed-line telephone services are primarily offered under the B phone brand name. SK Telink also provides affordable international calling services under the brand name 00700.

***Broadband Internet Access Services***

Our broadband Internet access network covered more than 85% of households in Korea as of December 31, 2018. As of December 31, 2018, we had approximately 5.4 million broadband Internet access subscribers. We offer broadband Internet access products with various throughput speeds, including Giga Internet, which is up to 10 times faster than data transmission speeds on networks utilizing FTTH technology and allows for data transmission at a maximum speed of 1 Gbps.

***Advanced Media Platform (including IPTV and Mobile OTT Services)***

As part of our initiative to be the leading next-generation platform provider, we aim to provide an advanced media platform with various media content and service offerings.

We have offered video-on-demand services since 2006 and launched real-time IPTV services in 2009. We currently offer IPTV services under the brand name B tv with access to our standard 56 live high definition channels and to as many as 236 channels depending on the subscription service, as well as video-on-demand service providing a wide range of media content, including recent box office movie releases, popular U.S. and other foreign TV shows and various children's TV programs. We also offer B tv UHD, which is an ultra-high definition IPTV service and has a resolution that is four times as high as the standard high definition broadcasting service in the IPTV industry. As of December 31, 2018, we had approximately 4.7 million IPTV subscribers. In January 2018, we launched B tv NUGU, which is an all-in-one set top box that incorporates NUGU voice recognition technology and can search for and play media content as well as connect to our Smart Home service through voice commands.

In January 2016, we launched oksusu, a mobile OTT service that provides subscribers access to a wide variety of media contents, including various television programs, movies and other video contents that can be downloaded to wireless devices. Oksusu subscribers have access to more than 100 live TV channels, a wide range of sports contents and popular U.S. and other foreign TV shows, among other contents. We are also collaborating with media content developers to provide original media content for our oksusu service. As of December 31, 2018, we had approximately 9.7 million subscribers to oksusu.

In April 2019, in furtherance of our efforts to enhance the competitiveness of our media business and to promote its future growth, we entered into an agreement with Content Alliance Platform, a joint venture among the three major

terrestrial broadcasters in Korea that operates the mobile OTT service POOQ, pursuant to which we will transfer our oksusu business to Content Alliance Platform to pursue a combination of the two mobile OTT services and participate in a capital increase by Content Alliance Platform through a third-party allotment for a cash consideration of Won 90.0 billion.

We continue to expand the scope of our media services and content offerings to provide our subscribers with a vast library of high-quality content that can be accessed through our wireless networks and our fixed-line network.

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**Table of Contents*****Business Communications Services***

We offer other business communications services to our business customers, including corporations and government entities. Our business communications services include leased line solutions, Internet data center solutions and network solution services.

Our leased line solutions are exclusive lines that allow point-to-point connection for voice and data traffic between two or more geographically separate points. We hold a license to operate leased line services on a nationwide basis in Korea and also use international transmission lines to provide leased line services to other countries. Our leased line services enable high volumes of data to be transmitted swiftly and reliably. We also provide back-up storage for transmitted data. Through our Internet data center, we provide our business subscribers with server-based support including co-location, dedicated server hosting and cloud computing services. Our network solution service utilizes our network infrastructure and voice platform to provide 24-hour monitoring and control of our customers' networks. Through this service, we conduct remote monitoring of our customers' data and voice communications infrastructure and network and traffic conditions, and carry out preventive examinations and on-site visits.

***T-commerce***

We also operate an interactive television shopping ( T-commerce ) network, SK stoa, through our consolidated subsidiary SK stoa Co., Ltd. ( SK Stoa ), which offers a broad assortment of goods and services through pre-recorded television programming. The goods and services promoted on SK stoa's T-commerce programming can be purchased through telephone orders or mobile application or directly through a virtual application appearing on the television screen using the viewer's remote controller. In March 2019, SK Stoa launched SK stoa ON, which offers searchable shopping programming that is available to viewers at their convenience by utilizing video-on-demand capabilities. In April 2019, SK Stoa became a direct subsidiary of SK Telecom upon the transfer of SK Broadband's 100% equity interest in SK Stoa to SK Telecom.

***Rate Plans***

For our residential customers, we offer both bundled rate plans for a combination of our fixed-line service offerings as well as individual rate plans for each separate service offering. Bundled rate plans are offered at a discount compared to subscribing to the same services through individual rate plans. Approximately 87% of subscribers to our fixed-line services subscribe to two or more of our services through our bundled rate plans. Bundled rate plans for a combination of fixed-line telephone, broadband Internet access and IPTV services range from Won 22,000 to Won 73,700 per month.

Our Unlimited Home Phone plan for subscribers to our fixed-line telephone service features unlimited domestic land-to-land voice minutes for a fixed rate and range from Won 7,700 to Won 11,550 per month depending on whether or not the subscriber opts for a contract and if so, the length of the contract period. We offer individual fixed-rate plans for our broadband Internet access service that range from Won 33,000 to Won 104,500 per month depending on the data throughput speed and existence and length of a contract. We offer individual fixed-rate plans for our IPTV service that range from Won 6,600 to Won 30,800 per month depending on the number of channels provided and existence and length of a contract. In addition, subscribers can purchase individual videos on demand or subscribe to certain paid content on a periodic basis.

With respect to our business communications services, we offer rates that are tailored to the specific needs of our business customers. We also charge certain installation fees and equipment rental fees as well as other ancillary fees with respect to certain of our fixed-line telecommunications services.



*Marketing, Distribution and Customer Service*

We focus on bringing our fixed-line telephone, broadband Internet and advanced media platform services (including IPTV and mobile OTT services) to residential users, and various business communications services to corporate users. We market our fixed-line telecommunications products and services under the B brand. Our B brand signifies the centrality of Broadband to our business and also seeks to emphasize our commitment to

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providing the Best quality products and services to our customers that go Beyond expectations, leading to a Bravo response. Our B brand also strengthens our shared identity with our wireless services T brand.

We currently outsource a significant portion of our retail sales force needs. We market our services and provide after-sales service support to customers through more than 70 customer centers and a network of more than 160 authorized exclusive dealers located throughout Korea. In addition, SK Telecom's direct retail stores and authorized dealers for wireless telecommunications services also market our fixed-line telephone, broadband Internet and advanced media platform services (including IPTV and mobile OTT services), which we believe has contributed to the increase in the number of subscribers to such services. We have contracts with our customer centers to sell our services exclusively. These centers receive a commission for each service contract and installation contract secured. In addition, we pay these centers for the maintenance and repair work that they perform for our subscribers. Customer and service centers often enter into sub-contracts with smaller distribution outlets within their area to increase their sales coverage and engage in telemarketing efforts. Authorized dealers are entitled to an initial commission for each new subscriber registered by the dealer.

Sales to business subscribers are handled through our in-house sales group. Our sales teams focus on securing contracts with large commercial complexes, allowing us to install our remote terminals at their premises. After installation, sales teams direct their attention to individual business clients within these premises. Sales teams that have secured contracts with business clients remain the primary contacts for all aspects of the client's needs, including further installation and customer and follow-up service.

**E-Commerce Services**

Our e-commerce services segment consists primarily of 11st, our online marketplace business operated by Eleven Street, which was spun-off as our new consolidated subsidiary from SK Planet in September 2018. In connection with such spin-off, Eleven Street received a Won 500 billion equity investment in the form of redeemable convertible preferred shares from a group of financial investors led by H&Q Korea Partners, LLC, pursuant to which such financial investors held an 18.2% equity interest in Eleven Street as of December 31, 2018.

In 2018, 2017 and 2016, our e-commerce services segment revenue was Won 618.1 billion, Won 647.1 billion and Won 546.2 billion, respectively, representing 3.7%, 3.7% and 3.2%, respectively, of our consolidated revenue. Following the spin-off of Eleven Street from SK Planet, the marketing platform business operations of SK Planet, which were previously part of our e-commerce services segment in 2017 and 2016, were reclassified as part of our other businesses segment for 2018. See Other Businesses Miscellaneous Businesses Marketing Platform Business below.

11st is an online open marketplace that offers a wide range of products through an online and mobile platform. Individual consumers can buy a vast array of products such as clothes and accessories, beauty products, groceries, baby products, books, office supplies, furniture, home goods, outdoor and sporting goods, appliances, electronics, travel packages, entertainment tickets and local deals for restaurants and other services from small- to large-sized retailers that operate mini malls on the 11st platform. Eleven Street also operates 11Pay, a convenient and secure payment service through which users can register their credit card to simplify payments for online and mobile purchases, including through 11st.

As of December 31, 2018, 11st was the leading commerce platform in terms of unique visitors, both on the basis of mobile version only and the combined basis of mobile and desktop versions, according to Nielsen Koreanclick. The mobile version of 11st is continuing to grow with an increase in the percentage of annual gross merchandise volume, which represents the total annual monetary value of customer purchases of goods and services, net of estimated

refunds, derived from the mobile platform to 65% in 2018 from 61% in 2017 and 52% in 2016. We intend to continue our efforts to increase usage of the mobile version of 11st, enhance the convenience of our 11st mobile and web user interface and create synergies with our other products and services.

**Other Businesses**

We strive to continually diversify our products and services and develop new growth engines that we believe are complementary to our existing products and services, such as our portal service and other miscellaneous

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businesses, which we include in our other businesses segment. In 2018, 2017 and 2016, our other businesses segment revenue was Won 944.4 billion, Won 886.6 billion and Won 889.5 billion, respectively, representing 5.6%, 5.1% and 5.2%, respectively, of our consolidated revenue.

### ***Portal Service***

We offer a portal service under our Nate brand name through SK Communications. Nate can be accessed through its website, [www.nate.com](http://www.nate.com), or through its mobile application. Nate offers a wide variety of content and services, including Nate Search, an Internet search engine, Nate News, which provides a library of articles about current events, sports, entertainment and culture, Nate Pann, a user-generated content service as well as access to free e-mail accounts through Nate Mail.

### ***Miscellaneous Businesses***

***Marketing Platform Business.*** We provide marketing platform services through SK Planet, which include the following:

Syrup Wallet, a mobile wallet service that is the successor to our Smart Wallet service, allows users to conveniently manage membership card points and payment methods such as coupons, credit cards and gift vouchers on their mobile devices for both online and offline purchases and provides shopping information to users in certain shopping areas using advanced location-based technology; and

OK Cashbag, a loyalty points program which allows members to collect and redeem loyalty points at its partnering merchants and offers differentiated marketing services to such partnering merchants.

***Security.*** Our security business consists primarily of our physical security services provided by ADT Caps and our information security services provided by SK Infosec. We acquired ADT Caps in October 2018 by acquiring a 55.0% interest in LSH, which owns 100% of ADT Caps, for Won 696.7 billion. In December 2018, we merged NSOK Co., Ltd. ( NSOK ), which was our consolidated subsidiary and a provider of residential and small business electronic security and other related alarm monitoring services, with and into ADT CAPS Co., Ltd.

ADT Caps offers its flagship unmanned monitoring and dispatch service called the Central Monitoring Service, as well as access control, video surveillance and other integrated security services. Following our acquisition of ADT Caps, we have explored and continue to explore synergies between our security business and other key business segments. For example, we launched T Safe Security, a video surveillance and security guard dispatch service offered through the distribution channels for our wireless services, in October 2018. In addition, we also introduced our bundle-based discounted rate plans T&Caps in November 2018 and B&Caps in January 2019, which bundle our wireless service and broadband Internet service, respectively, with ADT Caps security service.

We also offer information security solutions through our subsidiary SK Infosec. We acquired SK Infosec from SK Holdings, our largest shareholder, in a share exchange transaction in December 2018, pursuant to which we transferred 1,260,668 treasury shares with an aggregate book value of Won 281.2 billion to SK Holdings in exchange for all of the issued and outstanding common shares of SK Infosec. SK Infosec provides information security consulting services, managed security services as well as cyber threat intelligence solutions.

Furthermore, in order to strengthen our data security capabilities in light of expected increases in data transmission by wireless service subscribers and users of our IoT solutions through our 5G network, we increased our equity interest in id Quantique, a leading provider of quantum cryptography solutions for data security based in Switzerland, to 65.6% during 2018.

*Others.* We offer high-end audio devices under the brand name Astell&Kern that are manufactured by our subsidiary, Dreamus. In 2016, two of Dreamus audio devices were selected as CES Innovation Awards Honorees in the Portable Media Player and Accessories category and High Performance Home Audio/Video category, respectively, and in 2017, an Dreamus audio device was selected as an CES Innovation Awards Honoree in the Accessories category. In 2017 and 2018, we acquired additional equity interests in Dreamus for Won 25.0 billion and Won 65.0 billion, respectively, and as of December 31, 2018, we had a 52.6% equity interest in Dreamus.

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In December 2018, we launched a new personalized music platform called FLO, which provides customized music recommendations and user interfaces by analyzing individual user preferences with our AI technology.

We also operate a mobile application marketplace, One Store in collaboration with KT, LG U+ and NAVER Corporation. Through this joint collaboration, we expect to increase the competitiveness of One Store to compete with Google Playstore, the leading mobile application marketplace in Korea. As of December 31, 2018, we held a 65.5% interest in One Store.

**Interconnection**

Our wireless and fixed-line networks interconnect with the public switched telephone networks operated by KT and SK Broadband and, through their networks, with the international gateways of KT and LG U+, as well as the networks of the other wireless telecommunications service providers in Korea. These connections enable our subscribers to make and receive calls from telephones outside our networks. Under Korean law, service providers are required to permit other service providers to interconnect to their networks. If a new service provider desires interconnection with the networks of an existing service provider but the parties are unable to reach an agreement within 90 days, the new service provider can appeal to the KCC.

**Domestic Calls**

Guidelines issued by the MSIT require that all interconnection charges levied by a regulated carrier take into account (i) the actual costs to that carrier of carrying a call or (ii) imputed costs. The MSIT determines interconnection rates applicable to each carrier based on changes in traffic volume, taking into account other factors such as research results, competition and trends in technology development.

*Wireless-to-Fixed-line.* According to our interconnection arrangement with KT, for a call from our wireless network to KT's fixed-line network, we collect the usage rate from our wireless subscriber and in turn pay KT the interconnection charges. Similarly, KT pays interconnection charges to SK Broadband for a call from KT's wireless network to SK Broadband's fixed-line network. The interconnection rate applicable to both KT and SK Broadband was Won 9.99 per minute, Won 10.86 per minute and Won 11.98 per minute for 2018, 2017 and 2016, respectively.

*Fixed-line-to-Wireless.* The MSIT determines interconnection arrangements for calls from a fixed-line network to a wireless network. For a call initiated by a fixed-line user to one of our wireless subscribers, the fixed-line network operator collects our usage fee from the fixed-line user and remits to us an interconnection charge. Interconnection with KT accounts for substantially all of our fixed-line-to-wireless interconnection revenue and expenses.

The interconnection rates paid by fixed-line network service providers to each wireless network service provider are set out below. Beginning in 2017, a single interconnection rate applies to all wireless telecommunications service providers, which has eliminated the cost benefit that KT and LG U+ had historically derived from the higher interconnection rates they had received.

| Applicable Year | Rate per Minute (in Won) |       |       |
|-----------------|--------------------------|-------|-------|
|                 | SK Telecom               | KT    | LG U+ |
| 2016            | 17.03                    | 17.14 | 17.17 |
| 2017            | 14.56                    | 14.56 | 14.56 |

|      |       |       |       |
|------|-------|-------|-------|
| 2018 | 13.07 | 13.07 | 13.07 |
|------|-------|-------|-------|

*Wireless-to-Wireless.* Interconnection charges also apply to calls between wireless telephone networks in Korea. Under these arrangements, the operator originating the call pays an interconnection charge to the operator terminating the call. The applicable interconnection rate is the same as the fixed-line-to-wireless interconnection rate set out in the table above.

Our revenues from the wireless-to-wireless charge were Won 498.5 billion in 2018, Won 505.1 billion in 2017 and Won 540.3 billion in 2016. Our expenses from these charges were Won 494.2 billion in 2018, Won 512.2 billion in 2017 and Won 548.1 billion in 2016. The charges above were agreed among the parties involved and confirmed by the KCC.

**Table of Contents*****International Calls and International Roaming Arrangements***

With respect to international calls, if a call is initiated by our wireless subscribers, we bill the wireless subscriber for the international charges of KT, LG U+ or SK Broadband, and we receive interconnection charges from such operators. If an international call is received by our subscriber, KT, LG U+ or SK Broadband pays interconnection charges to us based on our imputed costs.

To complement the services we provide to our subscribers in Korea, we offer international voice and data roaming services. We charge our subscribers usage fees for global roaming service and, in turn, pay foreign wireless network operators fees for the corresponding usage of their network. For a more detailed discussion of our global roaming services, see *Wireless Services* above.

**Competition**

We operate in highly saturated and competitive markets, and we believe that our subscriber growth is affected by many factors, including the expansion and technical enhancement of our networks, the development and deployment of new technologies, the effectiveness of our marketing and distribution strategy, the quality of our customer service, the introduction of new products and services, competitive pricing of our rate plans, new market entrants and regulatory changes.

Historically, there has been considerable consolidation in the telecommunications industry, resulting in the current competitive landscape comprising three mobile and fixed network operators in the Korean market, KT, LG U+ and us. Each of our competitors has substantial financial, technical, marketing and other resources to respond to our business offerings.

The following table shows the market share information, based on number of subscribers, as of December 31, 2018, for the following markets.

|                                       | <b>Market Share (%)</b> |           |              |               |
|---------------------------------------|-------------------------|-----------|--------------|---------------|
|                                       | <b>SK Telecom</b>       | <b>KT</b> | <b>LG U+</b> | <b>Others</b> |
| Wireless Service <sup>(1)</sup>       | 47.2%                   | 31.6%     | 21.2%        | %             |
| LTE Service <sup>(1)</sup>            | 45.0                    | 30.8      | 24.2         |               |
| Fixed-Line Telephone (including VoIP) | 16.0                    | 57.7      | 17.4         | 8.9           |
| Broadband Internet                    | 25.4                    | 41.0      | 18.9         | 14.7          |
| IPTV <sup>(2)</sup>                   | 14.1                    | 23.3      | 11.9         | 50.7          |

(1) Includes MVNO subscribers that lease the wireless networks of the respective mobile network operator.

(2) Includes video-on-demand only service subscribers. Market share is expressed as a percentage of the pay TV market (which includes IPTV, cable TV and satellite TV).

***Cellular Services***



As of December 31, 2018, we had 30.9 million subscribers, representing a market share of approximately 47.2%, including MVNO subscribers leasing our networks. As of December 31, 2018, KT and LG U+ had 20.6 million and 13.8 million subscribers, respectively, representing approximately 31.6% and 21.2%, respectively, of the total number of wireless subscribers in Korea on such date, each including MVNO subscribers leasing its networks. As of December 31, 2018, we had 24.8 million LTE subscribers and KT and LG U+ had 17.0 million and 13.4 million LTE subscribers, respectively, each including MVNO subscribers leasing its networks.

In 2018, we had 5.2 million activations and 4.5 million deactivations. For 2018, our monthly churn rate ranged from 1.2% to 1.3%, with an average monthly churn rate of 1.2% for 2018, which decreased from 1.5% for 2017. In 2018, we gained 38.3% of the total number of new wireless subscribers and subscribers that migrated to a different wireless telecommunications service provider, compared to KT with 33.3% and LG U+ with 28.4%.

We also compete for subscriber activations with MVNOs, including MVNOs that lease our networks. MVNOs generally provide rate plans that are relatively cheaper than similar rate plans of the wireless network providers

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from which they lease their networks, including us. To date, thirteen MVNOs have commenced providing wireless telecommunications services using the networks leased from us. As of December 31, 2018, MVNOs had a combined market share of 12.2%, of which MVNOs leasing our networks represented 5.4%, MVNOs leasing KT's networks represented 5.7% and MVNOs leasing LG U+'s networks represented 1.2%.

In addition, other companies may enter the wireless network services market. New entries in such market have historically required obtaining requisite licenses from the MSIT. However, pursuant to an amendment to the Telecommunications Business Act, which will become effective in June 2019, companies meeting certain regulatory criteria may become a network service provider by registering with the MSIT without a separate license requirement, which may have the effect of encouraging new entries into the Korean wireless network services market in the future. For a description of the risks associated with the competitive environment in which we operate, see Item 3.D. Risk Factors – Risks Relating to Our Business – Competition may reduce our market share and harm our results of operations and financial condition.

Historically, competition in the wireless telecommunications business had caused us to significantly increase our marketing and advertising expenses from time to time depending on the prevailing competitive landscape, with our marketing expenses as a percentage of SK Telecom's revenue, on a separate basis, reaching a peak of 28.2% in 2012. Such percentage was 23.9% in 2016, 25.0% in 2017 and 24.5% in 2018. We attribute such stabilization to the maturity of the LTE market and the implementation of the MDDIA, which prohibits wireless telecommunications service providers from unfairly providing discriminatory subsidies based on certain criteria and from providing subsidies exceeding a maximum limit established by the KCC for the purchase of mobile phone models that were launched within the last 15 months, among other restrictions and requirements. However, the prohibition from providing handset subsidies exceeding the amount set by the KCC expired in September 2017 pursuant to the expiration of the three-year effective period of the relevant provision of the MDDIA. For a more detailed discussion of the MDDIA, see Law and Regulation – Rate Regulation – below.

We face competition from KT and LG U+ as well as other platform service providers in our other cellular service businesses. For example, our Smart Home service competes with KT's Giga IoT Home service and LG U+'s IoT@Home service.

***Fixed-Line Telecommunication Services***

Our fixed-line telephone service competes with KT and LG U+ as well as providers of other VoIP services. As of December 31, 2018, our market share of the fixed-line telephone and VoIP service market was 16.0% (including the services provided by SK Broadband and SK Telink) in terms of number of subscribers compared to KT with 57.7% and LG U+ with 17.4%.

We are the second largest provider of broadband Internet access services in Korea in terms of both revenue and subscribers, and our network covered more than 80% of households in Korea as of December 31, 2018. As of December 31, 2018, our market share of the broadband Internet market was 25.4% in terms of number of subscribers compared to KT with 41.0% and LG U+ with 18.9%.

Our IPTV service competes with other providers of such pay TV services, including KT, LG U+ and cable companies. As of December 31, 2018, our market share of the pay TV market (which includes IPTV, cable TV and satellite TV) was 14.1% compared to KT with 23.3% and LG U+ with 11.9% and the collective market share of other pay TV providers of 50.7%. With respect to our mobile OTT business, we face competition from similar services provided by KT and LG U+. We also face increasing competition from global media streaming service providers such as Amazon Video and Netflix, which launched its services in Korea in January 2016.

Recently, the Korean fixed-line telecommunications industry has been going through significant consolidation involving major cable television service providers. In January 2019, LG U+ announced its plan to acquire a majority equity stake in CJ Hello, which is one of the largest cable television and other fixed-line telecommunication services providers in Korea. In April 2019, SK Broadband entered into an agreement with Tbroad, a leading cable television and other fixed-line telecommunication services provider in Korea with consolidated total assets of Won 1,192.3 billion and consolidated total revenue of Won 684.1 billion as of and for the year ended December 31, 2018, pursuant to which Tbroad will merge with and into SK Broadband. Upon the completion of such merger, which is

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expected to occur by early 2020, we expect to own approximately 74.4% of SK Broadband's equity interest. In addition, SK Telecom signed a separate share purchase agreement with Tbroad Co., Ltd. to acquire a 55.0% equity interest in Tbroad Nowon for a purchase price of Won 10.4 billion. While the completion of each of these transactions is currently pending, successful completion of such transactions, as well as further consolidation in the fixed-line telecommunications industry, may result in increased competition, as the entities emerging from such consolidation and other remaining players in the industry may actively pursue expanding or protecting their respective market shares.

Furthermore, the Government has historically enforced regulations on cable TV and IPTV service providers that prohibited them from having a market share of more than one-third of the total number of subscribers in the relevant pay TV market on each of their respective platforms. In June 2015, the Government amended the regulation to impose the same limit on the market share of the entire pay TV market, including satellite TV service providers as well. Such amended regulation, however, expired in June 2018, which has led to the speculation that KT, currently the dominant market player in both the IPTV and satellite TV markets, may further increase its market share by acquiring other players in the pay TV market. While the expiration of such regulation has prompted the submission of a number of bills in the National Assembly to extend its application, it is uncertain whether such bill will be passed.

***E-Commerce Services***

The e-commerce industry is evolving rapidly and is intensely competitive, and we face a broad array of competitors domestically and increasingly, internationally. Our marketplace business, 11st, faces intense competition from various e-commerce providers, including online open marketplaces such as Gmarket, Auction and Interpark and online social commerce operators such as Coupang, Ticket Monster and Wemakeprice. We also face competition from traditional retailers with online and mobile shopping portals such as SSG.com and Lotte.com, home shopping providers with online and mobile shopping portals such as CJ Mall by CJ O Shopping, GS Shop by GS Homeshopping and Hyundai Hmall by Hyundai Homeshopping, and various online marketplaces for specific consumer segments or product groups.

**Other Investments and Relationships**

We have investments in several other businesses and companies and have entered into various business arrangements with other companies. Our principal investments fall into the following categories:

***SK Hynix***

As of December 31, 2018, we held a 20.1% equity interest in SK Hynix, one of the world's largest memory-chip makers by revenue. SK Hynix designs, manufactures and sells advanced memory semiconductor products, including DRAM and NAND flash products, used in various electronic devices. SK Hynix operates four wafer fabrication facilities in Korea and China.

As of December 31, 2018, the fair value of our holding in SK Hynix was Won 8,839.1 billion. We received dividend payments of Won 146.1 billion in 2018, Won 87.7 billion in 2017 and Won 73.1 billion in 2016 related to such shareholding. In 2018, 2017 and 2016, SK Hynix and its subsidiaries, on a consolidated basis, reported revenues of Won 40,445.1 billion, Won 30,109.4 billion and Won 17,198.0 billion, respectively, profit before income tax of Won 21,341.0 billion, Won 13,439.6 billion and Won 3,216.5 billion, respectively, and profit for the year of Won 15,540.0 billion, Won 10,642.2 billion and Won 2,960.5 billion, respectively. The increase in SK Hynix's revenues in 2018 was primarily due to the continued increases in the demand for and average selling prices of DRAM and NAND flash products. As of December 31, 2018, 2017 and 2016, SK Hynix and its subsidiaries, on a consolidated basis,

reported total assets of Won 63,658.3 billion, Won 45,418.5 billion and Won 32,216.0 billion, respectively, and total equity of Won 46,852.3 billion, Won 33,820.9 billion and Won 24,023.5 billion, respectively. For a more detailed discussion of the risks relating to our shareholding in SK Hynix, see Item 3.D. Risk Factors Risks Relating to Our Business Declines in the market value of our equity holdings in SK Hynix and the results of operations of SK Hynix could have a material adverse effect on the market price of our common shares and ADSs as well as our results of operation.

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### ***KEB HanaCard***

In February 2010, we purchased shares newly issued by Hana SK Card Co., Ltd. (which was subsequently merged into KEB Card Co., Ltd. and renamed KEB HanaCard Co., Ltd. ( KEB HanaCard ) in November 2014), a credit card services provider, for a total purchase price of Won 400.0 billion. As of December 31, 2018, we held 15.0% of the total outstanding shares of KEB HanaCard. KEB HanaCard offers certain credit card products that provide for discounts on some of our wireless network services and integrate T Membership benefits, among other features.

## **Law and Regulation**

### ***Overview***

Korea's telecommunications industry is subject to comprehensive regulation by the MSIT, which is responsible for information and telecommunications policies. The MSIT regulates and supervises a broad range of communications issues, including:

entry into the telecommunications industry;

scope of services provided by telecommunications service providers;

allocation of radio spectrum;

setting of technical standards and promotion of technical standardization;

rates, terms and practices of telecommunications service providers;

interconnection and revenue-sharing between telecommunications service providers;

research and development of policy formulation for information and telecommunications; and

competition among telecommunications service providers.

The MSIT is charged with regulating information and telecommunications and the KCC is charged with regulating the public interest aspects of and fairness in broadcasting.

Telecommunications service providers are currently classified into three categories: network service providers, value-added service providers, and specific service providers. We are classified as a network service provider because we provide telecommunications services with our own telecommunications networks and related facilities. As a network service provider, we are currently required to obtain a license from the MSIT for the services we provide. However, an amendment to the Telecommunications Business Act, pursuant to which companies meeting certain

regulatory criteria may become a network service provider without a separate license requirement and the category of specific service providers will be merged into the category of network service providers, will become effective in June 2019. Our licenses permit us to provide cellular services, third generation wireless telecommunications services using WCDMA and WiBro technologies, fourth generation wireless telecommunications services using LTE technology and fifth generation wireless telecommunication services using 5G technology.

The MSIT may revoke our licenses or suspend any of our businesses if we fail to comply with its rules, regulations and corrective orders, including the rules restricting beneficial ownership and control and corrective orders issued in connection with any violation of rules restricting beneficial ownership and control or any violation of the conditions of our licenses. Alternatively, in lieu of suspension of our business, the KCC may levy a monetary penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years. A network service provider that wants to cease its business or dissolve must notify its users 60 days prior to the scheduled date of cessation or dissolution and obtain MSIT approval.

In the past, the Government has stated that its policy was to promote competition in the Korean telecommunications market through measures designed to prevent the dominant service provider in any such market from exercising its market power in such a way as to prevent the emergence and development of viable competitors. While all network service providers are subject to MSIT regulation, we are subject to increased regulation because of our position as the dominant wireless telecommunications services provider in Korea.

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**Table of Contents*****Competition Regulation***

The KCC is charged with ensuring that network service providers engage in fair competition and has broad powers to carry out this goal. If a network service provider is found to be in violation of the fair competition requirement, the KCC may take corrective measures it deems necessary, including, but not limited to, prohibiting further violations, requiring amendments to the articles of incorporation or to service contracts with customers, requiring the execution or performance of, or amendments to, interconnection agreements with other network service providers and prohibiting advertisements to solicit new subscribers. The KCC is required to consult with the Minister of the MSIT before it takes certain corrective measures.

In addition, we qualify as a market-dominating business entity under the Fair Trade Act. Accordingly, we are prohibited from engaging in any act of abusing our position as a market-dominating entity, such as unreasonably determining, maintaining or altering service rates, unreasonably controlling the rendering of services, unreasonably interfering with business activities of other business entities, hindering unfairly the entry of newcomers or substantially restricting competition to the detriment of the interests of consumers.

Because we are a member company of the SK Group, which is a large business group as designated by the FTC, we are subject to the following restrictions under the Fair Trade Act:

*Restriction on debt guarantee among affiliates.* Any affiliate within the SK Group may not guarantee the debts of another domestic affiliate, except for certain guarantees prescribed in the Fair Trade Act, such as those relating to the debts of a company acquired for purposes of industrial rationalization, bid deposits for overseas construction work or technology development funds.

*Restriction on cross-investment.* A member company of the SK Group may not acquire or hold shares in an affiliate belonging to the SK Group that owns shares in the member company.

*Restrictions on circular investments.* A member company of the SK Group may not acquire or hold shares which would constitute circular investments in an affiliate company which also forms part of the SK Group where circular investments refer to a cross-affiliate shareholding relationship under which three or more affiliate companies become connected through cross affiliate shareholdings by owning shares in other affiliates or by becoming an entity whose shares are owned by other affiliates.

*Public notice of board resolution on large-scale transactions with specially related persons.* If a member company of the SK Group engages in a transaction with a specially related person in the amount of 5.0% or more of the member company's capital or paid-in capital or for Won 5.0 billion or more, the transaction must be approved by a resolution of the member company's board of directors and the member company must publicly disclose the transaction.

*Restrictions on investments by subsidiaries and sub-subsidiaries of holding companies.* The Fair Trade Act prohibits subsidiaries of holding companies from investing in, or holding shares of common stock of, domestic affiliates that belong to the same large business group, unless such domestic affiliates are their own



subsidiaries. Furthermore, any subsidiaries of a holding company's subsidiaries ( sub-subsidiaries ) are prohibited from investing in, or holding shares of common stock of, domestic affiliates that belong to the same large business group, unless all shares issued by the affiliates are held by the sub-subsidiary. Therefore, we and other subsidiaries of SK Holdings may not invest in any domestic affiliate that is also a member company of the SK Group, except in the case where we invest in our own subsidiary or where another subsidiary of SK Holdings invests in its own subsidiary.

*Public notice of the current status of a business group.* Under the Fair Trade Act and the Enforcement Decree thereof, a member company of the SK Group must publicly disclose the general status of the SK Group, including the name, business scope and financial status of affiliates, information on the officers of affiliates, information on shareholding and cross-investments between member companies of the SK Group, information on transactions with certain related persons and, if a member company engages in a transaction with an affiliated company in the amount of 5.0% or more of the member company's quarterly sales or Won 5.0 billion or more, information on transactions with such affiliated company on a quarterly basis.

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**Table of Contents*****Rate Regulation***

Network service providers whose sales proceeds exceed the amount prescribed by law must report to the MSIT the rates and contractual terms for each type of service they provide. However, as the dominant network service provider for specific services (based on having the largest market share in terms of number of subscribers and meeting certain revenue thresholds), we must obtain prior approval of the MSIT on our rates and terms of service; provided, however, that such pre-approval of the MSIT is not required, if we are planning to reduce the rates for any type of services that we provide under the MSIT-approved contractual terms. The MSIT's policy is to approve rates if they are appropriate, fair and reasonable (that is, if the rates have been reasonably calculated, considering supply costs, profits, classification of costs and profits for each service, cost savings through changes in the way services are provided and the influence on fair competition, among others). The MSIT may order changes in the submitted rates if it deems the rates to be significantly unreasonable or against public policy. Multiple bills have been proposed to the National Assembly to change the approval requirement to a simple reporting requirement, which is the requirement for our competitors. However, there is no assurance as to which of these bills, if any, will be passed.

Furthermore, in 2007, the Government announced a road map highlighting revisions in regulations to promote deregulation of the telecommunications industry. In accordance with the road map and pursuant to the Combined Sales Regulation, promulgated in May 2007, telecommunications service providers are now permitted to bundle their services, such as wireless data transmission service, wireless voice transmission service, broadband Internet access service, fixed-line telephone service and IPTV service, at a discounted rate; provided, however, that we and KT, as market-dominating business entities under the Telecommunications Business Act, allow other competitors to employ the services provided by us and KT, respectively, so that such competitors can provide similar discounted package services. In September 2007, the regulations and provisions under the Telecommunications Business Act were amended to permit licensed transmission service providers to offer local, domestic long-distance and international telephone services, as well as broadband Internet access and Internet phone services, without additional business licenses.

Moreover, an MVNO system has been adopted and is in effect until its expiration on September 22, 2019 under the amended Telecommunications Business Act, which became effective on March 14, 2017. Under this system, the MSIT may designate and obligate certain wireless telecommunications services providers to allow an MVNO, at such MVNO's request, to use their telecommunication network facilities at a rate mutually agreed upon that complies with the standards set by the MSIT. We were designated as the only wireless telecommunications services provider obligated to allow the other wireless telecommunications services provider to use our telecommunications network facilities. To date, thirteen MVNOs have commenced providing wireless telecommunications services using the networks leased from us.

On October 1, 2014, the MDDIA, enacted for the purpose of establishing a transparent and fair mobile distribution practice, became effective. The MDDIA limits the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers. Pursuant to the MDDIA, wireless telecommunications service providers are prohibited from (i) unfairly providing discriminatory subsidies based on criteria such as type of subscription, subscription plan and characteristics of the subscriber and (ii) entering into a separate agreement with subscribers imposing obligations to use a specific subscription plan as a condition for providing subsidies. The MDDIA also prohibited providing subsidies exceeding a maximum limit established by the KCC for the purchase of mobile phone models that were launched within the last 15 months, which prohibition expired in September 2017. See Item 5.A. Operating Results Overview New Rate Regulations.

In addition, under the MDDIA, wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving subsidies. In June 2017, the State Affairs Planning Advisory Committee of Korea announced that it would encourage wireless telecommunications service providers, including us, to increase the applicable discount rate offered to subscribers from 20% to 25%, which we adopted in September 2017, and to offer additional discounts to low income customers, including those on government welfare programs and senior citizen recipients of the basic pension, which we implemented in December 2017 and July 2018, respectively. We cannot provide assurance that we will not provide other rate discounts in the future to comply with the Government's public policy guidelines or suggestions.

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**Table of Contents*****Interconnection***

Dominant network service providers such as ourselves that own essential infrastructure facilities or possess a certain market share are required to provide interconnection of their telecommunications network facilities to other service providers upon request. The MSIT sets and announces the standards for determining the scope, procedures, compensation and other terms and conditions of such provision, interconnection or co-use. We have entered into interconnection agreements with KT, LG U+ and other network service providers permitting these entities to interconnect with our network. We expect that we will be required to enter into additional agreements with new operators as the MSIT grants permits to additional telecommunications service providers.

***Frequency Allocation***

The MSIT has the discretion to allocate and adjust the frequency bandwidths for each type of service and may auction off the rights to certain frequency bandwidths. Upon allocation of new frequency bandwidths or adjustment of frequency bandwidths, the MSIT is required to give a public notice. The MSIT also regulates the frequency to be used by each radio station, including the transmission frequency used by equipment in our cell sites. All of our frequency allocations are for a definite term. We pay fees to the MSIT for our frequency usage that are determined based upon our number of subscribers, frequency usage by our networks and other factors. For 2018, 2017 and 2016, the fee amounted to Won 151.7 billion, Won 150.3 billion and Won 186.8 billion, respectively.

We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our CDMA services, 10 MHz of bandwidth in the 2.1 GHz spectrum for our WCDMA services, 30 MHz of bandwidth in the 2.1 GHz spectrum, 20 MHz of bandwidth in the 800 MHz spectrum, 35 MHz of bandwidth in the 1.8 GHz spectrum and 60 MHz of bandwidth in the 2.6 GHz spectrum for our LTE services, as well as 100 MHz of bandwidth in the 3.5 GHz spectrum for our 5G services. We also plan to use 800 MHz of bandwidth in the 28 GHz spectrum for our 5G services in the future. For more information regarding the license fees for the various bandwidths that we use, see Item 5.B. Liquidity and Capital Resources Capital Requirements Capital Expenditures and note 16 of the notes to our consolidated financial statements.

For risks relating to the maintenance of adequate bandwidth capacity, see Item 3.D. Risk Factors Risks Relating to Our Business Our business and results of operations may be adversely affected if we fail to acquire adequate additional spectrum or use our bandwidth efficiently to accommodate subscriber growth and subscriber usage.

***Mandatory Contributions and Obligations***

All telecommunications service providers other than value-added service providers and regional paging service providers or any telecommunications service providers whose net annual revenue is less than an amount determined by the MSIT (currently set at Won 30.0 billion) are required to provide universal telecommunications services including local telephone services, local public telephone services, telecommunications services for remote islands and wireless communication services for ships and telephone services for handicapped and low-income citizens, or contribute toward the supply of such universal services. The MSIT designates universal services and the service provider who is required to provide each service. Currently, under the MSIT guidelines, we are required to offer free subscription and a discount of between 30.0% to 50.0% of our monthly fee for wireless telecommunications services to handicapped and low-income citizens.

In addition to such universal services for handicapped and low-income citizens, we are also required to make certain annual monetary contributions to compensate for other service providers costs for the universal services. The size of a service provider s contribution is based on its net annual revenue for the previous year (calculated pursuant to the

MSIT guidelines, which differ from our accounting practices). We paid such contributions amounting to Won 16.7 billion, Won 13.6 billion and Won 21.1 billion in 2018, 2017 and 2016, respectively. As a wireless telecommunications services provider, we are not considered a provider of universal telecommunications services and do not receive funds for providing universal service. Other network service providers that do provide universal services make all or a portion of their contribution in the form of expenses related to the universal services they provide.

**Table of Contents*****Foreign Ownership and Investment Restrictions and Requirements***

Because we are a network service provider, and the exception for the foreign shareholding limit under the amended Telecommunications Business Act, which became effective on August 13, 2013, does not apply to us, foreign governments, individuals, and entities (including Korean entities that are deemed foreigners, as discussed below) are prohibited from owning more than 49.0% of our voting stock. Korean entities whose largest shareholder is a foreign government or a foreigner (together with any of its related parties) that owns 15.0% or more of the outstanding voting stock of such Korean entities are also deemed foreigners. If this 49.0% ownership limitation is violated, certain of our foreign shareholders will not be permitted to exercise voting rights in excess of the limitation, and the MSIT may require other corrective action.

As of December 31, 2018, SK Holdings owned 21,624,120 shares of our common stock, or 26.8% of our issued shares. As of December 31, 2018, the two largest foreign shareholders of SK Holdings each held a 3.5% stake therein. If such foreign shareholders increase their shareholdings in SK Holdings to 15% or more and any such foreign shareholder constitutes the largest shareholder of SK Holdings, SK Holdings will be considered a foreign shareholder, and its shareholding in us would be included in the calculation of our aggregate foreign shareholding. If SK Holdings shareholding in us is included in the calculation of our aggregate foreign shareholding, then our aggregate foreign shareholding, assuming the foreign ownership level as of December 31, 2018 (which we believe was 41.8%), would reach 68.6%, exceeding the 49.0% ceiling on foreign shareholding.

If our aggregate foreign shareholding limit is exceeded, the MSIT may issue a corrective order to us, the breaching shareholder (including SK Holdings if the breach is caused by an increase in foreign ownership of SK Holdings) and the foreign shareholder which owns in the aggregate 15.0% or more of SK Holdings. Furthermore, SK Holdings will be prohibited from exercising its voting rights with respect to the shares held in excess of the 49.0% ceiling, which may result in a change in control of us. In addition, the MSIT will be prohibited from granting us licenses or permits necessary for entering into new telecommunications businesses until our aggregate foreign shareholding is reduced to below 49.0%. If a corrective order is issued to us by the MSIT arising from the violation of the foregoing foreign ownership limit, and we do not comply within the prescribed period under such corrective order, the MSIT may:

revoke our business license;

suspend all or part of our business; or

if the suspension of business is deemed to result in significant inconvenience to our customers or to be detrimental to the public interest, impose a one-time administrative penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years.

Additionally, the Telecommunications Business Act also authorizes the MSIT to assess monetary penalties of up to 0.3% of the purchase price of the shares for each day the corrective order is not complied with, as well as a prison term of up to one year or a penalty of Won 50 million. See Item 3.D. Risk Factors Risks Relating to Our Business If SK Holdings causes us to breach the foreign ownership limitations on our common shares, we may experience a change of control.

We are required under the Foreign Exchange Transaction Act to file a report with a designated foreign exchange bank or with the MOEF, in connection with any issue of foreign currency denominated securities by us in foreign countries.

Issuances of US\$30 million or less require the filing of a report with a designated foreign exchange bank, and issuances that are over US\$30 million in the aggregate within one year from the filing of a report with a designated foreign exchange bank require the filing of a report with the MOEF.

The Telecommunications Business Act provides for the creation of a Public Interest Review Committee under the MSIT to review investments in or changes in the control of network service providers. The following events would be subject to review by the Public Interest Review Committee:

the acquisition by an entity (and its related parties) of 15.0% or more of the equity of a network service provider;

a change in the largest shareholder of a network service provider;

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agreements by a network service provider or its shareholders with foreign governments or parties regarding important business matters of such network service provider, such as the appointment of officers and directors and transfer of businesses; and

a change in the shareholder that actually controls a network service provider.

If the Public Interest Review Committee determines that any of the foregoing transactions or events would be detrimental to the public interest, then the MSIT may issue orders to stop the transaction, amend any agreements, suspend voting rights, or divest the shares of the relevant network service provider. Additionally, if a dominant network service provider (which would currently include us and KT), together with its specially related persons (as defined under the FSCMA), holds more than 5.0% of the equity of another dominant network service provider, the voting rights on the shares held in excess of the 5.0% limit may not be exercised.

## **Patents and Licensed Technology**

Access to the latest relevant technology is critical to our ability to offer the most advanced wireless telecommunications services and to design and manufacture competitive products. In addition to active internal and external research and development efforts as described in Item 5.C. Research and Development, Patents and Licenses, etc., our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products. We own numerous patents and trademarks worldwide, and have applications for patents pending in many countries. Our patents are mainly related to LTE and 5G technology and wireless Internet applications. We have also acquired a number of patents related to WCDMA and CDMA technologies. There are no licensed patents that are material to our business.

We are not currently involved in any material litigation regarding patent infringement. For a description of the risks associated with our reliance on intellectual property, see Item 3.D. Risk Factors Risks Relating to Our Business. Our business relies on technology developed by us, and our business will suffer if we are unable to protect our proprietary rights.

## **Seasonality of the Business**

Our business is not affected by seasonality.

## **Item 4.C. *Organizational Structure***

### **Organizational Structure**

We are a member of the SK Group, based on the definition of "group" under the Fair Trade Act. As of December 31, 2018, SK Group members owned in aggregate 26.8% of the shares of our issued common stock. The SK Group is a diversified group of companies incorporated in Korea with interests in, among other things, telecommunications, trading, energy, chemicals, engineering and leisure industries.

## **Significant Subsidiaries**

For information regarding our subsidiaries, see note 1(2) of the notes to our consolidated financial statements.





**Table of Contents****Item 4.D. Property, Plants and Equipment**

The following table sets forth certain information concerning our principal properties as of December 31, 2018:

| <b>Location</b>           | <b>Primary Use</b>                         | <b>Approximate Area<br/>in Square Feet</b> |
|---------------------------|--|--|
| Seoul Metropolitan Area   | Corporate Headquarters                     | 988,447                                    |
|                           | Regional Headquarters                      | 608,670                                    |
|                           | Customer Service Centers                   | 107,277                                    |
|                           | Training Centers                           | 616,845                                    |
|                           | Central Research and Development<br>Center | 482,719                                    |
| Busan                     | Others <sup>(1)</sup>                      | 1,398,140                                  |
|                           | Regional Headquarters                      | 363,422                                    |
| Daegu                     | Others <sup>(1)</sup>                      | 509,510                                    |
|                           | Regional Headquarters                      | 20,978                                     |
| Jeolla and Jeju Provinces | Others <sup>(1)</sup>                      | 450,777                                    |
|                           | Regional Headquarters                      | 265,614                                    |
| Chungcheong Province      | Others <sup>(1)</sup>                      | 743,589                                    |
|                           | Regional Headquarters                      | 565,643                                    |
|                           | Others <sup>(1)</sup>                      | 734,684                                    |

(1) Includes cell sites.

Our registered office and corporate headquarters, of which we have full ownership, are located at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 04539, Korea, which occupy a total land area of approximately 64,515 square feet. In addition, we own or lease various locations for cell sites and switching equipment. We do not anticipate that we will encounter material difficulties in meeting our future needs for any existing or prospective leased space for our cell sites. See Item 4.B. Business Overview Cellular Services Network Infrastructure.

We maintain a range of insurance policies to cover our assets and employees, including our directors and officers. We are insured against business interruption, fire, lightning, flooding, theft, vandalism, public liability and certain other risks that may affect our assets and employees. We believe that the types and amounts of our insurance coverage are in accordance with general business practices in Korea.

**Item 4A. UNRESOLVED STAFF COMMENTS**

We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Exchange Act.

**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

You should read the following discussion together with our consolidated financial statements and the related notes thereto which appear elsewhere in this annual report. We prepare our consolidated financial statements in accordance

with IFRS as issued by the IASB. In addition, you should read carefully the section titled *Critical Accounting Policies, Estimates and Judgments* as well as note 4 of the notes to our consolidated financial statements which provide summaries of certain critical accounting policies that require our management to make difficult, complex or subjective judgments relating to matters which are highly uncertain and that may have a material impact on our financial conditions and results of operations.

**Item 5.A. *Operating Results***

**Overview**

Our operations are reported in four segments: (1) cellular services, which include wireless voice and data transmission services, sales of wireless devices, IoT solutions and platform services, (2) fixed-line

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telecommunication services, which include fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV and mobile OTT services) and business communications services, (3) e-commerce services, which include our open marketplace platform, 11st, and related ancillary services, and (4) other businesses, which include our portal service, marketing platform business, physical and information security businesses and certain other miscellaneous businesses that do not meet the quantitative thresholds to be separately considered reportable segments.

In our cellular services segment, we earn revenue principally from our wireless voice and data transmission services through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by our wireless subscribers as well as interconnection fees paid to us by other telecommunications operators for use of our wireless network by their customers and subscribers. We also derive revenue from sales of wireless devices by PS&Marketing. Other sources of revenue include revenue from our IoT solutions and platform services, including AI solutions, as well as other miscellaneous cellular services.

In our fixed-line telecommunication services segment, we earn revenue principally from our fixed-line telephone services and broadband Internet services and advanced media platform services (including IPTV and mobile OTT services) through monthly plan-based fees and usage charges as well as interconnection fees paid to us by other telecommunications operators for use of our fixed-line network by their customers and subscribers. In addition, we derive revenue from international calling services and our business communications services through customized fee arrangements with our business customers.

In our e-commerce services segment, we derive revenue from our subsidiary Eleven Street, which was spun-off as our new consolidated subsidiary from SK Planet in September 2018. Eleven Street generates revenue principally through third-party seller fees earned (including commissions) for transactions in which it acts as a selling agent to the mini malls on 11st, its online open marketplace platform, as well as advertising revenue and other commerce solutions from 11st. Following the spin-off of Eleven Street from SK Planet, the remaining marketing platform business operations of SK Planet, which were previously part of our e-commerce services segment in the years ended December 31, 2017 and 2016, were reclassified as part of our other businesses segment for the year ended December 31, 2018. As a result, the breakdown of our results of operations by operating segment for the years ended December 31, 2017 and 2016 in our consolidated audited financial statements have been recast to retroactively apply such change in segmentation.

In our others segment, we earn revenue from our Nate portal service operated by our subsidiary, SK Communications, and miscellaneous other businesses, including the marketing platform business of SK Planet, our physical and information security businesses through ADT Caps (which we acquired in October 2018 and subsequently merged with our former subsidiary NSOK) and SK Infosec (which we acquired in December 2018) and certain other businesses.

Our cellular service revenue and fixed-line telecommunications service revenue depend principally upon the number of our subscribers, the rates we charge for our services, the frequency and volume of subscriber usage of our services and the terms of our interconnection with other telecommunications operators. Our e-commerce service revenue depends principally upon the gross merchandise volume, which is the total monetary value of customer purchases of goods and services, net of estimated refunds, of 11st and the number of merchants that utilize 11st to advertise and promote their products and services and the extent of such advertisement and promotion.

Among other factors, management uses operating profit of each reportable segment presented in accordance with K-IFRS ( segment operating profit ) in its assessment of the profitability of each reportable segment. The sum of segment operating profit for all four reportable segments differs from our operating profit presented in accordance with IFRS as issued by the IASB as segment operating profit does not include certain items such as donations, gain

and loss from disposal of property and equipment and intangible assets and impairment loss on property and equipment and intangible assets. For a reconciliation of operating profit presented in accordance with IFRS as issued by the IASB and operating profit presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS. In addition to the information set forth below, see note 5 of the notes to our consolidated financial statements for more detailed information regarding each of our reportable segments.

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A number of recent developments have had or are expected to have a material impact on our results of operations, financial condition and capital expenditures. These developments include:

*New Rate Regulations.* Under the MDDIA, wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving handset subsidies. Handset subsidies are provided to subscribers who agree to use our service for a predetermined service period and purchase handsets on an installment basis. In June 2017, the State Affairs Planning Advisory Committee of Korea announced that it would encourage wireless telecommunications service providers, including us, to increase the applicable discount rate offered to subscribers from 20% to 25%, which we adopted in September 2017, and to offer additional discounts to low income customers, including those on government welfare programs and senior citizen recipients of the basic pension, which we implemented in December 2017 and July 2018, respectively.

In 2018, the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA increased due to greater public awareness of the availability of such discounted rates as well as the increase in the applicable discount rate to 25%. In the fourth quarter of 2018, approximately 44% of our new subscribers elected to receive discounted rates in lieu of handset subsidies compared to 40% in the previous quarter. As of December 31, 2018, approximately 85% of our subscribers who elected to receive these discounted rates are receiving the increased 25% rate discount. These Government measures have adversely affected our revenues and results of operations as more subscribers elected to receive the 25% rate discount. On the other hand, this has also led to a reduction of our marketing expenses as the number of subscribers who have elected to receive handset subsidies has declined, and has contributed to maintaining a stable churn rate.

With respect to handset subsidies, in October 2014, the Government started limiting the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers under the MDDIA. The prohibition from providing handset subsidies exceeding the amount set by the KCC (which was Won 330,000 from April 2015 to September 2017) expired in September 2017 pursuant to the expiration of the three-year effective period of the relevant provision of the MDDIA. Although the expiration of this provision may lead to increased handset subsidies provided to subscribers among us and our competitors, we do not believe the impact to have been significant to date, as a greater number of subscribers have elected to receive discounted rates in lieu of such subsidies due to the increase in the applicable discount rate to 25% in September 2017. Failure to comply with the MDDIA may lead to suspension of our business or imposition of monetary penalties. For more information about the MDDIA and the penalties imposed for violating Government regulations, see [Item 4.B. Business Overview Law and Regulation Rate Regulation](#) and [Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings KCC Proceedings](#).

*Decrease in Interconnection Fees.* Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Charges for interconnection affect our revenues and operating results. The MSIT determines the basic framework for interconnection arrangements, including policies relating to interconnection rates in Korea. Under our interconnection agreements, we are required to make payments in respect of calls which originate from our networks and terminate in the networks of other Korean telecommunications operators, and the other operators are required to make payments to us in respect of calls which originate in their networks and terminate in our network. The MSIT has continued to gradually decrease the interconnection rates in Korea, which has led to a continued decrease in our interconnection revenue as well as interconnection expenses from 2012 to 2018 and any further reduction in interconnection rates by the MSIT may continue to impact our results of operations. Beginning in 2017, a single interconnection rate paid by fixed-line network service providers for fixed-line to wireless calls applies to all wireless telecommunications service providers. For more information about our interconnection revenue and expenses, see [Item 4.B. Business Overview Interconnection](#).

*Decrease in Monthly Revenue per Subscriber.* We measure monthly average revenue per subscriber using two metrics: average monthly revenue per subscriber excluding MVNO subscribers leasing our networks ( ARPU ) and average monthly revenue per subscriber including such MVNO subscribers ( ARPU including MVNO ). ARPU is derived by dividing the sum of total SK Telecom revenues on a separate basis from voice service and data

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service for the period (excluding revenue derived from MVNO subscribers leasing our networks) by the monthly average number of subscribers (excluding the number of MVNO subscribers) for the period, then dividing that number by the number of months in the period. ARPU including MVNO is derived by dividing the sum of total SK Telecom revenues on a separate basis from voice service and data service for the period (including revenue derived from MVNO subscribers) by the monthly average number of subscribers (including the number of MVNO subscribers) for the period, then dividing that number by the number of months in the period.

Our ARPU decreased by 7.6% to Won 32,243 in 2018 from Won 34,901 in 2017, which represented a decrease of 1.3% from Won 35,360 in 2016. Our ARPU including MVNO decreased by 8.2% to Won 28,615 in 2018 from Won 31,171 in 2017, which represented a decrease of 2.4% from Won 31,933 in 2016. The decreases in ARPU and ARPU including MVNO in 2018 and 2017 were primarily due to a decrease in revenue attributable to an increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies, as well as the increase in such discount rate from 20% to 25% starting in September 2017, offset in part by an increase in subscribers that subscribe to our higher-priced unlimited data usage plans. In addition, the decreases in ARPU and ARPU including MVNO in 2018 were also partially due to the additional rate discounts offered to low income customers, including those on government welfare programs and senior citizen recipients of the basic pension, starting in December 2017 and July 2018, respectively.

**Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS**

In addition to preparing consolidated financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with K-IFRS as adopted by the KASB, which we are required to file with the FSC and the Korea Exchange under the FSCMA.

K-IFRS requires operating profit, which is calculated as operating revenue less operating expense, to be separately presented on the consolidated statement of income. The presentation of operating profit in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report differs from the presentation of operating profit in the consolidated statements of income prepared in accordance with K-IFRS for the corresponding periods in certain respects. The table below sets forth a reconciliation of our operating profit as presented in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB for each of the three years ended December 31, 2018 to the operating profit as presented in the consolidated statements of income prepared in accordance with K-IFRS.

|   | <b>For the Year Ended December 31,</b> |             |             |
|---|--|-------------|-------------|
|   | <b>2018</b>                            | <b>2017</b> | <b>2016</b> |
|   | <b>(In billions of Won)</b>            |             |             |
| Operating profit pursuant to IFRS as issued by the IASB   | 833.8                                  | 1,224.6     | 1,303.4     |
| Differences:  |  |             |             |
| Other income pursuant to IFRS that are classified as other non-operating income pursuant to K-IFRS: |  |             |             |
| Fee revenues  | (0.7)                                  | (1.4)       | (0.6)       |
| Gain on disposal of property and equipment and intangible assets                                    | (38.9)                                 | (14.0)      | (6.9)       |
| Others  | (32.3)                                 | (16.6)      | (59.1)      |
|   | (71.9)                                 | (32.0)      | (66.6)      |



Other operating expenses pursuant to IFRS that are classified as other non-operating expenses pursuant to K-IFRS:

|  |         |         |         |
|--|---------|---------|---------|
| Loss on impairment of property and equipment and intangible assets | 255.8   | 54.9    | 24.5    |
| Loss on disposal of property and equipment and intangible assets   | 87.3    | 60.1    | 63.8    |
| Donations  | 59.0    | 112.6   | 96.6    |
| Bad debt for accounts receivable other                             | 7.7     | 5.8     | 40.3    |
| Others   | 30.1    | 110.6   | 73.7    |
|  | 439.9   | 344.0   | 298.9   |
| Operating profit pursuant to K-IFRS                                | 1,201.8 | 1,536.6 | 1,535.7 |

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However, there is no impact on profit for the year or earnings per share for each of the three years ended December 31, 2018, 2017 and 2016.

**Critical Accounting Policies, Estimates And Judgments**

Our consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. The preparation of the consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We continually evaluate our estimates and judgments including those related to allowances for doubtful accounts, fair value measurements of financial instruments, estimated useful lives and impairment of long-lived assets, impairment of goodwill, provisions, retirement benefit plans and income taxes. We base our estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that of our significant accounting policies, the following may involve a higher degree of judgment or complexity:

***Loss Allowances***

A loss allowance is provided based on a review of the status of individual receivable accounts at the end of the year. We maintain loss allowances for estimated losses that result from the inability of our customers to make required payments. We base our allowances on the likelihood of recoverability of accounts receivable based on the aging of accounts receivable at the end of the period, past customer default experience and their credit status, and economic and industrial factors. In addition, following our adoption of IFRS 9, *Financial Instruments*, in the fiscal year beginning January 1, 2018, we use an expected credit loss impairment model to estimate our loss allowances based on the above-described criteria. Under such model, loss allowances are recorded prior to experiencing delinquency on our receivable accounts rather than upon actual delinquency, which was the case under the previously applicable accounting standards. See Recently Adopted International Financial Reporting Standards IFRS 15 and IFRS 9. Loss allowance amounted to Won 376.0 billion as of December 31, 2018 and Won 362.2 billion as of December 31, 2017. If economic or specific industry trends worsen beyond our estimates, the loss allowances we have recorded may be materially adjusted in the future.

***Fair Value Measurement of Financial Instruments***

Subsequent to initial recognition, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial assets are stated at fair value with any gains or losses arising on remeasurement recognized in profit for the period or other comprehensive income. When measuring fair value, we use quoted prices in active markets to the extent such prices exist. The fair values of financial instruments, including derivative instruments, that are not traded in an active market are determined using valuation techniques that require management's estimates of future cash flows and discount rates. Our management uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. See notes 2(4) and 36(3) of the notes to our consolidated financial statements.

***Impairment of Long-lived Assets Including Frequency Usage Rights***

Long-lived assets generally consist of property and equipment and intangible assets. We review our depreciation and amortization methods, estimated useful lives and residual values of long-lived assets at the end of each annual reporting period. An impairment loss is recognized when the asset's recoverable amount is less than its carrying amount. The recoverable amount of a long-lived asset is the greater of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, we review the recoverable amount of an individual asset or, if it

is not possible to measure the individual recoverable amount of an asset, at the level of a cash-generating unit. The recoverable amounts of assets or cash-generating units are determined based on value-in-use calculations, which require the use of estimates. If any such asset or cash-generating unit is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset or cash-generating unit exceeds the estimated recoverable amount.

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Our intangible assets include our frequency usage rights, which have contractual lives of 5 to 10.25 years and are amortized from the date commercial service is initiated through the end of their contractual lives. Because the use of frequency usage rights is exposed to risks and challenges associated with our business, any or all of which, if realized or not properly addressed, may have a material adverse effect on our financial condition, results of operations and cash flows, we review the frequency usage rights for impairment on an annual basis. In connection with our review, we utilize the estimated long-term revenue and cash flow forecasts. The use of different assumptions within our cash flow model could result in different recoverable amounts for our frequency usage rights. The results of our review using the testing method described above resulted in no impairment of our frequency usage rights in 2018. See note 16 of the notes to our consolidated financial statements.

***Impairment of Goodwill***

Goodwill is measured as the excess of the sum of: (1) the consideration transferred, (2) the amount of any non-controlling interests in the acquiree and (3) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not depreciated, but tested for impairment at the end of each annual reporting period or whenever there is an indication that the asset may be impaired. Goodwill is carried at cost less accumulated impairment losses and the impairment losses are not reversed. For the purpose of impairment testing, we review the recoverable amount of an individual asset or, if it is not possible to measure the individual recoverable amount of an asset, at the level of a cash-generating unit. The recoverable amount of an asset or cash-generating unit to which goodwill has been allocated is the greater of its value in use and its fair value less costs to sell. The value in use calculation requires our management to estimate the future cash flows expected related to the respective cash-generating unit and the determination of an appropriate discount rate in order to calculate present value.

In 2018, we recognized Won 166.8 billion of impairment losses on goodwill compared to Won 33.4 billion of such losses in 2017, which increase was mainly due to our recognition of impairment losses on goodwill relating to our consolidated subsidiary Shopkick, Inc. ( Shopkick ), which operates shopkick, a mobile reward points-based in-store shopping application. The recoverable amount of goodwill as of December 31, 2018 relating to Shopkick, which we have classified as a single cash-generating unit, was determined based on fair value less cost of disposal, and such fair value was estimated based on the bidding prices submitted by multiple third parties in their respective letters of intent in connection with our strategic review relating to Shopkick. See note 15 of the notes to our consolidated financial statements.

***Income Taxes***

We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns. This process requires management to make assessments regarding the timing and probability of the tax impact. Actual income taxes could vary from these estimates due to future changes in income tax law or unpredicted results from the final determination of each year's liability by taxing authorities. We believe that the accounting estimate related to assessment of deferred tax assets for recoverability is a critical accounting estimate because (1) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities and (2) the impact that changes in actual performance versus these estimates could have on the realization of tax benefits as reported in our results of operations could be material. Management's assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so. As of December 31, 2018 and 2017, unused tax loss carryforwards of Won 849.9 billion and Won 921.3 billion, respectively, were not recognized as deferred tax assets because we did not believe that their realization would be probable. The decrease of Won 71.4 billion in unrecognized tax loss

carryforwards in 2018 compared to 2017 was primarily related to the recognition of certain unused tax loss carryforwards that were previously not recognized as deferred tax assets relating to SK Broadband based on our determination that the probability of their realization has increased. See note 32 of the notes to our consolidated financial statements.

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We pay commissions to our retail stores and authorized dealers in connection with acquiring wireless and fixed-line telecommunications subscriber contracts, which would not have been paid if there were no binding contracts with subscribers. Following our adoption of IFRS 15, *Revenue from Contracts with Customers*, in the fiscal year beginning January 1, 2018, we capitalize certain costs associated with such commissions as prepaid expenses and amortize them over the expected periods over which we expect to maintain such subscribers under contract. Our management assesses such expected contract periods based on our historical subscriber churn rate. If we experience any changes in our historical subscriber churn rates, or if our management decides to use other factors for the determination of the expected contract periods, our estimate of the expected contract period will change, which in turn will affect the rate at which the applicable prepaid expenses are amortized and recognized as our operating expenses. See note 8 of the notes to our consolidated financial statements.

**Recently Adopted International Financial Reporting Standards IFRS 15 and IFRS 9**

We adopted IFRS 15, *Revenue from Contracts with Customers*, and IFRS 9, *Financial Instruments*, in the fiscal year beginning on January 1, 2018.

IFRS 15 is a new accounting standard issued by the IASB that provides a comprehensive framework for determining whether, how much and when revenue is recognized. Pursuant to IFRS 15, we allocate revenue generated from our wireless and fixed-line telecommunication services based on our identification and satisfaction of our stand-alone performance obligations under applicable customer contracts. For example, in the case of contracts where we sell both a wireless device and subscription plan together to a single customer, from which a substantial portion of our overall revenue is generated, we allocate the portion of the overall transaction price related to the wireless device and immediately recognize such portion as revenue, whereas the portion related to the wireless subscription plan is allocated and recognized as revenue over the course of the customer contract period. Under IFRS 15, such allocation is made proportionately based on the stand-alone selling prices of the wireless device and subscription plan.

In addition to the revenue recognition model, IFRS 15 specifies how to account for the incremental costs of obtaining a contract, which in our case includes certain of our commissions paid to our retail stores and authorized dealers in connection with acquiring new customer contracts. IFRS 15 requires certain of such costs to be capitalized as assets and subsequently amortized over the applicable expected contract periods calculated based on our historical subscriber churn rate. See note 3(1) of the notes to our annual consolidated financial statements for further details regarding the effects of our adoption of IFRS 15.

IFRS 9 requires all financial assets, on initial recognition, to be classified as financial assets at amortized cost, debt instruments at fair value through other comprehensive income, equity investments at fair value through other comprehensive income or financial assets at fair value through profit or loss. The classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. In addition, IFRS 9 sets out an expected credit loss impairment model, under which we generally recognize impairment losses on debt instruments at an amount equal to their twelve-month expected credit losses. However, with respect to debt instruments experiencing a significant increase in credit risk and accounts receivable trade, we recognize impairment losses at an amount equal to their lifetime expected credit losses. See note 3(2) to the notes to our annual consolidated financial statements for further details regarding the effects of our adoption of IFRS 9.

We adopted IFRS 15 and IFRS 9 by recognizing the cumulative effect of initially applying IFRS 15 and IFRS 9 as adjustments to the opening balance of retained earnings as of January 1, 2018. We elected to apply IFRS 15 retrospectively only to contracts that were not completed as of January 1, 2018. For a discussion of the adjustments

made to line items presented in our consolidated statement of financial position due to the adoption of IFRS 15 and IFRS 9, see note 3(3) of the notes to our annual consolidated financial statements.

In the case of our consolidated statement of income for the year ended December 31, 2018, the adoption of IFRS 15 had the effect of decreasing our operating revenue by Won 85.8 billion, and decreasing advertising expenses and commission expenses by Won 51.2 billion and Won 12.7 billion, respectively, for a total decrease in our operating expense by Won 66.1 billion. Therefore, the adoption of IFRS 15 resulted in decreases in operating

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profit and profit before income tax by Won 19.7 billion each. In addition, the adoption had the effect of decreasing our profit for the year by Won 88.2 billion and increasing our income tax expense by Won 68.5 billion. The adoption of IFRS 9 did not have a material impact on our consolidated statement of income for the year ended December 31, 2018.

The adoption of IFRS 15 and IFRS 9 did not have a material impact on our consolidated statement of cash flows for the year ended December 31, 2018.

**International Financial Reporting Standards Issued but Not yet Adopted IFRS 16**

We plan to adopt IFRS 16, *Leases*, in the fiscal year beginning on January 1, 2019 using the modified retrospective approach by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings as of such date. We have identified and implemented a new system solution to meet the requirements of IFRS 16 and have identified and implemented processes and internal controls to meet the reporting and disclosure requirements under the new standard.

We are currently assessing the impact of the adoption of IFRS 16 on our consolidated results of operations and financial position. Based on our preliminary assessment, we as a lessee expect to recognize right-of-use assets and liabilities related to substantially all of our operating lease arrangements on January 1, 2019. Our current operating lease portfolio subject to such recognition is primarily comprised of cell sites and other real estate, and we currently estimate that the amounts of right-of-use assets and liabilities to be so recognized will range between Won 500 billion and Won 700 billion. Any difference between the amounts of such assets and liabilities will result in an adjustment to the opening balance of retained earnings on January 1, 2019. We also expect lease expenses to decrease and depreciation expenses of the right-of-use assets and interest expenses of lease liabilities to increase. As a lessor, however, we do not expect the adoption of IFRS 16 to have a significant impact on our consolidated results of operations or financial position. See note 4(28) of the notes to our consolidated financial statements for a summary of significant accounting standards that have been issued but not yet adopted.

**Operating Results**

The following table sets forth summary consolidated income statement information, including that expressed as a percentage of operating revenue and other income, for the periods indicated:

|                                    | For the year ended December 31,          |        |          |        |          |        |
|------------------------------------|--|--------|----------|--------|----------|--------|
|                                    | 2018                                     |        | 2017     |        | 2016     |        |
|                                    | (In billions of Won, except percentages) |        |          |        |          |        |
| Operating revenue and other income | 16,945.9                                 | 100.0% | 17,552.0 | 100.0% | 17,158.3 | 100.0% |
| Revenue                            | 16,874.0                                 | 99.6   | 17,520.0 | 99.8   | 17,091.8 | 99.6   |
| Other income                       | 71.9                                     | 0.4    | 32.0     | 0.2    | 66.5     | 0.4    |
| Operating expenses                 | 16,112.1                                 | 95.1   | 16,327.4 | 93.0   | 15,854.9 | 92.4   |
| Operating profit                   | 833.8                                    | 4.9    | 1,224.6  | 7.0    | 1,303.4  | 7.6    |
| Profit before income tax           | 3,976.0                                  | 23.5   | 3,403.3  | 19.4   | 2,096.1  | 12.2   |
| Income tax expense                 | 844.0                                    | 5.0    | 745.7    | 4.2    | 436.0    | 2.5    |
| Profit for the year                | 3,132.0                                  | 18.5   | 2,657.6  | 15.1   | 1,660.1  | 9.7    |
| Attributable to:                   |  |        |          |        |          |        |
| Owners of the Parent Company       | 3,127.9                                  | 18.5   | 2,599.8  | 14.8   | 1,676.0  | 9.8    |



|                           |     |     |      |     |        |       |
|---------------------------|-----|-----|------|-----|--------|-------|
| Non-controlling interests | 4.1 | 0.0 | 57.8 | 0.3 | (15.9) | (0.1) |
|---------------------------|-----|-----|------|-----|--------|-------|

The following table sets forth additional information about our operations with respect to our reportable segments during the periods indicated:

|   | For the year ended December 31,                 |                             |          |                             |          |                             |
|---|---|-----------------------------|----------|-----------------------------|----------|-----------------------------|
|   | 2018  |                             | 2017     |                             | 2016     |                             |
|   | Amount  | Percentage of Total Revenue | Amount   | Percentage of Total Revenue | Amount   | Percentage of Total Revenue |
| <b><i>Cellular Services Revenue</i></b> | <b>(In billions of Won, except percentages)</b> |                             |          |                             |          |                             |
| Wireless Service <sup>(1)</sup>         | 9,770.4   | 57.9%                       | 10,639.0 | 60.7%                       | 10,583.0 | 61.9%                       |

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|  | For the year ended December 31, |                             |          |                             |          |                             |
|--|---------------------------------|-----------------------------|----------|-----------------------------|----------|-----------------------------|
|  | 2018                            |                             | 2017     |                             | 2016     |                             |
|  | Amount                          | Percentage of Total Revenue | Amount   | Percentage of Total Revenue | Amount   | Percentage of Total Revenue |
| (In billions of Won, except percentages)                       |                                 |                             |          |                             |          |                             |
| Cellular Interconnection                                       | 532.2                           | 3.1                         | 592.7    | 3.4                         | 614.4    | 3.6                         |
| Wireless Device Sales  | 1,081.2                         | 6.4                         | 1,052.2  | 6.0                         | 922.4    | 5.4                         |
| Miscellaneous <sup>(2)</sup>                                   | 995.1                           | 5.9                         | 978.2    | 5.6                         | 885.1    | 5.2                         |
| Total Cellular Services Revenue                                | 12,378.9                        | 73.3                        | 13,262.1 | 75.7                        | 13,004.9 | 76.1                        |
| <b>Fixed-line Telecommunication Services Revenue</b>           |                                 |                             |          |                             |          |                             |
| Fixed-line Telephone Service                                   | 300.3                           | 1.8                         | 316.8    | 1.8                         | 357.8    | 2.1                         |
| Fixed-line Interconnection                                     | 95.7                            | 0.6                         | 116.1    | 0.7                         | 134.1    | 0.8                         |
| Broadband Internet Service and Advanced Media Platform Service | 1,730.3                         | 10.2                        | 1,641.6  | 9.4                         | 1,472.8  | 8.6                         |
| International Calling Service                                  | 80.4                            | 0.5                         | 89.4     | 0.5                         | 96.0     | 0.6                         |
| Miscellaneous <sup>(3)</sup>                                   | 725.9                           | 4.3                         | 560.3    | 3.1                         | 590.5    | 3.4                         |
| Total Fixed-line Telecommunication Services Revenue            | 2,932.6                         | 17.4                        | 2,724.2  | 15.5                        | 2,651.2  | 15.5                        |
| <b>E-commerce Services Revenue<sup>(4)(6)</sup></b>            | 618.1                           | 3.7                         | 647.1    | 3.7                         | 546.2    | 3.2                         |
| <b>Other Revenue</b>   |                                 |                             |          |                             |          |                             |
| Portal Service <sup>(5)</sup>                                  | 36.9                            | 0.2                         | 43.9     | 0.3                         | 54.2     | 0.3                         |
| Miscellaneous <sup>(4)(6)</sup>                                | 907.5                           | 5.4                         | 842.7    | 4.8                         | 835.3    | 4.9                         |
| Total Other Revenue  | 944.4                           | 5.6                         | 886.6    | 5.1                         | 889.5    | 5.2                         |
| <b>Total Revenue</b>   | 16,874.0                        | 100.0                       | 17,520.0 | 100.0                       | 17,091.8 | 100.0                       |
| Total Revenue Growth   | (3.7)%                          |                             | 2.5%     |                             | (0.3)%   |                             |
| <b>Segment Operating Expense<sup>(7)</sup></b>                 |                                 |                             |          |                             |          |                             |
| Cellular Services  | 11,079.0                        | 65.7                        | 11,548.1 | 65.9                        | 11,205.8 | 65.6                        |
| Fixed-line Telecommunication Services                          | 2,704.4                         | 16.0                        | 2,556.7  | 14.6                        | 2,518.8  | 14.7                        |
| E-commerce Services  | 685.8                           | 4.1                         | 801.0    | 4.6                         | 791.9    | 4.6                         |
| Others   | 1,203.0                         | 7.1                         | 1,077.6  | 6.1                         | 1,039.6  | 6.1                         |

|  |          |       |          |       |          |       |
|--|----------|-------|----------|-------|----------|-------|
| <b>Total Segment Operating Expense</b> | 15,672.2 | 92.9  | 15,983.4 | 91.2  | 15,556.1 | 91.0  |
| <b>Segment Operating Profit</b>        |          |       |          |       |          |       |
| Cellular Services                      | 1,299.9  | 7.7   | 1,714.0  | 9.8   | 1,799.1  | 10.5  |
| Fixed-line                             |          |       |          |       |          |       |
| Telecommunication Services             | 228.2    | 1.3   | 167.5    | 1.0   | 132.4    | 0.8   |
| E-commerce Services                    | (67.7)   | (0.4) | (153.9)  | (0.9) | (245.7)  | (1.4) |
| Others                                 | (258.6)  | (1.5) | (191.0)  | (1.1) | (150.1)  | (0.9) |
| <b>Total Segment Operating Profit</b>  | 1,201.8  | 7.1%  | 1,536.6  | 8.8%  | 1,535.7  | 9.0%  |

- (1) Wireless service revenue includes revenue from wireless voice and data transmission services principally derived through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by wireless subscribers.
- (2) Miscellaneous cellular services revenue includes revenue from our IoT solutions as well as other miscellaneous cellular services.
- (3) Miscellaneous fixed-line telecommunication services revenue includes revenues from business communications services (other than fixed-line telephone service) provided by SK Broadband, VoIP services provided by SK Telink and the T-commerce business operated by SK Stoa.

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- (4) E-commerce services revenue includes revenues from Eleven Street. Eleven Street was spun-off as our new consolidated subsidiary from SK Planet in September 2018. Following such spin-off, the remaining marketing platform business operations of SK Planet, which were previously part of our e-commerce services segment in the years ended December 31, 2017 and 2016, were reclassified as part of our other businesses segment for the year ended December 31, 2018. As a result, our results of operations for the years ended December 31, 2017 and 2016 have been restated to retroactively apply such reclassification.
- (5) Portal service revenue includes revenues from Nate, our online portal service operated by SK Communications.
- (6) Miscellaneous others revenue includes revenues from the marketing platform business operations of SK Planet as described above and our security business operated by ADT Caps following our acquisition thereof in October 2018, among other businesses.
- (7) Segment operating expense means operating expense for each reportable segment presented in accordance with K-IFRS and therefore does not include certain expenses that are classified as other non-operating expenses under K-IFRS. For more information on the differences between our consolidated operating expense pursuant to K-IFRS and pursuant to IFRS as issued by the IASB, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

***2018 Compared to 2017***

*Operating Revenue and Other Income.* Our consolidated operating revenue and other income decreased by 3.5% to Won 16,945.9 billion in 2018 from Won 17,552.0 billion in 2017, due to a decrease in operating revenue, offset in small part by an increase in other income, as discussed below.

Our consolidated operating revenue decreased by 3.7% to Won 16,874.0 billion in 2018 from Won 17,520.0 billion in 2017, primarily due to a decrease in cellular services revenue, and to a much smaller extent, a decrease in e-commerce services revenue, which were partially offset by increases in fixed-line telecommunication services revenue and others revenue.

Our consolidated other income increased by 124.7% to Won 71.9 billion in 2018 from Won 32.0 billion in 2017, primarily due to the gain on the disposal of SK Broadband's internet data center in Seoul.

The following sets forth additional information about our operating revenues with respect to each of our reportable segments.

Cellular services: The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, wireless device sales and miscellaneous cellular services, decreased by 6.7% to Won 12,378.9 billion in 2018 from Won 13,262.1 billion in 2017. The decrease in our cellular services revenue was due to decreases in wireless service revenue and cellular interconnection revenue, partially offset by increases in wireless device sales revenue and miscellaneous cellular services revenue.

Wireless service revenue decreased by 8.2% to Won 9,770.4 billion in 2018 from Won 10,639.0 billion in 2017, primarily attributable to the continued increase in the percentage of wireless service subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA and the decrease in revenues from our roaming services subsequent to the launch of our Safe Automatic T Roaming service in March 2018. Such decrease was also partly attributable to the adoption of IFRS 15, which caused us to recognize a smaller portion of the overall transaction price of contracts under which we sell both a wireless device and subscription plan together to a single customer as wireless service revenue than under the previously applicable accounting standards. See Recently Adopted International Financial Reporting Standards IFRS 15 and IFRS 9. Without the impact of the adoption of IFRS 15, wireless service revenue would have decreased by 6.7% to Won 9,920.9 billion in 2018 from Won 10,639.0 billion in 2017.

Cellular interconnection revenue decreased by 10.2% to Won 532.2 billion in 2018 from Won 592.7 billion in 2017. The decrease was primarily attributable to continued decreases in interconnection rates and land-to-mobile call volume.

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Wireless device sales revenue increased by 2.8% to Won 1,081.2 billion in 2018 from Won 1,052.2 billion in 2017, primarily due to the adoption of IFRS 15, which caused us to recognize a greater portion of the overall transaction price of contracts under which we sell both a wireless device and subscription plan together to a single customer as wireless device sales revenue than under the previously applicable accounting standards, partly offset by a decrease in sales of handsets due to lower customer demand for new devices. See Recently Adopted International Financial Reporting Standards IFRS 15 and IFRS 9. Without the impact of the adoption of IFRS 15, wireless device sales revenue would have decreased by 9.1% to Won 965.9 billion in 2018 from Won 1,052.2 billion in 2017.

Miscellaneous cellular services revenue increased by 1.7% to Won 995.1 billion in 2018 from Won 978.2 billion in 2017, primarily because of an increase in revenue from our IoT solutions business.

Fixed-line telecommunications services: The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service and advanced media platform service (including IPTV and mobile OTT services), fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 7.6% to Won 2,932.6 billion in 2018 from Won 2,724.2 billion in 2017, primarily due to increases in our miscellaneous fixed-line telecommunications services revenue and broadband Internet service and advanced media platform service revenue, partially offset by decreases in fixed-line interconnection revenue and fixed-line telephone service revenue.

Miscellaneous fixed-line telecommunication services revenue increased by 29.6% to Won 725.9 billion in 2018 from Won 560.3 billion in 2017, primarily due to an increase in revenue from our T-commerce business operated by SK Stoa.

Revenue from our broadband Internet service and advanced media platform service (including IPTV and mobile OTT services) increased by 5.4% to Won 1,730.3 billion in 2018 from Won 1,641.6 billion in 2017, primarily due to an increase in the number of IPTV subscribers to 4.7 million subscribers as of December 31, 2018 from 4.4 million subscribers as of December 31, 2017 and an increase in the number of premium subscriptions with higher monthly rates and purchases of premium video-on-demand content.

Fixed-line interconnection revenue decreased by 17.6% to Won 95.7 billion in 2018 from Won 116.1 billion in 2017, primarily due to a decrease in interconnection rates, as well as decreases in the number of fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink) to 4.1 million as of December 31, 2018 from 4.3 million as of December 31, 2017 and residential calling volume as a result of shifting consumer preferences toward wireless communication.

Fixed-line telephone service revenue decreased by 5.2% to Won 300.3 billion in 2018 from Won 316.8 billion in 2017, primarily due to a decrease in the number of fixed-line telephone subscribers and residential calling volume as discussed above.

E-commerce services: The revenue of our e-commerce services segment, which is primarily composed of revenues from 11st, our open marketplace platform, decreased by 4.5% to Won 618.1 billion in 2018 from Won 647.1 billion in 2017, primarily due to our strategic focus to optimize and improve the profitability of our 11st business.

Others: The revenue of our others segment, which is composed of revenue from our portal service and miscellaneous other revenue, increased by 6.5% to Won 944.4 billion in 2018 from Won 886.6 billion in 2017, primarily due to the consolidation of revenues of ADT Caps starting in October 2018, which was partially offset by the effects of the reorganization of SK Planet's business operations.

*Operating Expense.* Our consolidated operating expense decreased by 1.3% to Won 16,112.1 billion in 2018 from Won 16,327.4 billion in 2017, primarily due to an 8.8% decrease in commissions to Won 5,002.6 billion in

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2018 from Won 5,486.3 billion in 2017, a 4.8% decrease in cost of goods sold to Won 1,796.1 billion in 2018 from Won 1,886.5 billion in 2017 and a 7.6% decrease in network interconnection expenses to Won 808.4 billion in 2018 from Won 875.0 billion in 2017, partially offset by a 16.4% increase in labor costs to Won 2,288.7 billion in 2018 from Won 1,966.2 billion in 2017 and a 9.3% increase in other operating expenses to Won 1,782.4 billion in 2018 from Won 1,630.7 billion in 2017.

The decrease in commissions was attributable mainly to a decrease in marketing costs relating to our cellular services primarily caused by the continued maturing of the market for new wireless devices in 2018, partially offset by an increase in marketing costs relating to our fixed-line telecommunication services.

The decrease in cost of goods sold was primarily due to a decrease in the number of wireless devices resold in 2018.

The decrease in network interconnection expenses was mainly attributable to decreases in wireless-to-fixed-line and fixed-line-to-wireless interconnection rates, as well as decreases in the number of fixed-line telephone subscribers and calling volume.

The increase in labor costs was primarily due to the additional personnel on payroll in connection with our acquisition of ADT Caps in October 2018, as well as the establishment in June 2017 of our subsidiary, Home & Service Co., Ltd. ( Home & Service ), which provides in-home customer services primarily to our fixed-line telecommunication service subscribers that were previously outsourced to a third party vendor and the costs for which were classified as commissions prior to the establishment of Home & Service, and the expansion of new businesses such as AI solutions.

The increase in other operating expenses was primarily due to an increase in impairment loss on property and equipment and intangible assets to Won 255.8 billion in 2018 from Won 54.9 billion in 2017, which mainly reflected impairment losses we recognized on the goodwill and intangible assets of Shopkick.

The following sets forth additional information about our segment operating expense with respect to each of our reportable segments, which do not include certain expenses that are classified as other non-operating expenses under K-IFRS. For more information on the difference between our consolidated operating expense pursuant to K-IFRS and pursuant to IFRS as issued by the IASB, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating expense for our cellular services segment decreased by 4.1% to Won 11,079.0 billion in 2018 from Won 11,548.1 billion in 2017, attributable mainly to a decrease in marketing costs in light of lower customer demand for new wireless devices and the completion of depreciation for some of our property and equipment.

Fixed-line telecommunication services: The segment operating expense for our fixed-line telecommunication services segment increased by 5.8% to Won 2,704.4 billion in 2018 from Won 2,556.7 billion in 2017, primarily due to an increase in marketing costs to gain more subscribers to our ultra-high definition IPTV and high speed broadband Internet services and an increase in depreciation and amortization expenses.

E-commerce services: The segment operating expense for our e-commerce services segment decreased by 14.4% to Won 685.8 billion in 2018 from Won 801.0 billion in 2017, primarily due to a decrease in marketing



costs as part of our efforts to optimize operating expenses in this segment.

Others: The segment operating expense for our others segment increased by 11.6% to Won 1,203.0 billion in 2018 from Won 1,077.6 billion in 2017, primarily due to the recognition of operating expenses related to ADT Caps following our acquisition thereof in October 2018.

*Operating Profit.* Our consolidated operating profit decreased by 31.9% to Won 833.8 billion in 2018 from Won 1,224.6 billion in 2017, as the decrease in operating revenue and other income outpaced the decrease in operating expense in 2018.

The following sets forth additional information about our segment operating profit with respect to each of our reportable segments. Our segment operating profit with respect to each of our reportable segments is based on

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K-IFRS and the sum of segment operating profit for all four reportable segments differs from our consolidated operating profit presented in accordance with IFRS as issued by the IASB. For a reconciliation of operating profit presented in accordance with IFRS as issued by the IASB and operating profit presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

**Cellular services:** The segment operating profit of our cellular services segment decreased by 24.2% to Won 1,299.9 billion in 2018 from Won 1,714.0 billion in 2017, due to the greater decrease in segment operating revenue as compared to the decrease in segment operating expense, for the various reasons described above. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating profit (loss) divided by revenue from such segment, expressed as a percentage) of our cellular services segment decreased to 10.5% in 2018 from 12.9% in 2017.

**Fixed-line telecommunication services:** The segment operating profit of our fixed-line telecommunication services segment increased by 36.2% to Won 228.2 billion in 2018 from Won 167.5 billion in 2017, due to the greater increase in segment operating revenue as compared to the increase in segment operating expense, for the reasons described above. As a result, the segment operating margin of our fixed-line telecommunication services segment increased to 7.8% in 2018 from 6.1% in 2017.

**E-commerce services:** The segment operating loss of our e-commerce services segment decreased by 56.0% to Won 67.7 billion in 2018 from Won 153.9 billion in 2017, primarily due to the impact of decreased marketing costs as described above. As a result, the segment operating margin of our e-commerce services segment improved to (11.0)% in 2018 from (23.8)% in 2017.

**Others:** The segment operating loss of our others segment increased by 35.4% to Won 258.6 billion in 2018 from Won 191.0 billion in 2017, primarily due to the greater increase in segment operating expense as compared to the increase in segment operating revenue as described above. As a result, the segment operating margin of our others segment worsened to (27.4)% in 2018 from (21.5)% in 2017.

**Finance Income and Finance Costs.** Our finance income decreased by 30.1% to Won 256.4 billion in 2018 from Won 366.6 billion in 2017, primarily due to a significant decrease in gain on valuation of derivatives to Won 6.5 billion in 2018 from Won 223.9 billion in 2017, which primarily related to a significant increase in valuation of redeemable convertible preferred shares issued by KRAFTON Co., Ltd. (formerly known as Bluehole Inc.) (Krafton) in 2017. The effect of such decrease was partially offset by a significant increase in gain relating to financial assets at fair value through profit or loss to Won 83.6 billion in 2018, primarily relating to our disposal of 200,000 redeemable convertible preference shares of Krafton in 2018, from less than Won 0.1 billion in 2017.

Our finance costs decreased by 11.2% to Won 385.2 billion in 2018 from Won 433.6 billion in 2017, primarily due to a decrease in loss on disposal of long-term investment securities from Won 36.0 billion in 2017, which was primarily due to the disposal of our shares of Kakao Corporation, to nil in 2018, and a decrease in other finance costs from Won 35.9 billion in 2017, relating to management fees paid in connection with our investment in Krafton's securities, to nil in 2018.

**Gains (Losses) Related to Investments in Associates and Joint Ventures.** Gains related to investments in associates and joint ventures increased by 45.7% to Won 3,270.9 billion in 2018 from Won 2,245.8 billion in 2017, primarily

due to an increase in share of profits of SK Hynix to Won 3,238.1 billion in 2018 from Won 2,175.9 billion in 2017. Such increase was primarily due to an increase in SK Hynix's profit for the year to Won 15,540.0 billion in 2018 from Won 10,642.2 billion in 2017.

*Income Tax.* Income tax expense increased by 13.2% to Won 844.0 billion in 2018 from Won 745.7 billion in 2017 primarily due to a 16.8% increase in profit before income tax to Won 3,976.0 billion in 2018 from Won 3,403.3 billion in 2017. Our effective tax rate in 2018 decreased by 0.7% to 21.2% from 21.9% in 2017. Our effective tax rates in 2018 and 2017 were lower than the statutory tax rate of 27.5% and 24.2%, respectively, primarily due to changes in unrecognized deferred taxes in 2018 and a tax refund in 2017.

*Profit for the Year.* Principally as a result of the factors discussed above, our profit for the year increased by 17.9% to Won 3,132.0 billion in 2018 from Won 2,657.6 billion in 2017. Profit for the year as a percentage of operating revenue and other income was 18.5% in 2018 compared to 15.1% in 2017.

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*Operating Revenue and Other Income.* Our consolidated operating revenue and other income increased by 2.3% to Won 17,552.0 billion in 2017 from Won 17,158.3 billion in 2016, due to an increase in operating revenue, offset in part by a decrease in other income, as discussed below.

Our consolidated operating revenue increased by 2.5% to Won 17,520.0 billion in 2017 from Won 17,091.8 billion in 2016, primarily due to increases in cellular services revenue as well as revenue increases from our fixed-line telecommunications services and e-commerce services segments.

Our consolidated other income decreased by 51.9% to Won 32.0 billion in 2017 from Won 66.5 billion in 2016, primarily due to refunds received in 2016 in connection with the overturn of certain fines previously imposed on us by the FTC that we had paid compared to no such refunds in 2017.

The following sets forth additional information about our operating revenues with respect to each of our reportable segments.

Cellular services: The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, wireless device sales and miscellaneous cellular services, increased by 2.0% to Won 13,262.1 billion in 2017 from Won 13,004.9 billion in 2016. The increase in our cellular services revenue was due to increases in wireless device sales, miscellaneous cellular services revenue and wireless service revenue, partially offset by a decrease in cellular interconnection revenue.

Wireless device sales revenue increased by 14.1% to Won 1,052.2 billion in 2017 from Won 922.4 billion in 2016, primarily due to an increase in sales of handsets with relatively higher unit prices such as the Samsung Galaxy S8 and S8+, which were released in the second quarter of 2017, and the iPhone 8 and iPhone X, which were released in the fourth quarter of 2017.

Miscellaneous cellular services revenue increased by 10.5% to Won 978.2 billion in 2017 from Won 885.1 billion in 2016, primarily because of an increase in revenue from our IoT solutions business.

Wireless service revenue increased by 0.5% to Won 10,639.0 billion in 2017 from Won 10,583.0 billion in 2016, primarily attributable to an increase in the total number of wireless service subscribers and an increase in average monthly data usage to 6.0GB in 2017 from 5.2GB in 2016, despite the increase in the percentage of wireless service subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA and the increase in the applicable discount rate to 25% in September 2017 from 20%.

Cellular interconnection revenue decreased by 3.5% to Won 592.7 billion in 2017 from Won 614.4 billion in 2016. The decrease was primarily attributable to decreases in interconnection rates and land-to-mobile call volume.

Fixed-line telecommunications services: The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service and advanced media platform service (including IPTV and mobile OTT services), fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 2.8% to Won 2,724.2 billion in 2017 from Won 2,651.2 billion in 2016, primarily due to an increase in our broadband Internet service and advanced media platform service (including IPTV and mobile OTT services) revenue, partially offset by decreases in fixed-line telephone service revenue and miscellaneous fixed-line telecommunication services revenue.

Revenue from our broadband Internet service and advanced media platform service (including IPTV and mobile OTT services) increased by 11.5% to Won 1,641.6 billion in 2017 from Won 1,472.8 billion in 2016, primarily due to an increase in the number of IPTV subscribers to 4.4 million subscribers as of December 31, 2017 from 4.0 million subscribers as of December 31, 2016 and an increase in the number of premium subscriptions with higher monthly rates and purchases of premium video-on-demand content.

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Fixed-line telephone service revenue decreased by 11.5% to Won 316.8 billion in 2017 from Won 357.8 billion in 2016, primarily due to a decrease in the number of fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink) to 4.3 million as of December 31, 2017 from 4.5 million as of December 31, 2016 and a decrease in residential calling volume as a result of shifting consumer preferences toward wireless communication.

Miscellaneous fixed-line telecommunication services revenue decreased by 5.1% to Won 560.3 billion in 2017 from Won 590.5 billion in 2016, primarily due to a decline in new contracts for business communications services provided by SK Broadband.

E-commerce services: The revenue of our e-commerce services segment, which is primarily composed of revenues from 11st, our open marketplace platform, increased by 18.5% to Won 647.1 billion in 2017 from Won 546.2 billion in 2016, primarily due to an increase in revenue from mobile 11st as there was an increase in sales of products through which we received relatively high third-party seller fees.

Others: The revenue of our others segment, which is composed of revenue from our portal service and miscellaneous other revenue, decreased by 0.3% to Won 886.6 billion in 2017 from Won 889.5 billion in 2016, due to a decrease in portal service revenue. Portal service revenue decreased by 19.0% to Won 43.9 billion in 2017 from Won 54.2 billion in 2016, primarily due to a decrease in advertising revenue from our portal service.

*Operating Expense.* Our consolidated operating expense increased by 3.0% to Won 16,327.4 billion in 2017 from Won 15,854.9 billion in 2016, primarily due to a 5.3% increase in depreciation and amortization to Won 3,097.5 billion in 2017 from Won 2,941.9 billion in 2016, a 2.0% increase in commissions to Won 5,486.3 billion in 2017 from Won 5,376.7 billion in 2016, a 5.2% increase in labor costs to Won 1,966.2 billion in 2017 from Won 1,869.8 billion in 2016 and a 19.2% increase in advertising expenses to Won 522.8 billion in 2017 from Won 438.5 billion in 2016, partially offset by a 8.3% decrease in network interconnection expenses to Won 875.0 billion in 2017 from Won 954.3 billion in 2016 and a 13.2% decrease in leased line expenses to Won 342.2 billion in 2017 from Won 394.4 billion in 2016.

The increase in depreciation and amortization was primarily due to the full year of amortization in 2017 of certain frequency bandwidth usage rights we acquired or re-licensed in 2016 compared to only partial year amortization in 2016 as well as the amortization of our sales management IT system software beginning in 2017.

The increase in commissions was attributable mainly to an increase in marketing costs relating to our wireless service, which was partially offset by a decrease in marketing costs relating to our e-commerce services, the impact of certain value-added tax refunds relating to discount coupons received in 2017 and the decrease in commissions following the establishment of Home & Service as described below.

The increase in labor costs was primarily due to the additional personnel on payroll in connection with the establishment in June 2017 of our subsidiary, Home & Service, which provides in-home customer service primarily to our fixed-line telecommunication service subscribers.

The increase in advertising expenses was primarily due to an increase in advertising expenses by SK Planet and media and online advertising for B tv and oksusu, which was partially offset by a decrease in cellular services advertising.

The decrease in network interconnection expenses was mainly attributable to decreases in wireless-to-fixed-line and fixed-line-to-wireless interconnection rates.

The decrease in leased line expenses was primarily due to a decrease in the number of facilities that use leased lines due to the increase in facilities that opt to build their own network and a decrease in rates for leased lines.

The following sets forth additional information about our segment operating expense with respect to each of our reportable segments, which do not include certain expenses that are classified as other non-operating expenses under K-IFRS. For more information on the difference between our consolidated operating expense pursuant to

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K-IFRS and pursuant to IFRS as issued by the IASB, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating expense for our cellular services segment increased by 3.1% to Won 11,548.1 billion in 2017 from Won 11,205.8 billion in 2016, attributable mainly to increases in marketing costs to attract subscribers that purchase handsets with high unit prices and increases in depreciation and amortization for the reasons described above, partially offset by decreases in network interconnection and leased line expenses for the reasons described above and a decrease in frequency bandwidth usage fees.

Fixed-line telecommunication services: The segment operating expense for our fixed-line telecommunication services segment increased by 1.5% to Won 2,556.7 billion in 2017 from Won 2,518.8 billion in 2016, primarily due to an increase in marketing costs to gain more subscribers to our ultra-high definition IPTV and high speed broadband Internet services and an increase in labor costs for the reasons described above.

E-commerce services: The segment operating expense for our e-commerce services segment increased by 1.1% to Won 801.0 billion in 2017 from Won 791.9 billion in 2016, primarily due to the increase in operating segment revenue described above.

Others: The segment operating expense for our others segment increased by 3.7% to Won 1,077.6 billion in 2017 from Won 1,039.6 billion in 2016, primarily due to costs incurred in connection with the reorganization of SK Planet's business operations.

*Operating Profit.* Our consolidated operating profit decreased by 6.0% to Won 1,224.6 billion in 2017 from Won 1,303.4 billion in 2016, as the increase in operating expense outpaced the increase in operating revenue and other income in 2017.

The following sets forth additional information about our segment operating profit with respect to each of our reportable segments. Our segment operating profit with respect to each of our reportable segments is based on K-IFRS and the sum of segment operating profit for all four reportable segments differs from our consolidated operating profit presented in accordance with IFRS as issued by the IASB. For a reconciliation of operating profit presented in accordance with IFRS as issued by the IASB and operating profit presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating profit of our cellular services segment decreased by 4.7% to Won 1,714.0 billion in 2017 from Won 1,799.1 billion in 2016, due to the greater increase in segment operating expense, as compared to the increase in segment operating revenue, for the various reasons described above. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating profit (loss) divided by revenue from such segment, expressed as a percentage) of our cellular services segment decreased to 12.9% in 2017 from 13.8% in 2016.



Fixed-line telecommunication services: The segment operating profit of our fixed-line telecommunication services segment increased by 26.5% to Won 167.5 billion in 2017 from Won 132.4 billion in 2016, primarily due to an increase in revenue from our IPTV business as described above. As a result, the segment operating margin of our fixed-line telecommunication services segment increased to 6.1% in 2017 from 5.0% in 2016.

E-commerce services: The segment operating loss of our e-commerce services segment decreased by 37.4% to Won 153.9 billion in 2017 from Won 245.7 billion in 2016, primarily due to the greater increase in segment operating revenue as compared to the increase in segment operating expense as described above. As a result, the segment operating margin of our e-commerce services segment improved to (23.8)% in 2017 from (45.0)% in 2016.

Others: The segment operating loss of our others segment increased by 27.2% to Won 191.0 billion in 2017 from Won 150.1 billion in 2016, primarily due to the increase in segment operating expense as described above. As a result, the segment operating margin of our others segment worsened to (21.5)% in 2017 from (16.9)% in 2016.

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*Finance Income and Finance Costs.* Our finance income decreased by 36.3% to Won 366.6 billion in 2017 from Won 575.1 billion in 2016, primarily due to a significant decrease in gain on disposal of long-term investment securities to Won 4.9 billion in 2017 from Won 459.3 billion in 2016, which primarily related to the sale of our 15.0% interest in Loen Entertainment in February 2016 and the sale of our 1.4% interest in POSCO in November 2016, which was partially offset by a significant increase in gain on valuation of derivatives to Won 223.9 billion in 2017, primarily relating to the valuation of redeemable convertible preferred shares issued by Krafton that we hold, from Won 4.1 billion in 2016.

Our finance costs increased by 32.7% to Won 433.6 billion in 2017 from Won 326.8 billion in 2016, primarily due to an increase in other finance costs to Won 35.9 billion in 2017, relating to management fees paid in connection with our investment in Krafton's securities, from none in 2016 and an increase on loss of disposal of long-term investment securities to Won 36.0 billion in 2017 from Won 2.9 billion in 2016 primarily due to the disposal of our shares of Kakao Corporation, which we had obtained for our 15.0% interest in Loen Entertainment mentioned above, for Won 112.6 billion in cash in April 2017, through which we recognized a loss of Won 35.5 billion.

*Gains (Losses) Related to Investments in Associates and Joint Ventures.* Gains related to investments in associates and joint ventures increased by 312.4% to Won 2,245.8 billion in 2017 from Won 544.5 billion in 2016, primarily due to an increase in share of profits of SK Hynix to Won 2,175.9 billion in 2017 from Won 572.1 billion in 2016. Such increase was primarily due to an increase in SK Hynix's profit for the year to Won 10,642.2 billion in 2017 from Won 2,960.5 billion in 2016.

*Income Tax.* Income tax expense increased by 71.0% to Won 745.7 billion in 2017 from Won 436.0 billion in 2016 primarily due to a 62.4% increase in profit before income tax to Won 3,403.3 billion in 2017 from Won 2,096.1 billion in 2016. Our effective tax rate in 2017 increased by 1.1% to 21.9% from 20.8% in 2016, primarily for the reasons set forth above. Our effective tax rates in 2017 and 2016 were lower than the statutory tax rate of 24.2%, primarily due to a tax refund in 2017 and changes in unrecognized deferred taxes in 2016.

*Profit for the Year.* Principally as a result of the factors discussed above, our profit for the year increased by 60.1% to Won 2,657.6 billion in 2017 from Won 1,660.1 billion in 2016. Profit for the year as a percentage of operating revenue and other income was 15.1% in 2017 compared to 9.7% in 2016.

**Inflation**

We do not consider inflation in Korea to have had a material impact on our results of operations in recent years. According to the Korean Statistical Information Service, annual inflation in Korea was 1.5% in 2018, 1.9% in 2017 and 1.0% in 2016.

**Item 5.B. Liquidity and Capital Resources****Liquidity**

We had a working capital surplus (current assets in excess of current liabilities) of Won 1,111.3 billion as of December 31, 2018 and a working capital deficit (current liabilities in excess of current assets) of Won 907.3 billion as of December 31, 2017. The working capital surplus as of December 31, 2018 was primarily attributable to a significant increase in prepaid expenses, which in turn was mainly due to our adoption of IFRS 15 requiring us to capitalize certain portions of commissions paid by us in connection with obtaining new subscriber contracts in our wireless and fixed line telecommunications businesses. See note 3(3) of the notes to our consolidated financial

statements. The working capital deficit as of December 31, 2017 was primarily due to working capital needs in the ordinary course of business. We plan to fund our current liabilities with the cash flow generated by our operations, proceeds from the disposal of investment securities or property and equipment that are no longer deemed profitable and proceeds from additional borrowings, as necessary.

We had cash and cash equivalents, short-term financial instruments and short-term investment securities of Won 2,747.5 billion as of December 31, 2018 and Won 2,218.9 billion as of December 31, 2017. We had outstanding short-term borrowings of Won 80.0 billion as of December 31, 2018 and Won 130.0 billion as of December 31, 2017. As of December 31, 2018, we had credit lines with several local banks that provided for borrowing of up to Won 430.0 billion, all of which was available for borrowing.

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Cash flows from operating activities and debt financing have been our principal sources of liquidity. We had cash and cash equivalents of Won 1,506.7 billion as of December 31, 2018 and Won 1,457.7 billion as of December 31, 2017. We believe that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt securities and bank borrowings.

|   | Year ended December 31, |           |           | Change       |              |         |        |
|---|-------------------------|-----------|-----------|--------------|--------------|---------|--------|
|   | 2018                    | 2017      | 2016      | 2018 to 2017 | 2017 to 2016 |         |        |
| (In billions of Won, except percentages)  |                         |           |           |              |              |         |        |
| Net cash provided by operating activities   | 4,332.6                 | 3,855.8   | 4,243.2   | 476.8        | 12.4%        | (387.4) | (9.1)% |
| Net cash used in investing activities   | (4,047.7)               | (3,070.6) | (2,462.2) | (977.1)      | 31.8         | (608.4) | 24.7   |
| Net cash used in financing activities   | (238.3)                 | (826.6)   | (1,044.8) | 588.3        | (71.2)       | 218.2   | (20.9) |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currencies | 2.4                     | (6.2)     | 0.2       | 8.6          | N.A.         | (6.4)   | N.A.   |
| Net increase (decrease) in cash and cash equivalents                                    | 46.6                    | (41.4)    | 736.2     | 87.9         | N.A.         | (777.6) | N.A.   |
| Cash and cash equivalents at beginning of period  | 1,457.7                 | 1,505.3   | 768.9     | (47.6)       | (3.2)        | 736.4   | 95.8   |
| Cash and cash equivalents at end of period  | 1,506.7                 | 1,457.7   | 1,505.3   | 49.0         | 3.4          | (47.6)  | (3.2)  |

N.A. = Not available

*Cash Flows from Operating Activities.* Net cash provided by operating activities was Won 4,332.6 billion 2018, Won 3,855.8 billion in 2017 and Won 4,243.2 billion in 2016. Profit for the year was Won 3,132.0 billion in 2018, Won 2,657.6 billion in 2017 and Won 1,660.1 billion in 2016. Net cash provided by operating activities in 2018 increased by 12.4% from 2017 primarily due to a decrease in our outstanding other accounts receivable at the year-end 2018 compared to the year-end 2017. Net cash provided by operating activities in 2017 decreased by 9.1% from 2016 primarily due to an increase in outstanding accounts receivable at the year-end of 2017 compared to the year-end of 2016.

*Cash Flows from Investing Activities.* Net cash used in investing activities was Won 4,047.7 billion in 2018, Won 3,070.6 billion in 2017 and Won 2,462.2 billion in 2016. Cash inflows from investing activities were Won 686.1 billion in 2018, Won 456.8 billion in 2017 and Won 1,140.7 billion in 2016. Cash inflows in 2018 were primarily attributable to proceeds from disposals of long-term investment securities of Won 371.8 billion, primarily in connection with the disposal of all of our shares of KB Financial Group Inc. for Won 179.6 billion in cash and the disposal of redeemable convertible preferred shares of Krafton for Won 130.0 billion in cash and the collection of short-term loans of Won 117.6 billion. Cash inflows in 2017 were primarily attributable to the collection of short-term loans of Won 216.7 billion and proceeds from disposals of long-term investment securities of Won 129.7 billion, mostly in connection with the disposal of our shares of Kakao Corporation for Won 112.6 billion in cash in April 2017. Cash inflows in 2016 were primarily attributable to proceeds from disposals of long-term investment securities of Won 555.5 billion, mostly in connection with the disposal of our 15.0% interest in Loen Entertainment for shares of Kakao Corporation and Won 218.0 billion in cash in February 2016 and the disposal of our 1.4% interest in POSCO for Won 305.1 billion in November 2016, collection of short-term loans of Won 239.0 billion and decrease in short-term financial instruments, net of Won 222.3 billion.

Cash outflows for investing activities were Won 4,733.8 billion in 2018, Won 3,527.4 billion in 2017 and Won 3,602.9 billion in 2016. Cash outflows in 2018, 2017 and 2016 were primarily attributable to expenditures related to the acquisition of property and equipment of Won 2,792.4 billion, Won 2,715.9 billion and Won 2,490.5 billion, respectively, primarily in connection with the acquisition of LTE and 5G equipment and the expansion of our LTE and 5G networks.

*Cash Flows from Financing Activities.* Net cash used in financing activities was Won 238.3 billion in 2018, Won 826.6 billion in 2017 and Won 1,044.8 billion in 2016. Cash inflows from financing activities were

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Won 4,651.7 billion in 2018, Won 1,261.8 billion in 2017 and Won 861.6 billion in 2016. Such inflows were primarily driven by proceeds from long-term borrowings, which provided cash of Won 1,920.1 billion in 2018, Won 120.0 billion in 2017 and Won 49.0 billion in 2016, and the issuance of debentures, which provided cash of Won 1,809.6 billion in 2018, Won 973.3 billion in 2017 and Won 776.7 billion in 2016. In 2018, we also received net proceeds of Won 499.9 billion from the transfer of interests in subsidiaries to non-controlling interests and of Won 398.8 billion from the issuance of hybrid securities. In 2017, we received net proceeds from short-term borrowings of Won 127.4 billion.

Cash outflows for financing activities were Won 4,890.0 billion in 2018, Won 2,088.4 billion in 2017 and Won 1,906.5 billion in 2016. Cash outflows for financing activities included repayment of long-term borrowings, repayment of debentures, payment of dividends, repayment of hybrid bonds and repayments of other long-term accounts payable, among other items. Repayment of long-term borrowings were Won 1,780.7 billion in 2018, Won 32.7 billion in 2017 and Won 33.4 billion in 2016. Repayment of debentures were Won 1,488.0 billion in 2018, Won 842.7 billion in 2017 and Won 770.0 billion in 2016. Payment of dividends were Won 706.1 billion in 2018, Won 706.1 billion in 2017 and Won 706.1 billion in 2016. Repayment of hybrid bonds was Won 400.0 billion in 2018. Repayments of other long-term account payables were Won 305.6 billion in 2018, Won 305.5 billion in 2017 and Won 122.7 billion in 2016.

As of December 31, 2018, we had total long-term debt (excluding current portion) outstanding of Won 8,587.6 billion, which included debentures in the amount of Won 6,572.2 billion and bank and institutional borrowings in the amount of Won 2,015.4 billion. As of December 31, 2017, we had total long-term debt (excluding current portion) outstanding of Won 5,808.1 billion, which included debentures in the amount of Won 5,596.6 billion and bank and institutional borrowings in the amount of Won 211.5 billion. For a description of our long-term debt, see note 17 of the notes to our consolidated financial statements.

As of December 31, 2018, we had (i) Won 5,817.3 billion aggregate principal amount of Korean Won-denominated debentures outstanding, of which SK Telecom issued Won 4,401.8 billion, SK Broadband issued Won 1,410.0 billion and Dreamus issued Won 5.5 billion, and (ii) Won 1,677.2 billion aggregate principal amount of debentures outstanding denominated in U.S. dollars. The fixed interest rates of our debentures range from 1.00% to 6.63% depending on the offering size, maturity, interest rate environment at the time of the offering and currency, among other factors. We have a diversified maturity profile with respect to our debentures. See Contractual Obligations and Commitments for more details.

As of December 31, 2018, all of our foreign currency-denominated long-term borrowings and debentures, which in the aggregate amounted to 17.9% of our total outstanding long-term debt, including the current portion and present value discount as of such date, was denominated in Dollars. However, substantially all of our revenue and operating expenses are denominated in Won. We generally pay for imported capital equipment in Dollars. Appreciation of the Won against the Dollar will result in net foreign currency transaction and translation gains, while depreciation of the Won against the Dollar will result in net foreign currency transaction and translation losses. Changes in foreign currency exchange rates will also affect our liquidity because of the effect of such changes on the amount of funds required for us to make interest and principal payments on our foreign currency-denominated debt. For a description of swap or derivative transactions we have entered into, among other transactions, to mitigate the effects of such losses, see Item 11. Quantitative and Qualitative Disclosures about Market Risk.

**Capital Requirements**

Historically, capital expenditures, repayment of outstanding debt, frequency usage payments and research and development expenditures have represented our most significant use of funds. In recent years, we have also

increasingly dedicated capital resources to develop and invest in new growth engines, including our next-generation growth businesses in IoT solutions, media, e-commerce, security and other innovative products and services offered through our platform services, including AI solutions.

To fund our scheduled debt repayment and planned capital expenditures over the next several years, we intend to rely primarily on cash flows from operating activities, as well as bank and institutional borrowings, and offerings of debt or equity in the domestic or international markets. We believe that these sources will be sufficient to fund

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our planned capital expenditures for 2019. Our ability to rely on these alternatives could be affected by the liquidity of the Korean financial markets or by Government policies regarding Won and foreign currency borrowings and the issuance of equity and debt. Our failure to make needed expenditures would adversely affect our ability to sustain subscriber growth and provide quality services and, consequently, our results of operations.

*Capital Expenditures.* The following table sets forth our actual capital expenditures for 2018, 2017 and 2016:

|                                   | <b>Year ended December 31,</b> |                |                |
|-----------------------------------|--------------------------------|----------------|----------------|
|                                   | <b>2018</b>                    | <b>2017</b>    | <b>2016</b>    |
|                                   | <b>(In billions of Won)</b>    |                |                |
| Wireless Networks <sup>(1)</sup>  | 1,735.6                        | 1,597.0        | 1,508.0        |
| Fixed-line Network <sup>(2)</sup> | 776.8                          | 790.0          | 699.6          |
| Others <sup>(3)</sup>             | 280.0                          | 328.9          | 282.9          |
| <b>Total</b>                      | <b>2,792.4</b>                 | <b>2,715.9</b> | <b>2,490.5</b> |

(1) Includes investments in our 5G, LTE, WCDMA, CDMA, WiBro and Wi-Fi networks as well as other capital expenditures related to our networks.

(2) Includes all capital expenditures made by SK Broadband.

(3) Includes non-network related investments such as capital expenditures for product development and upgrades of our information technology systems and equipment.

We set our capital expenditure budget for each upcoming year on an annual basis. Our actual capital expenditures in 2018, 2017 and 2016 were Won 2,792.4 billion, Won 2,715.9 billion and Won 2,490.5 billion, respectively. Of such amounts, we spent approximately 62.2%, 58.8% and 60.6% in 2018, 2017 and 2016, respectively, on capital expenditures related to building and enhancing our wireless networks. Our other non-network related capital expenditures in 2018, 2017 and 2016 primarily related to developing new products and upgrades to our information technology systems and equipment.

In addition, we have been making capital expenditures to build more advanced networks based on LTE technology. We commenced commercial LTE services in July 2011 and expanded our LTE network nationwide and launched our LTE multi-carrier technology in 2012. We launched our LTE-A service in June 2013 and continued to provide various upgraded LTE networks and services. In December 2018, we also launched our 5G network on a limited basis. For a more detailed description of our LTE network and 5G network, see Item 4.B. Business Overview Cellular Services Digital Wireless Network. We plan to continue to make capital investments in 2019 to further improve and expand our LTE network and develop related technologies as well as to build and commercialize our 5G network.

The following table sets forth our payment obligations relating to our acquisitions of frequency usage rights.



| Band    | Technology (width)             | Date of Acquisition | Initial            | Initial            | Annual             | Annual             |
|---------|--------------------------------|---------------------|--------------------|--------------------|--------------------|--------------------|
|         |                                |                     | Payment            | Payment            | Payment            | Payment            |
|         |                                |                     | Amount             | Amount             | Amount             | Amount             |
|         |                                |                     | (in billions of W) | (in billions of W) | (in billions of W) | (in billions of W) |
|         |                                |                     |                    |                    |                    | Term               |
| 1.8 GHz | LTE (35 MHz) 20 MHz            | Dec. 2011           | 248.8              | 2011               | 74.6               | 2012-2021          |
|         | 15 MHz                         | Sept. 2013          | 115.3              | 2013               | 43.2               | 2014-2021          |
| 2.1 GHz | LTE (30 MHz)<br>WCDMA (10 MHz) | Dec. 2016           | 141.2              | 2016               | 85.3               | 2017-2021          |
| 2.6 GHz | LTE (40 MHz + 20 MHz)          | Aug. 2016           | 332.5              | 2016               | 99.8               | 2017-2026          |
| 3.5 GHz | 5G (100 MHz)                   | Dec. 2018           | 304.6              | 2018               | 91.4               | 2019-2028          |
| 28 GHz  | 5G (800 MHz)                   | Dec. 2018           | 51.8               | 2018               | 15.5               | 2019-2023          |

For more information, see note 16 of the notes to our consolidated financial statements.

We expect that our capital expenditure amount in 2019 will be higher than that of 2018. Our expenditures will be for a range of projects, including investments to expand and further commercialize our newly implemented

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5G network, investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our IoT solutions and platform services business portfolio, including AI solutions, investments in research and development of 5G technology, investments in businesses that can potentially leverage our 5G network, and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth businesses, as well as initiatives related to our ongoing businesses in the ordinary course. However, our overall expenditure levels and our allocation among projects remain subject to many uncertainties. We may increase, reduce or suspend our planned capital expenditures for 2019 or change the timing and area of our capital expenditure spending from the estimates described above in response to market conditions or for other reasons. We may also make additional capital expenditure investments as opportunities arise. Accordingly, we periodically review the amount of our capital expenditures and may make adjustments based on the current progress of capital expenditure projects and market conditions. No assurance can be given that we will be able to meet any such increased expenditure requirements or obtain adequate financing for such requirements, on terms acceptable to us, or at all.

*Repayment of Outstanding Debt.* As of December 31, 2018, our principal repayment obligations with respect to long-term borrowings, bonds and obligations under capital leases outstanding were as follows for the periods indicated:

| <b>Year Ending December 31,</b> | <b>Total<br/>(In billions of Won)</b> |
|---------------------------------|---------------------------------------|
| 2019                            | 1,065.4                               |
| 2020                            | 963.1                                 |
| 2021                            | 927.6                                 |
| 2022 and thereafter             | 6,740.6                               |

*Investments in New Growth Businesses.* We may also require capital for investments to support our development of new growth businesses.

In August 2014, we acquired a 39.3% equity interest of Dreamus, a manufacturer of digital audio players and other portable media devices, which we increased to 49.0% in December 2014, for an aggregate purchase price of Won 54.5 billion. We subsequently made capital contributions of Won 25.0 billion and Won 65.0 billion in 2017 and 2018, respectively, and as of December 31, 2018, we had a 52.6% equity interest in Dreamus.

In 2016, we acquired a 46.2% interest in SM Mobile Communications for Won 12.1 billion, which was subsequently merged into Dreamus, and in 2017, we acquired Life Design for Won 30.0 billion, in light of potential synergies that may be achieved through the entertainment business.

In October 2018, we acquired ADT Caps by acquiring a 55.0% interest in LSH, which owns 100% of ADT Caps, for Won 696.7 billion. In December 2018, we merged NSOK with and into ADT CAPS Co., Ltd. In December 2018, we acquired SK Infosec, Korea's leading information security company, in a share exchange transaction pursuant to which we issued 1,260,668 treasury shares with an aggregate book value of Won 281.2 billion in exchange for all of the outstanding common shares of SK Infosec from SK Holdings. In 2018, we also increased our interest in id Quantique from 4.6% as of December 31, 2017 to 65.6% as of December 31, 2018, through the acquisition of additional shares with Won 55.2 billion in cash and Won 5.7 billion in contribution-in-kind.

From time to time, we may make other investments in telecommunications or other businesses, in Korea or abroad, where we perceive attractive opportunities for investment. From time to time, we may also dispose of existing

investments when we believe that doing so would be in our best interest.

*Severance Payments.* The defined benefit obligation, which is the total accrued and unpaid retirement and severance benefits for our employees, as of December 31, 2018 was Won 141.5 billion. This amount was reflected in our consolidated financial statements as a liability, which is net of deposits with insurance companies totaling Won 816.7 billion to fund a portion of the employees' severance indemnities.

Also see Item 6.D. Employees' Employee Benefits and note 21 of the notes to our consolidated financial statements.

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*Dividends.* Total cash outflows for payments of dividends amounted to Won 706.1 billion in 2018, Won 706.1 billion in 2017 and Won 706.1 billion in 2016.

In April 2019, we distributed annual dividends at Won 9,000 per share (exclusive of an interim dividend of Won 1,000 per share) to our shareholders for an aggregate payout amount of Won 646.8 billion.

**Contractual Obligations and Commitments**

The following summarizes our contractual cash obligations at December 31, 2018, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

|   | Total           | Payments Due by Period <sup>(1)</sup> |                |                |                |
|---|-----------------|---------------------------------------|----------------|----------------|----------------|
|   |                 | Less Than 1 Year                      | 1-3 Years      | 4-5 Years      | After 5 Years  |
| (In billions of Won)                          |                 |                                       |                |                |                |
| <b>Bonds</b>                                  |                 |                                       |                |                |                |
| Principal                                     | 7,482.6         | 895.5                                 | 1,815.4        | 2,214.5        | 2,557.2        |
| Interest                                      | 1,279.4         | 217.6                                 | 368.3          | 240.2          | 453.3          |
| <b>Long-term borrowings</b>                   |                 |                                       |                |                |                |
| Principal                                     | 2,134.1         | 89.9                                  | 75.3           | 1,968.9        |                |
| Interest                                      | 385.3           | 89.7                                  | 175.7          | 119.9          |                |
| <b>Capital lease obligations</b>              |                 |                                       |                |                |                |
| <b>Principal</b>                              |                 |                                       |                |                |                |
| <b>Interest</b>                               |                 |                                       |                |                |                |
| Operating leases                              | 769.8           | 347.7                                 | 272.0          | 79.0           | 71.1           |
| Facility deposits                             | 16.7            | 0.4                                   |                |                | 16.3           |
| Derivatives                                   | 4.2             | 0.1                                   |                | 4.1            |                |
| <b>Other long-term payables<sup>(2)</sup></b> |                 |                                       |                |                |                |
| Principal                                     | 2,476.7         | 425.3                                 | 850.7          | 444.5          | 756.2          |
| Interest                                      | 115.1           | 29.5                                  | 41.4           | 25.2           | 19.0           |
| Short-term borrowings                         | 80.0            | 80.0                                  |                |                |                |
| <b>Total contractual cash obligations</b>     | <b>14,743.9</b> | <b>2,175.7</b>                        | <b>3,598.8</b> | <b>5,096.3</b> | <b>3,873.1</b> |

(1) We are contractually obligated to make severance payments to eligible employees we have employed for more than one year, upon termination of their employment, regardless of whether such termination is voluntary or involuntary. Accruals for severance indemnities are recorded based on the amount we would be required to pay in the event the employment of all our employees were to terminate at the balance date. However, we have not yet estimated cash flows for future periods. Accordingly, payments due in connection with severance indemnities have been excluded from this table.

(2) Related to acquisition of frequency licenses. See note 18 of the notes to our consolidated financial statements. See note 38 of the notes to our consolidated financial statements for details related to our other commitments and contingencies.

**Item 5.C. *Research and Development, Patents and Licenses, etc.***

We maintain a high level of spending on our research and development activity. We also donate funds to several Korean research institutes and educational organizations that focus on research and development activity. We believe that we must maintain a substantial in-house technology capability to achieve our strategic goals.

The main focus of our research and development activity is the development of new wireless technologies and services and value-added technologies and services for our 5G network and LTE network, such as wireless data communications, as well as development of new technologies that reflect the growing convergence between telecommunications and other industries. Our research and development activity is centered at our ICT research and development center ( ICT R&D Center ) with state-of-the-art facilities and equipment established in January 1999

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in Bundang-gu, Seongnam-si, Gyeonggi-do, Korea. To more efficiently manage our research and development resources, our ICT R&D Center is organized into the following core areas:

Tech Innovation Group, through which we discover, commercialize and standardize new technologies and establish the overall technological strategies of the ICT R&D Center;

5GX Labs, through which we research and develop 5G-related technologies as well as technologies for access network, core network, transport network, wireless devices and operating support systems;

Data Labs, through which we research and develop big data-related technologies such as data analytics, big data platforms and other business solutions;

Media Labs, through which we research and develop technologies for media delivery infrastructure and protocols, recommendation platforms and augmented reality and virtual reality technologies;

SW Labs, through which we research and develop software-defined data center technologies, AI infrastructure and blockchain technologies;

Security Labs, through which we research and develop security-related platforms and systems, such as video surveillance systems, security devices and video analytics technologies; and

New Mobility Task Force, through which we research and develop technologies related to autonomous driving and high definition maps.

Each business unit also has its own research team that can concentrate on specific short-term research needs. Such research teams permit our research center to concentrate on long-term, technology-intensive research projects. We aim to establish strategic alliances with selected domestic and foreign companies with a view to exchanging or jointly developing technologies, products and services.

### **Item 5.D. *Trend Information***

These matters are discussed under Item 5.A. Operating Results and Item 5.B. Liquidity and Capital Resources above where relevant.

### **Item 5.E. *Off-Balance Sheet Arrangements***

None.

**Item 5.F. *Tabular Disclosure of Contractual Obligations***

These matters are discussed under Item 5.B. Liquidity and Capital Resources above where relevant.

**Item 5.G. *Safe Harbor***

These matters are discussed under Forward-Looking Statements.

**Item 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES***

**Item 6.A. *Directors and Senior Management***

**Directors and Senior Management**

Our board of directors has ultimate responsibility for the management of our affairs. Under our articles of incorporation, our board is to consist of at least three but no more than twelve directors, more than half of whom must be independent non-executive directors. We currently have a total of eight directors, five of whom are independent non-executive directors. We elect our directors at a general meeting of shareholders with the approval of at least a majority of those shares present or represented at such meeting. Such majority must represent at least one-fourth of our total issued and outstanding shares with voting rights.

As required under relevant Korean laws and our articles of incorporation, we have a committee for recommendation of independent non-executive directors within the board of directors, the Independent Director Nomination Committee. Independent non-executive directors are appointed from among those candidates recommended by the Independent Director Nomination Committee.

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The term of offices for directors is until the close of the third annual general shareholders meeting convened after he or she commences his or her term. Our directors may serve consecutive terms. Our shareholders may remove them from office by a resolution at a general meeting of shareholders adopted by the holders of at least two-thirds of the voting shares present or represented at the meeting, and such affirmative votes also represent at least one-third of our total voting shares then issued and outstanding.

Representative directors are directors elected by the board of directors with the statutory power to represent our company.

The following are the names and positions of our standing and non-standing directors. The business address of all of our directors is the address of our registered office at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 04539, Korea.

Standing directors are our directors who also serve as our executive officers, and they also comprise the senior management, or the key personnel who manage us. Their names, dates of birth and positions at our company, other positions and business experience are set forth below:

| <b>Name</b>    | <b>Month and Year of Birth</b> | <b>Director Since</b> | <b>Expiration of Term</b> | <b>Position</b>    | <b>Other Positions</b>                | <b>Business Experience</b>  |
|----------------|--------------------------------|-----------------------|---------------------------|--------------------|---------------------------------------|---|
| Jung Ho Park   | May 1963                       | 2017                  | 2020                      | Executive Director | President and Chief Executive Officer | Chief Executive Officer, SK Holdings; Head of Corporate Development Office, SK C&C Co., Ltd.; Head of Business Development Office, SK Telecom                               |
| Young Sang Ryu | May 1970                       | 2018                  | 2021                      | Executive Director | Head of MNO Business                  | Executive Vice President of Business Development Group, SK Holdings; Senior Vice President of Business Development Office, SK Telecom; Head of Corporate Center, SK Telecom |

Our current non-standing directors are as set forth below:



| <b>Name</b>  | <b>Month and Year of Birth</b> | <b>Director Since</b> | <b>Expiration of Term</b> | <b>Position</b>                    | <b>Other Positions</b>  | <b>Business Experience</b>   |
|--------------|--------------------------------|-----------------------|---------------------------|------------------------------------|---|--|
| Dae Sik Cho  | Nov. 1960                      | 2017                  | 2020                      | Non-executive Director             | Chairman, SK SUPEX Council  | Chief Executive Officer, SK Holdings; Chief Finance Officer, Head of Finance Division and Risk Management & Corporate Auditing Office, SK Holdings; Head of Business Management, SK Holdings |
| Jae Hoon Lee | Sept. 1955                     | 2017                  | 2020                      | Independent Non-executive Director | President, Association of Future Strategy Forum on Energy & Resources Development | Vice Minister, Ministry of Knowledge Economy; Vice Minister, Ministry of Commerce, Industry and Energy; Assistant Minister, Ministry of Commerce, Industry and Energy                        |

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| <b>Name</b>   | <b>Month and Year of Birth</b> | <b>Director Since</b> | <b>Expiration of Term</b> | <b>Position</b>                    | <b>Other Positions</b>  | <b>Business Experience</b>   |
|---------------|--------------------------------|-----------------------|---------------------------|------------------------------------|---|--|
| Jae Hyeon Ahn | Feb. 1961                      | 2017                  | 2020                      | Independent Non-executive Director | Professor, Advanced Innovative Management Program, KAIST  | Vice President, College of Business, KAIST; Dean, College of Information and Media Management, KAIST; Dean, College of Information and Media Management Association; Senior Technical Staff Member, AT&T Bell Labs                           |
| Jung Ho Ahn   | Feb. 1978                      | 2017                  | 2020                      | Independent Non-executive Director | Associate Professor, Graduate School of Convergence Science and Technology, Seoul National University                 | Visiting Scholar, Google Inc.; Senior Research Scientist, Exascale Computing Lab, HP Labs  |
| Youngmin Yoon | Dec. 1963                      | 2018                  | 2021                      | Independent Non-executive Director | Dean of School of Media and Communications and Graduate School of Journalism and Mass Communication, Korea University | Professor, School of Media & Communication, Korea University; Vice-chair, Korean Academic Society for Public Relations; Advisor, Ministry of Land, Infrastructure and Transport Public Relations Division; Advisor, Korea Media Rating Board |
| Seok-Dong Kim | May 1953                       | 2019                  | 2021                      | Independent Non-executive Director | Chairman, JIPYONG Institute of Humanities and Society   | Chairman, Financial Services Commission; Vice Minister, Ministry of Finance and Economy; Vice  |

**Other Executive Officers**

In addition to our standing directors, we currently have the following executive officers:

| <b>Name</b>     | <b>Month and<br/>Year of<br/>Birth</b> | <b>Position</b>                                | <b>Business Experience</b>                           |
|-----------------|--|--|--|
| Sun Young Her   | May 1968                               | Head of Integrated Distribution Channel Center | Head of Customer Value Innovation Office             |
| Jae Hyun Chung  | Dec. 1959                              | Officer of ICT Advisory Board                  | Head of ICT System TF                                |
| Yohan Chin      | Nov. 1974                              | Head of MNO AI/DT Group                        | Vice President of Data Science & Engineering, Tapjoy |
| Maeng Seog Yang | Mar. 1969                              | Head of 5GX MNO Business Group                 | Head of MNO Business Support Group                   |
| Byoungyong Moon | Jul. 1970                              | Head of Messaging Service Group                | Representative, The Potential                        |
| Il Gyu Choi     | Nov. 1970                              | Head of B2B Business Division                  | Head of Public Business Unit                         |
| Eun Sik Choi    | Feb. 1969                              | Head of Daegu Marketing Office                 | Head of Distribution Innovation Support Group        |
| Seong Soo Kim   | Jun. 1966                              | Head of Distribution Support Office            | Head of Sales Group                                  |
| Bong Ho Lim     | Dec. 1966                              | Head of Busan Marketing Office                 | Head of Metropolitan Area Marketing Office           |

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| <b>Name</b>     | <b>Month and Year of Birth</b> | <b>Position</b>                              | <b>Business Experience</b>  |
|-----------------|--------------------------------|--|---|
| Hyeon Kook Kim  | Dec. 1966                      | Head of Western Regional Marketing Office    | Head of Metropolitan Area Marketing Office                        |
| Pan Chul Choi   | Jan. 1969                      | Head of Enterprise Business Office           | Head of Enterprise Business Division Financial Business Team      |
| Hyuk Kim        | Sept. 1967                     | Head of 5GX Media Business Group             | Head of Media Business Support Group                              |
| Ilkyu Huh       | May 1971                       | Head of Energy Solution TF                   | Head of IoT/Data Business Division                                |
| Nag Hun Choi    | Nov. 1972                      | Head of 5GX IoT/Data Group                   | Head of IoT Business Support Group                                |
| Jong Ho Lee     | Apr. 1969                      | Head of Mobility Business Unit               | Head of Global Business Office                                    |
| Sung Han Kim    | Aug. 1969                      | Head of Infra TF                             | Head of Smart City Unit   |
| Joon Yun Kim    | Dec. 1967                      | Head of Healthcare/IVD Unit                  | Head of Healthcare/IVD Unit                                       |
| Sehyeon Oh      | Jul. 1963                      | Head of Blockchain/Authentication Unit       | Head of C&C DT Business Development Division                      |
| Yoon Kim        | Jun. 1971                      | Head of AI Center                            | Siri Manager, Apple   |
| Jiwon Kim       | Jun. 1985                      | T-Brain Team                                 | Professional Researcher, Samsung Advanced Institute of Technology |
| Yu Sung Chang   | Nov. 1971                      | Head of AI/Mobility Business Division        | CTO & Co-Founder, Huma.AI   |
| Myung Soon Park | Feb. 1969                      | Head of AI Business Unit                     | Head of Growth Technology Institute                               |
| HyunA Lee       | Aug. 1971                      | Head of AI Technology Unit                   | Head of Conversational Commerce Division, SK Planet               |
| Ji Young Yeo    | Sept. 1966                     | Head of TTS Business Unit                    | Head of New Business Promotion Division Design Thinking Team      |
| KyoHee Chang    | Feb. 1973                      | Head of Mobility Technology Unit             | Leader of Display Advertising Development/Management, Naver       |
| Hyoung Il Ha    | Aug. 1970                      | Head of Integrated Service Innovation Center | Head of Service Innovation Support Division                       |
| Kyungsang Yu    | Dec. 1981                      | Head of Offering Management Unit             | Head of Business Innovation Office, SK Planet                     |
| Jongwhi Cha     | Nov. 1974                      | Head of Brand Comm. UX Group                 | Head of UX & Design Lab, Hyundai Card                             |
| Jong Ryeol Kang | Oct. 1964                      | Head of ICT Infra Center                     | Head of Corporate Culture Division                                |
| Jung Hwan Ryu   | Jun. 1970                      | Head of 5GX Infra Group                      | Head of Infra Support Group                                       |
| Jin Soo Seong   | May 1968                       | Head of Infra Solution Group                 | Head of Daegu Infra Office  |
| Jung Hoon Kim   | Nov. 1963                      | Head of Platform Service Infra Group         | Naver Business Platform   |
| Sang Soo Sim    | Aug. 1965                      | Head of Infra Business Office                | Head of Infra Division Network Business Support Group             |
| Seung Won Choi  | May 1969                       | Head of Core Infra Office                    | Head of Eastern Infra Office                                      |
| Jeong Bok Kim   | Oct. 1965                      | Head of Metropolitan Infra Office            | Head of Central Infra Office                                      |
| Dong Hwan Cho   | Nov. 1970                      | Head of Data Transformation Center           | Head of Data CoE  |
| Doh Hee Jung    | Sept. 1974                     | Head of Data Analytics Group                 | Head of Data CoE Data Analysis Team 2                             |
| Jin Hyo Park    | Mar. 1970                      | Head of ICT R&D Center                       | Head of Network Technology Institute                              |
| Jong Kwan Park  | Jul. 1970                      | Head of 5GX Labs                             | Head of Core Network Lab, Network Technology Institute            |
| Hong Sung Chang | Mar. 1969                      | Head of IoT/Data Business Division           | Head of Data Technology Institute                                 |

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|              |           |                                |   |
|--------------|-----------|--------------------------------|---|
| Jongmin Lee  | Jul. 1978 | Head of Tech. Innovation Group | Head of Media Technology Institute                                  |
| Kang Won Lee | Feb. 1970 | Head of Software Labs          | Manager of Mobile N/W Analytics,<br>IBM T.J. Watson Research Center |

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| <b>Name</b>      | <b>Month and Year of Birth</b> | <b>Position</b>                                  | <b>Business Experience</b>  |
|------------------|--------------------------------|--|---|
| Woong Hwan Ryu   | May 1971                       | Head of Social Value Innovation Center           | Head of Open Collaboration Center   |
| Jihnwoo Kim      | Feb. 1971                      | Head of Open Collaboration Group                 | Head of Global Business Office, SK Planet   |
| Yong Chul Yoon   | May 1965                       | Head of Communication Center                     | Head of Department, MBC Newsroom  |
| Heesup Kim       | Oct. 1968                      | Head of Public Relation Office 1                 | AD Office, Chosun Ilbo  |
| Joon Ho Lee      | Aug. 1968                      | Head of Social Value Group                       | Head of Public Relation Office 2  |
| Seong Ho Ha      | Sept. 1968                     | Head of Corporate Relations Center               | Head of Corporate Relations Strategy Office   |
| Sang Heon Lee    | Aug. 1965                      | Head of Policy Development Office                | Head of Corporate Relations Strategy Office   |
| Hyoung Do Lim    | Jun. 1968                      | Head of Change Management Office                 | Head of Policy Cooperation Office   |
| Young Log Cho    | Jun. 1971                      | Head of CR & Growth Business Support Office      | Assistant to Head of External Cooperation Office                                    |
| Sung Eun Yoon    | Jan. 1973                      | Head of CR Innovation TF                         | Head of Corporate Relations Strategy Office Policy System Team                      |
| Jae Kwang Lee    | Aug. 1970                      | Head of 5GX Strategy Group                       | Head of Management Strategy Group   |
| Woo Hyun Kim     | Jan. 1967                      | Head of Business Planning Group                  | Head of C&C Finance Office, SK Holdings   |
| Poong Young Yoon | Nov. 1974                      | Head of Corporate Center                         | Head of PM Group  |
| Jinwon Kim       | Sept. 1966                     | Head of Financial Strategy & Management Group    | Representative, SK USA  |
| Dae Dug Jeong    | Sept. 1967                     | Tax Team   | Head of Tax Team  |
| Yong Joo Park    | May 1965                       | Head of Legal Group                              | Seoul Central District Prosecutor's Office  |
| Eunah Hyun       | Nov. 1974                      | SVP Strategy Legal                               | Global Business Support Team, SK Holdings   |
| Dong Sup Kim     | May 1965                       | Head of Supply Chain Management Group            | Head of Shared Growth Planning Team   |
| Myung Jin Han    | Oct. 1973                      | Head of MNO Business Support Group               | Head of Global Alliance Group   |
| Min Hyung Park   | Oct. 1968                      | Representative of SKTA                           | Motorola Inc.   |
| Seok Joon Huh    | May 1973                       | Head of Private Placement Group                  | Managing Director, L Catterton Asia (Singapore)                                     |
| Jaeseung Song    | Mar. 1979                      | Head of Strategic Investment Group               | Executive Director, Goldman Sachs (Asia)  |
| Yeon Hoe Moon    | Mar. 1963                      | Head of Corporate Culture Center                 | Head of C&C Corporate Culture Division, SK Holdings                                 |
| Sang Kyu Shin    | Nov. 1970                      | Head of Employee Relations Group                 | Head of HR Office   |
| Hyun Yoon        | Nov. 1967                      | Head of Competency & Culture Group               | Head of C&C Competency Planning Office, SK Holdings                                 |
| Hyeong Chan Kim  | Aug. 1962                      | PD of SK Research Institute for SUPEX Management | Telecommunications Policy Research, Korea Information Society Development Institute |
| Sukham Sung      | Apr. 1970                      | PD of SK Research Institute for SUPEX Management | Evaluation Manager of Performance Evaluation Office, MSIT                           |
| Dae Hwan Ko      | Sept. 1961                     | Director of SK Academy                           |   |

Head of Business Support Office, SK  
Incheon Petrochem

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| <b>Name</b>    | <b>Month and Year of Birth</b> | <b>Position</b>   | <b>Business Experience</b>  |
|----------------|--------------------------------|---|---|
| Kyoo Nam Im    | Apr. 1970                      | Head of Leadership Development Center   | HR Support Team, SUPEX Council Project                                  |
| Yong-Seop Yum  | Oct. 1962                      | Head of SK Research Institute for SUPEX Management                                    | Head of Future Research Office  |
| Chang Won Chey | Aug. 1964                      | Vice President of SK Research Institute for SUPEX Management                          | Chief Executive Officer, SK Chemical                                    |
| Yong Suk Lee   | Nov. 1961                      | PD of SK Research Institute for SUPEX Management                                      | Head of Business Planning, SK E&C                                       |
| Jee Hyun Kim   | Oct. 1972                      | PD of SK Research Institute for SUPEX Management                                      | Head of Marketing Strategy Office, SK Planet                            |
| Jin Woo So     | Dec. 1962                      | Chairman of Talent Development Committee  | Representative, SK Planet   |
| Joon Choi      | Jul. 1968                      | Head of SUPEX Council Project Global Development Support Team                         | Officer of Social Responsibility Team, Social Responsibility Committee  |
| Junhyeon Ahn   | Nov. 1969                      | Officer of Corporate Relations Team, Communication Committee                          | Corporate Relations Team, SUPEX Council Project Communication Committee |
| Chan Kyu Noh   | Jul. 1965                      | Officer of Public Relations Team, Communication Committee                             | Brand Team, SK Holdings   |
| SukKwon Na     | Nov. 1966                      | PD of SK Research Institute for SUPEX Management                                      | Director of Statistical Policy, Statistics Korea                        |
| Garth Moon     | Jan. 1966                      | Officer of Self-Management-Responsible Management Support Team, SUPEX Council Project | Regional Head of USA, Bioneer Corporation                               |
| Yong Kap Kim   | May 1964                       | Head of The Happiness Foundation Support TF, Social Value Innovation Center           | Head of OCB 1 Business Division, SK Planet                              |
| Jin Hur        | Jan. 1971                      | PD of SK Research Institute for SUPEX Management                                      | Management Infra Team, Future Research Office                           |
| Jae Seung Lee  | Mar. 1967                      | Officer of Malaysia RHQ   | PL of Business Development Division G&G Promotion                       |
| Suman Park     | May 1972                       | Officer of Self-Management-Responsible Management Support Team, SUPEX Council Project | Head of Business Support Division, SK China                             |
| Dongrok Suh    | Jan. 1969                      | PD of SK Research Institute for SUPEX Management                                      | Head of Economic Promotion Division, Seoul Metropolitan Government      |
| Ilung Kim      | Apr. 1959                      | Officer of ICT Advisory Board   | Representative, Essencore   |
| Chungsik Kang  | Nov. 1971                      | PR Team   | PL of Communication Committee PR Team                                   |
| Gyeong Nam Kim | Jan. 1974                      | Head of Security Labs   | PI/Project Manager, HRL Laboratories                                    |
| Hui Gang Ye    | Jan. 1970                      | Head of IMC Group   | Head of Brand 2 Office, Hyundai Card                                    |
| Gap In Moon    | May 1969                       | Head of Smart Device Office   |   |





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| <b>Name</b>      | <b>Month and Year of Birth</b> | <b>Position</b>                                      | <b>Business Experience</b>                         |
|------------------|--------------------------------|--|--|
| Joong Ho Lee     | Nov. 1967                      | Head of Metropolitan Area Marketing Office           | Head of Busan Marketing Office                     |
| Seung Gyun Hong  | Nov. 1967                      | Head of Integrated Distribution Infra Office         | Head of IT Innovation Team, IT Infra Division      |
| Geunman Heo      | Aug. 1966                      | Head of Western Infra Office                         | Head of Gangnam Quality Solution Team              |
| Man Gang Ra      | Jan. 1972                      | Head of HR Group                                     | Head of Talent Management Team, HR Office          |
| Sang Gu Lee      | Jul. 1970                      | Business Messaging Team, B2B Business Division       | Head of MNO Data Business Team                     |
| Yongsik Shin     | Aug. 1971                      | Head of Smart Energy City Unit                       | Head of Energy Business Team                       |
| Jinsu Jeon       | Apr. 1975                      | Head of Media Labs                                   | Head of Media Experience Lab                       |
| Gwang Hyeon Song | Mar. 1970                      | Head of Public Relation Office 2                     | Head of Business PR Team, Communication Office     |
| Seong Jin Yeom   | Oct. 1972                      | CR Support Team, CR & Growth Business Support Office | Head of CR Support Team                            |
| Gi Yeong Lee     | Oct. 1976                      | Head of Music Business TF                            | PL, Unicorn Labs                                   |
| Kiyoon Lee       | Dec. 1969                      | Head of Customer Value Innovation Office             | PL of Customer Value Innovation Office             |
| Zonggeun Chai    | Jul. 1968                      | Head of Ethics Management Office                     | Head of Compliance Team                            |
| Byeonghun Ryu    | Oct. 1980                      | Head of Innovation Suite                             | PM Group PM2 CoE                                   |
| Mu Hwan Kim      | Sept. 1974                     | Head of SKTA Business Development Team               | PL of Strategy Support Team, SUPEX Council Project |
| Woo Seong Chey   | Jan. 1974                      | Representative, SK Telecom Japan                     | PL of Unicorn Labs Tokyo Office                    |

**Item 6.B. Compensation**

The aggregate of the remuneration paid and in-kind benefits granted to our directors (all standing directors, who also serve as our executive officers, and non-standing directors) during the year ended December 31, 2018 totaled approximately Won 4.5 billion.

The compensation of our directors who received total annual compensation exceeding Won 500 million in 2018 was as follows:

| <b>Name</b>    | <b>Position</b>   | <b>Composition of Total Compensation</b> |              |                            | <b>Total Compensation</b> |
|----------------|---|--|--------------|----------------------------|---------------------------|
|                |   | <b>Salary</b>                            | <b>Bonus</b> | <b>Other Earned Income</b> |                           |
| Jung Ho Park   | Executive Director, President and Chief Executive Officer | 1,150                                    | 2,350        | 6                          | 3,506                     |
| Young Sang Ryu | Executive Director and Head of MNO Business               | 269                                      | 300          | 10                         | 579                       |

Remuneration for our directors is determined by shareholder resolution. Severance allowances for our directors are determined by the board of directors in accordance with our regulation on severance allowances for officers, which was adopted by shareholder resolution. The regulation provides for monthly salary, performance bonus, severance payment and fringe benefits. The amount of performance bonuses is independently decided by a resolution of the board of directors.

The aggregate of the remuneration paid and in-kind benefits granted to our executive officers (excluding all standing directors, who also serve as our executive officers) during the year ended December 31, 2018 totaled approximately Won 38.3 billion.

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The compensation of the five individuals who received the highest compensation among those who received total annual compensation exceeding Won 500 million in 2018 was as follows:

| Name              | Position  | Composition of Total Compensation |       |   |           | Total Compensation |
|-------------------|---|-----------------------------------|-------|---|-----------|--------------------|
|                   |   | Salary                            | Bonus | Other Earned Income<br>(in millions of Won) | Severance |                    |
| Sung Won Suh      | Former Head of MNO Business                               | 700                               |       | 13  | 3,397     | 4,110              |
| Jung Ho Park      | Executive Director, President and Chief Executive Officer | 1,150                             | 2,350 | 6   |           | 3,506              |
| Ho Cheol Yeo      | Former Head of Ethics Management Office                   | 83                                | 254   | 606   | 834       | 1,777              |
| Byeong Hyeok Chun | Former Head of New MNO Group                              | 363                               | 344   |   | 968       | 1,675              |
| Ho Soo Lee        | Former Officer of ICT Advisory Board                      | 410                               | 226   |   | 564       | 1,200              |

On February 20, 2018, our board of directors resolved to grant options to purchase shares of our common stock to certain directors and executive officers, which was approved by shareholder resolution on March 21, 2018. On February 22, 2019, our board of directors resolved to grant options to purchase shares of our common stock to certain directors and executive officers, which was approved by shareholder resolution on March 26, 2019. The following table summarizes the exercisable stock options granted to our directors and executive officers as of March 31, 2019:

| Recipient        | Position  | Grant date                          | Exercise period   |                   | Exercise price<br>(per share) | Number of shares issuable |
|------------------|---|-------------------------------------|-------------------|-------------------|-------------------------------|---------------------------|
|                  |   |                                     | From              | To                |                               |                           |
| Jung Ho Park     | Executive Director, President and Chief Executive Officer | March 24, 2017                      | March 25, 2019    | March 24, 2022    | 246,750                       | 22,168                    |
|                  |   |                                     | March 25, 2020    | March 24, 2023    | 266,490                       | 22,168                    |
|                  |   |                                     | March 25, 2021    | March 24, 2024    | 287,810                       | 22,168                    |
| Young Sang Ryu   | Executive Director and Head of MNO Business               | February 20, 2018<br>March 26, 2019 | February 21, 2020 | February 20, 2023 | 254,120                       | 1,358                     |
|                  |   |                                     | March 27, 2021    | March 26, 2024    | 254,310                       | 1,734                     |
| Seong Ho Ha      | Head of Corporate Relation Center                         | February 22, 2019                   | February 23, 2021 | February 22, 2024 | 265,260                       | 1,369                     |
| Hyoung Il Ha     | Head of Corporate Development Center                      | February 22, 2019                   | February 23, 2021 | February 22, 2024 | 265,260                       | 1,564                     |
| Jin Hyo Park     | Head of ICT R&D Center                                    | February 22, 2019                   | February 23, 2021 | February 22, 2024 | 265,260                       | 1,300                     |
| Poong Young Yoon | Head of Corporate Center                                  | February 22, 2019                   | February 23, 2021 | February 22, 2024 | 265,260                       | 1,244                     |

**Item 6.C. Board Practices**

For information regarding the expiration of each director's term of appointment, as well as the period from which each director has served in such capacity, see the table set out under Item 6.A. Directors and Senior Management above.

**Termination of Directors' Services**

Directors are given a retirement and severance payment upon termination of employment in accordance with our internal regulations on severance payments. Upon retirement, directors who have made significant contributions to our company during their term may be appointed to serve either as an advisor to us or as an officer of an affiliate company.

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### **Audit Committee**

Under relevant Korean laws and our articles of incorporation, we are required to have an audit committee under the board of directors. The committee is composed of at least three members, two-thirds of whom must be independent non-executive directors in accordance with applicable rules. The members of the audit committee are appointed annually by a resolution of the general meeting of shareholders. They are required to:

examine the agenda for the general meeting of shareholders;

examine financial statements and other reports to be submitted by the board of directors to the general meeting of shareholders;

review the administration by the board of directors of our affairs; and

examine the operations and asset status of us and our subsidiaries.

In addition, the audit committee must appoint independent auditors to examine our financial statements. An audit and review of our financial statements by independent auditors is required for the purposes of a securities report. Listed companies must provide such report on an annual, semi-annual and quarterly basis to the FSC and the KRX KOSPI Market.

Our audit committee is composed of four independent non-executive directors: Seok-Dong Kim, Jae Hoon Lee, Jae Hyeon Ahn, and Youngmin Yoon, each of whom is financially literate and independent under the rules of the NYSE as applicable. The board of directors has determined that Seok-Dong Kim is an audit committee financial expert as defined under the applicable rules of the SEC. See Item 16A. Audit Committee Financial Expert.

### **Independent Director Nomination Committee**

This committee is devoted to recommending independent non-executive directors for the board of directors. The objective of the committee is to help promote fairness and transparency in the nomination of candidates for these positions. The board of directors decides from time to time who will comprise the members of this committee. The committee is comprised of one executive director, Jung Ho Park, and two independent directors, Seok-Dong Kim and Jung Ho Ahn.

### **Capex Review Committee**

This committee is responsible for reviewing our business plan (including the budget). It also examines major capital expenditure revisions, and routinely monitors capital expenditure decisions that have already been executed. The committee is comprised of one executive director, Young Sang Ryu, and five independent directors, Jae Hyeon Ahn, Jae Hoon Lee, Seok-Dong Kim, Jung Ho Ahn and Youngmin Yoon.

### **Compensation Review Committee**

This committee oversees our overall compensation scheme for top-level executives and directors. It is responsible for reviewing both the criteria for and level of compensation. It is comprised of three independent directors, Jae Hoon Lee, Seok-Dong Kim and Jung Ho Ahn.

**Corporate Citizenship Committee**

This committee was established to help us achieve world-class sustainable growth and to help us fulfill our corporate social responsibilities. It is comprised of three independent directors, Jae Hyeon Ahn, Jung Ho Ahn and Youngmin Yoon.

**Table of Contents****Item 6.D. Employees**

The following table sets forth the numbers of our regular employees, temporary employees and total employees as of the dates indicated:

|                   | <b>Regular<br/>Employees</b> | <b>Temporary<br/>Employees</b> | <b>Total</b> |
|-------------------|------------------------------|--------------------------------|--------------|
| December 31, 2016 | 24,569                       | 1,275                          | 25,844       |
| December 31, 2017 | 29,450                       | 1,158                          | 30,608       |
| December 31, 2018 | 33,999                       | 5,910                          | 39,909       |

**Labor Relations**

As of December 31, 2018, SK Telecom had a company union consisting of 2,513 regular employees out of 4,806 total regular employees. We have never experienced a work stoppage of a serious nature. Every two years, the union and management negotiate and enter into a new collective bargaining agreement that has a two-year duration, which is focused on employee benefits and welfare. Employee wages are separately negotiated on an annual basis. Our wage negotiations for 2016 were completed in September 2016 and resulted in no change to the average monthly wage of SK Telecom employees. Our wage negotiations for 2017 were completed in November 2017 and resulted in an average monthly wage increase of 3% for SK Telecom employees. Our wage negotiations for 2018 were completed in September 2018 and resulted in an average monthly wage increase of 2.5% for SK Telecom employees. Our wage negotiations for 2019 have not commenced yet. We consider our relations with our employees to be good.

**Employee Benefits**

Since April 1999, we have been required to contribute an amount equal to 4.5% of employee wages toward a national pension plan. Employees are eligible to participate in an employee stock ownership association. We are not required to, and we do not, make any contributions to the employee stock ownership association, although we subsidize the employee stock ownership association through the Employee Welfare Fund by providing low interest rate loans to employees who desire to purchase our stock through the plan in the event of a capitalization by the association.

We are required to pay a severance amount to eligible employees who voluntarily or involuntarily cease employment with us, including through retirement. This severance amount is based upon the employee's length of service with us and the employee's salary level at the time of severance. As of December 31, 2018, the defined benefit obligation, which is the accrued and unpaid retirement and severance benefits, of Won 926.3 billion for all of our employees are reflected in our consolidated financial statements as a liability, of which a total of Won 816.7 billion was funded. Under Korean laws and regulations, we are prevented from involuntarily terminating a full-time employee except under certain limited circumstances. In September 2000, we entered into an employment stabilization agreement with the union. Among other things, in the event that we reorganize a department into a separate entity or we outsource an employee to a separate entity where the wage is lower, this agreement provides for a guarantee of the same wage level for the year that such an event occurs.

Under the Basic Labor Welfare Act, we may also contribute up to 5.0% of our annual earnings before tax for employee welfare. Contribution amounts are determined annually following negotiation with the union. The contribution amount for 2018 was set at 3.52% of SK Telecom's profit before income tax on a separate basis, or Won 43.0 billion. The contribution amount for 2017 was set at 2.49% of SK Telecom's profit before income tax on a separate basis, or Won 40.0 billion. The contribution amount for 2016 was set at 2.24% of SK Telecom's profit before income tax on a separate basis, or Won 35.0 billion.



In addition, we provide our employees with miscellaneous other fringe benefits including medical cost subsidies, family camp programs and sabbatical programs for long-term employees.

**Table of Contents****Item 6.E. Share Ownership**

The following table sets forth the share ownership by our directors and executive officers as of March 31, 2019:

| <b>Name</b>                | <b>Position</b>   | <b>Number of<br/>Shares<br/>Owned</b> | <b>Percentage of<br/>Total<br/>Shares<br/>Outstanding</b> | <b>Special<br/>Voting<br/>Rights</b> | <b>Options</b> |
|----------------------------|---|---------------------------------------|---|--------------------------------------|----------------|
| <b>Directors:</b>          |   |                                       |   |                                      |                |
| Jung Ho Park               | Executive Director, President and Chief Executive Officer | 1,000                                 | *   | None                                 | 66,504         |
| Young Sang Ryu             | Executive Director and Head of MNO Business               |                                       |   | None                                 | 3,092          |
| <b>Executive Officers:</b> |   |                                       |   |                                      |                |
| Sun Young Her              | Head of Integrated Distribution Channel Center            | 107                                   | *   | None                                 |                |
| Hyeon Kook Kim             | Head of Western Regional Marketing Office                 | 100                                   | *   | None                                 |                |
| Ji Young Yeo               | Head of TTS Business Unit                                 | 116                                   | *   | None                                 |                |
| Jong Ryeol Kang            | Head of ICT Infra Center                                  | 84                                    | *   | None                                 |                |
| Jin Soo Seong              | Head of Infra Solution Group                              | 586                                   | *   | None                                 |                |
| Jeong Bok Kim              | Head of Metropolitan Infra Office                         | 168                                   | *   | None                                 |                |
| Sang Heon Lee              | Head of Policy Development Office                         | 77                                    | *   | None                                 |                |
| Hyoung Do Lim              | Head of Change Management Office                          | 75                                    | *   | None                                 |                |
| Jin Hur                    | PD of SK Research Institute for SUPEX Management          | 65                                    | *   | None                                 |                |
| Ilung Kim                  | Officer of ICT Advisory Board                             | 1,000                                 | *   | None                                 |                |
| Yongsik Shin               | Head of Smart Energy City Unit                            | 128                                   | *   | None                                 |                |
| Kiyoony Lee                | Head of Customer Value Innovation Office                  | 165                                   | *   | None                                 |                |
| Zonggeun Chai              | Head of Ethics Management Office                          | 88                                    | *   | None                                 |                |
| Seong Ho Ha                | Head of Corporate Relation Center                         |                                       |   | None                                 | 1,369          |
| Hyoung Il Ha               | Head of Corporate Development Center                      |                                       |   | None                                 | 1,564          |
| Jin Hyo Park               | Head of ICT R&D Center                                    |                                       |   | None                                 | 1,300          |
| Poong Young Yoon           | Head of Corporate Center                                  |                                       |   | None                                 | 1,244          |
| Total                      |   | 3,759                                 | *   |                                      | 75,073         |

\* Less than 1%.

See Item 6.B. Compensation for information regarding the exercisable stock options granted to our directors and executive officers.

**Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**Item 7.A. Major Shareholders**

As of the close of our shareholders registry on December 31, 2018, approximately 58.2% of our issued shares were held in Korea by approximately 51,368 shareholders. According to Citibank, N.A. ( Citibank ), depository for our ADRs, as of December 31, 2018, there were at least 39,774 record holders of our ADRs evidencing ADSs resident in the United States to the best of Citibank's knowledge, and 8,179,260 shares of our common stock were held in the form of ADSs. As of such date, outstanding ADSs represented approximately 10.1% of our outstanding common shares.

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The following table sets forth certain information as of December 31, 2018 with respect to any person known to us to be the beneficial owner of more than 5.0% of our common shares:

| <b>Shareholder</b>             | <b>Number of Shares</b> | <b>Percentage of Total Shares Issued<sup>(2)</sup></b> | <b>Percentage of Total Shares Outstanding<sup>(3)</sup></b> |
|--------------------------------|-------------------------|--|---|
| SK Holdings                    | 21,624,120              | 26.8%  | 30.1%   |
| Treasury shares <sup>(1)</sup> | 8,875,883               | 11.0   |   |
| National Pension Service       | 7,879,982               | 9.8  | 11.0  |

(1) Treasury shares do not have any voting rights. In December 2018, we exchanged 1,260,668 treasury shares for all of the outstanding common shares of SK Infosec in a share exchange transaction with SK Holdings.

(2) Calculated based on 80,745,711 total issued shares, which include 8,875,883 treasury shares, as of December 31, 2018.

(3) Calculated based on 71,869,828 total outstanding shares as of December 31, 2018.

The following table sets forth significant changes in the percentage ownership held by our major shareholders during the past three years:

| <b>Shareholder</b>       | <b>As of December 31,</b>                                     |             |             |
|--------------------------|---|-------------|-------------|
|                          | <b>2018</b>   | <b>2017</b> | <b>2016</b> |
|                          | <b>(As a percentage of total issued shares)<sup>(1)</sup></b> |             |             |
| SK Group <sup>(2)</sup>  | 26.8%   | 25.2%       | 25.2%       |
| SK Holdings              | 26.8  | 25.2        | 25.2        |
| National Pension Service | 9.8   | 9.2         | 8.9         |

(1) Includes 8,875,883 shares, 10,136,551 shares and 10,136,551 shares held in treasury as of December 31, 2018, 2017 and 2016, respectively. In December 2018, we exchanged 1,260,668 treasury shares for all of the outstanding common shares of SK Infosec in a share exchange transaction with SK Holdings.

(2)

SK Group's ownership interest as of December 31, 2018, 2017 and 2016 consisted of the ownership interest of SK Holdings only.

Except as described above, other than companies in the SK Group, no other persons or entities known by us to be acting in concert, directly or indirectly, jointly or severally, own in excess of 5.0% of our total shares outstanding or exercise control or could exercise control over our business.

As of March 31, 2019, SK Holdings held 26.8% of our shares of common stock. For a description of our foreign ownership limitation, see Item 3.D. Risk Factors Risks Relating to Our Business If SK Holdings causes us to breach the foreign ownership limitations on our common shares, we may experience a change of control and Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements. In the event that SK Holdings announces plans of a sale of our shares, we expect to be able to discuss the details of such sale with them in advance and will endeavor to minimize any adverse effects on our share prices as a result of such sale.

As of March 31, 2019, the total number of our common shares outstanding was 71,869,828.

Other than as disclosed herein, there are no other arrangements, to the best of our knowledge, which would result in a material change in the control of us. Our major shareholders do not have different voting rights.

**Item 7.B. Related Party Transactions**

We are part of the SK Group of affiliated companies. See Item 7.A. Major Shareholders. As disclosed in note 37 of the notes to our consolidated financial statements, we had related party transactions with a number of affiliated companies of the SK Group during the year ended December 31, 2018.

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**Table of Contents****SK Networks**

As of December 31, 2018, we had Won 2.6 billion of accounts receivable from SK Networks. As of the same date, we had Won 167.4 billion of accounts payable to SK Networks, mainly relating to payments for wireless devices by PS&Marketing. The aggregate fees we paid to SK Networks for dealer commissions amounted to Won 1,189.4 billion in 2018, Won 1,220.3 billion in 2017 and Won 1,131.6 billion in 2016.

**SK Holdings**

We enter into agreements with SK Holdings from time to time for specific information technology-related projects. The aggregate fees we paid to SK Holdings for information technology services amounted to Won 397.5 billion in 2018, Won 397.0 billion in 2017 and Won 449.2 billion in 2016. We also purchase various information technology-related equipment from SK Holdings from time to time. The total amount of such purchases was Won 151.5 billion in 2018, Won 283.6 billion in 2017 and Won 235.5 billion in 2016. We are a party to several service agreements with SK Holdings relating to the development and maintenance of our information technologies systems. We also pay SK Holdings for use of the SK brand.

In December 2018, we acquired SK Infosec from SK Holdings in a share exchange transaction, pursuant to which we transferred 1,260,668 treasury shares with an aggregate book value of Won 281.2 billion to SK Holdings in exchange for all of the issued and outstanding common shares of SK Infosec.

**SK TNS**

SK TNS Co., Ltd. ( SK TNS ) provides us with network construction and maintenance services and related equipment. The total amount of network equipment purchased from SK TNS was Won 493.8 billion in 2018 and Won 494.6 billion in 2017. As of December 31, 2018, we had Won 89.0 billion of accounts payable to SK TNS, mainly relating to payments for such services and equipment.

**Item 7.C. *Interests of Experts and Counsel***

Not applicable.

**Item 8. *FINANCIAL INFORMATION*****Item 8.A. *Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through G-88.

**Legal Proceedings*****FTC Proceedings***

In March 2012, the FTC fined us Won 21.9 billion for allegedly colluding with KT, LG U+, Samsung Electronics, LG Electronics and Pantech (which were also assessed separate fines) to inflate the prices of handsets while advertising that the handsets are offered at a discount through subsidy plans. We paid such fine in September 2012 and filed an

appeal at the Seoul High Court, which ruled against us in October 2014. We appealed the decision to the Supreme Court of Korea, where the case is currently pending.

***KCC Proceedings***

On January 14, 2016, the KCC imposed a fine of Won 15 million on us and issued a correctional order for failure to comply with the retention period for our subscribers' personal information. On December 6, 2016, the KCC imposed a fine of Won 3.75 billion on us for unfair marketing practices in connection with our bundled wireless and fixed-line telecommunications services. On December 21, 2016, the KCC imposed fines of Won 100 million and Won 30 million on us for engaging in certain prohibited sales activities and violating certain subscriber location data protection regulations, respectively.

On March 21, 2017, the KCC imposed a fine of Won 794 million on us for providing subsidies to foreign subscribers in excess of the amounts permitted under the MDDIA. On December 6, 2017, the KCC issued a correctional order relating to restrictions on cancelling broadband Internet and bundled service subscriptions.

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On January 24, 2018, the KCC imposed an aggregate fine of Won 21.4 billion on us for providing discriminatory subsidies in violation of the MDDIA.

With respect to the correctional orders issued by the KCC set forth above, we have implemented remedial measures pursuant to such correctional orders and reported to the KCC on the implementation of such measures.

On March 20, 2019, the KCC imposed a fine of Won 975 million on us and issued a correctional order for providing discriminatory subsidies in violation of the MDDIA. We plan to implement remedial measures pursuant to such correctional order and report to the KCC on the implementation of such measures.

***SK Communications Litigation***

In July 2011, there was a leak of personal information of subscribers of NATE and Cyworld websites operated by SK Communications, our consolidated subsidiary. Various lawsuits were filed against SK Communications alleging that the leak was caused by its poor management of subscribers' personal information. As of December 31, 2018, all twelve of such lawsuits were concluded, with eleven of them ending in final judgments in favor of SK Communications and one withdrawn by the plaintiffs.

Except as described above, neither we nor any of our subsidiaries are involved in any litigation, arbitration or administrative proceedings relating to claims which may have, or have had during the twelve months preceding the date hereof, a significant effect on our financial position or the financial position of our subsidiaries taken as a whole, and, so far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

**Dividends**

Annual dividends, if any, on our outstanding shares must be approved at the annual general meeting of shareholders. This meeting is generally held in March of the following year, and the annual dividend is generally paid shortly after the meeting. Since our shareholders have discretion to declare annual dividends, we cannot give any assurance as to the amount of dividends per share or that any dividends will be declared at all. Interim dividends, if any, can be approved by a resolution of our board of directors. Once declared, dividends must be claimed within five years, after which the right to receive the dividends is extinguished and reverted to us.

We pay cash dividends to the ADR depository in Won. Under the terms of the deposit agreement, cash dividends received by the ADR depository generally are to be converted by the ADR depository into Dollars and distributed to the holders of the ADSs, less withholding tax, other governmental charges and the ADR depository's fees and expenses. The ADR depository's designated bank in Korea must approve this conversion and remittance of cash dividends. See Item 10.D. Exchange Controls - Korean Foreign Exchange Controls and Securities Regulations.

The following table sets forth the dividend per share and the aggregate total amount of dividends declared (including any interim dividends), as well as the number of outstanding shares entitled to dividends, with respect to the years indicated. The dividends set out for each of the years below were paid in the immediately following year.

| <b>Year Ended December 31,</b> | <b>Dividend<br/>per<br/>Share</b> | <b>Total Amount of<br/>Dividends<br/>(In billions of Won)</b> | <b>Number of<br/>Shares Entitled<br/>to Dividend</b> |
|--------------------------------|-----------------------------------|---|--|
|--------------------------------|-----------------------------------|---|--|



|      | <b>(In<br/>Won)</b> |       |                           |
|------|---------------------|-------|---------------------------|
| 2014 | 9,400               | 666.8 | 70,936,336                |
| 2015 | 10,000              | 708.1 | 70,609,160 <sup>(1)</sup> |
| 2016 | 10,000              | 706.1 | 70,609,160                |
| 2017 | 10,000              | 706.1 | 70,609,160                |
| 2018 | 10,000              | 717.4 | 71,869,828 <sup>(2)</sup> |

(1) The number of shares entitled to the interim dividend was 72,629,160.

(2) The number of shares entitled to the interim dividend was 70,609,160.

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We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. Our common shares represented by the ADSs have the same dividend rights as other outstanding common shares.

Holders of non-voting shares are entitled to receive dividends in priority to the holders of common shares. The dividend on the non-voting shares is between 9.0% and 25.0% of the par value as determined by the board of directors at the time of their issuance. If the dividends for common shares exceed the dividends for non-voting shares, the holders of non-voting shares will be entitled to participate in the distribution of such excess amount with the holders of common shares. If the amount available for dividends is less than the aggregate amount of the minimum required dividend, holders of non-voting shares will be entitled to receive such accumulated unpaid dividend from dividends payable in the next fiscal year before holders of common shares. There are no non-voting shares issued or outstanding.

We declare dividends annually at the annual general meeting of shareholders which is generally held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record or registered pledges as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in shares. However, a dividend of shares must be distributed at par value. Dividends in shares may not exceed one-half of the annual dividend. Our obligation to pay dividend expires if no claim to dividend is made for five years from the payment date.

Under the Korean Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital, (2) the total amount of our capital surplus reserve, (3) legal reserve accumulated up to the end of the relevant dividend period and (4) the increase in our net asset value resulting from the evaluation of our assets and liabilities that has not been offset against unrealized losses. In addition, we may not pay an annual dividend unless we have set aside as a legal reserve an amount equal to at least 10.0% of the cash portion of the annual dividend or until we have accumulated a legal reserve of not less than one-half of our stated capital. We may not use our legal reserve to pay cash dividends but may transfer amounts from our legal reserve to capital stock or use our legal reserve to reduce an accumulated deficit.

In addition, the Korean Commercial Code and our articles of incorporation provide that, in addition to annual dividends, we may pay interim dividends once during each fiscal year. Unlike annual dividends, the decision to pay interim dividends can be made by a resolution of the board of directors and is not subject to shareholder approval. Any interim dividends must be paid in cash to the shareholders of record as of June 30 of the relevant fiscal year.

Under the Korean Commercial Code, the total amount of interim dividends payable in a fiscal year shall not be more than the net assets on the balance sheet of the immediately preceding fiscal year, after deducting (1) a company's capital in the immediately preceding fiscal year, (2) the aggregate amount of its capital reserves and legal reserves accumulated up to the immediately preceding fiscal year, (3) the amount of earnings for dividend payments confirmed at the general shareholders' meeting with respect to the immediately preceding fiscal year and (4) the amount of legal reserve that should be set aside for the current fiscal year following the interim dividend payment. Furthermore, the rate of interim dividends for non-voting shares must be the same as that for our common shares.

Our obligation to pay interim dividends expires if no claims to such dividends are made for a period of five years from the payment date.

## **Item 8.B. *Significant Changes***

None.

**Item 9. *THE OFFER AND LISTING***

**Item 9.A. *Offering and Listing Details***

These matters are described under Item 9.C. Markets below where relevant.

**Item 9.B. *Plan of Distribution***

Not applicable.

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**Item 9.C. *Markets***

The principal trading market for our common shares is the KRX KOSPI Market. Our common shares are traded on the KRX KOSPI Market under the identification code 017670. As of March 31, 2019, 71,869,828 shares of our common stock were outstanding.

The ADSs are traded on the NYSE and the London Stock Exchange. The ADSs have been issued by the ADR depositary and are traded on the NYSE under the ticker symbol SKM. Each ADS represents one-ninth of one share of our common stock. As of March 31, 2019, ADSs representing 8,022,140 shares of our common stock were outstanding.

**Item 9.D. *Selling Shareholders***

Not applicable.

**Item 9.E. *Dilution***

Not applicable.

**Item 9.F. *Expenses of the Issue***

Not applicable.

**Item 10. *ADDITIONAL INFORMATION***

**Item 10.A. *Share Capital***

Not applicable.

**Item 10.B. *Memorandum and Articles of Association***

**Description of Capital Stock**

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the FSCMA, the Korean Commercial Code, the Telecommunications Business Act and related laws of Korea, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the FSCMA, the Korean Commercial Code and the Telecommunications Business Act. We have filed a copy of our articles of incorporation as an exhibit to our annual reports on Form 20-F.

***General***

The name of our company is SK Telecom Co., Ltd. We are registered under the laws of Korea under the commercial registry number of 110111-0371346. As specified in Article 2 (Objectives) of our articles of incorporation, as amended, our objectives are the rational management of the telecommunications business, development of telecommunications technology, and contribution to public welfare and convenience. In order to achieve these objectives, we are engaged in the following:

information and communication business;

sale and lease of subscriber handsets;

new media business;

advertising business;

mail order sales business;

real estate business (development, management and leasing, etc.) and chattel leasing business;

research and technology development relating to the first four items above;

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overseas and import/export business relating to the first four items above;

manufacture and distribution business relating to the first four items above;

travel business;

electronic financial services business;

film business (production, import, distribution and screening);

lifetime education and management of lifetime educational facilities;

electric engineering business;

information- and communication-related engineering business;

ubiquitous city construction and related service business;

any related business through investment, management and operation of our Korean or offshore subsidiaries and investment companies;

construction business, including the machine and equipment business;

export/import business and export/import intermediation/agency business;

electrical business such as intelligent electrical grid business; and

any business or undertaking incidental or conducive to the attainment of the objectives stated above.

Currently, our authorized share capital is 220,000,000 shares, which consists of shares of common stock, par value Won 500 per share, and shares of non-voting stock, par value Won 500 per share (common shares and non-voting shares together are referred to as shares). Under our articles of incorporation, we are authorized to issue up to 5,500,000 non-voting preferred shares. As of March 31, 2019, 80,745,711 common shares were issued, of which 8,875,883 shares were held by us in treasury. In December 2018, we exchanged 1,260,668 treasury shares for all of the issued and outstanding common shares of SK Infosec in a share exchange transaction with SK Holdings. We have never issued any non-voting preferred shares. All of the issued and outstanding common shares are fully-paid and

non-assessable and are in registered form.

### ***Board of Directors***

Meetings of the board of directors are convened by the representative director as he or she deems necessary or upon the request of three or more directors. The board of directors determines all important matters relating to our business. In addition, the prior approval of the majority of the independent non-executive directors is required for certain matters, which include:

investment by us or any of our subsidiaries in a foreign company in equity or acquisition of such foreign company's other overseas assets in an amount equal to 5.0% or more of our equity under our most recent balance sheet; and

contribution of capital, loans or guarantees, acquisition of our subsidiaries' assets or similar transactions with our affiliated companies in excess of Won 10.0 billion through one or a series of transactions.

Resolutions of the board are adopted in the presence of a majority of the directors in office and by the affirmative vote of a majority of the directors present. No director who has an interest in a matter for resolution may exercise his or her vote upon such matter.

There are no specific shareholding requirements for director's qualification. Directors are elected at a general meeting of shareholders if the approval of the holders of the majority of the voting shares present at such meeting is obtained and if such majority also represents at least one-fourth of the total number of shares outstanding. Under the Korean Commercial Code, unless otherwise stated in the articles of incorporation, holders of an aggregate of 1.0% or more of the outstanding shares with voting rights may request cumulative voting in any election for two or more directors. Our articles of incorporation permit cumulative voting for the election of directors.

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The term of office for directors is until the close of the third annual general shareholders meeting convened after he or she commences his or her term. Our directors may serve consecutive terms and our shareholders may remove them from office at any time by a special resolution adopted at a general meeting of shareholders.

***Dividends***

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. Our common shares represented by the ADSs have the same dividend rights as other outstanding common shares. For a detailed discussion of our dividend policy, see Item 8.A. Consolidated Statements and Other Financial Information Dividends.

***Distribution of Free Shares***

In addition to paying dividends in shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

***Preemptive Rights and Issuance of Additional Shares***

We may at times issue authorized but unissued shares, unless otherwise provided in the Korean Commercial Code, on terms determined by our board of directors. All our shareholders are generally entitled to subscribe to any newly-issued shares in proportion to their existing shareholdings. We must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders' registry as of the relevant record date. We must give public notice of the preemptive rights regarding new shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Under the Korean Commercial Code and our articles of incorporation, we may issue new shares pursuant to a board resolution to persons other than existing shareholders only if (1) the new shares are issued for the purpose of issuing depositary receipts in accordance with the relevant regulations or through an offering to public investors and (2) the purpose of such issuance is deemed necessary by us to achieve a business purpose, including, but not limited to, the introduction of new technology or the improvement of our financial condition. If we make an allotment of new shares to persons other than our existing shareholders, we are required by the Korean Commercial Code to notify our existing shareholders of (a) the class and number of new shares, (b) the issuance price of new shares and the date set for the payment thereof, (c) in cases of no par value shares, the amount to be included in the paid-up capital out of the issuance price of new shares and (d) the method of subscription to new shares by no later than two weeks before the date of payment of the subscription price, or publicly announce such information. Under our articles of incorporation, only our board of directors is authorized to set the terms and conditions with respect to such issuance of new shares.

In addition, under our articles of incorporation, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 400.0 billion, to persons other than existing shareholders, where such issuance is deemed necessary by us to achieve a business purpose, including, but not limited to, the introduction of new technology or the improvement of our financial condition.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20.0% of the shares publicly offered pursuant to the FSCMA. This right is exercisable only to the extent that the total number of shares so acquired and held by members of our employee stock ownership association does not exceed 20.0% of the sum of the number of shares then outstanding and the number of



newly-issued shares.

***General Meeting of Shareholders***

We generally hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

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at the request of holders of an aggregate of 3.0% or more of our outstanding common shares;

at the request of shareholders holding an aggregate of 1.5% or more of our outstanding shares and preferred shares for at least six months; or

at the request of our audit committee.

Holders of non-voting preferred shares may request a general meeting of shareholders only after the non-voting shares become entitled to vote or enfranchised, as described under **Voting Rights** below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of less than 1.0% of the total number of issued and outstanding voting shares, we may give notice by placing at least two public notices in at least two daily newspapers at least two weeks in advance of the meeting. Currently, we use *The Korea Economic Daily News* and *Maeil Business Newspaper*, both published in Seoul, for this purpose, but we may give notice in the future through electronic means. Shareholders who are not on the shareholders registry as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of non-voting preferred shares, unless enfranchised, are not entitled to receive notice of or vote at general meetings of shareholders.

Our general meetings of shareholders have historically been held in or near Seoul.

## ***Voting Rights***

Holders of our common shares are entitled to one vote for each common share, except that voting rights of common shares held by us (including treasury shares and shares held by bank trust funds controlled by us), or by a corporate shareholder in which we own more than 10.0% equity interest, either directly or indirectly, may not be exercised. The Korean Commercial Code, unless otherwise stated in the articles of incorporation, permits cumulative voting, which would allow each shareholder to have multiple voting rights corresponding to the number of directors to be appointed in the voting and to exercise all voting rights cumulatively to elect one director. Our articles of incorporation permit cumulative voting for the election of directors.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting if such affirmative votes also represent at least one-fourth of our total voting shares then issued and outstanding. However, under the Korean Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting shares present or represented at a meeting, and such affirmative votes must also represent at least one-third of our total voting shares then issued and outstanding:

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

effecting our acquisition of all of the business of any other company or a part of the business of any other company having a material effect on our business;

reducing our capital; or

issuing any new shares at a price lower than their par value.

In general, holders of non-voting preferred shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders.

However, in case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases which affect the rights or interests of the non-voting preferred shares, approval of the holders of non-voting preferred shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the non-voting preferred shares present or represented at a class meeting of the holders of non-voting preferred

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shares, where the affirmative votes also represent at least one-third of our total issued and outstanding non-voting shares. In addition, if we are unable to pay dividends on non-voting preferred shares as provided in our articles of incorporation, the holders of non-voting shares will become enfranchised and will be entitled to exercise voting rights beginning at the next general meeting of shareholders to be held after the declaration of non-payment of dividends is made until such dividends are paid. The holders of enfranchised non-voting preferred shares will have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy. A shareholder may give proxies only to another shareholder, except that a corporate shareholder may give proxies to its officers or employees.

Holders of ADRs exercise their voting rights through the ADR depository, an agent of which is the record holder of the underlying common shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depository how to vote our common shares underlying their ADSs.

***Limitation on Shareholdings***

The Telecommunications Business Act prohibits foreign governments, individuals, and entities (including Korean entities that are deemed foreigners, as discussed below) from owning more than 49.0% of our voting stock. Korean entities whose largest shareholder is a foreign government or a foreigner (together with any of its related parties) that owns 15.0% or more of such Korean entities' outstanding voting stock are deemed foreigners. A foreigner who has acquired shares of our voting stock in excess of such limitation may not exercise the voting rights with respect to the shares exceeding such limitation and may be subject to the MSIT's corrective orders.

***Rights of Dissenting Shareholders***

Under Financial Investment Services and Capital Market Act, in some limited circumstances, including the transfer of all or a significant part of our business or our merger or consolidation with another company (with certain exceptions), dissenting shareholders have the right to require us to purchase their shares. To exercise this right, shareholders, including holders of non-voting shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Then, within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of such dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily share prices on the KRX KOSPI Market for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily share price on the KRX KOSPI Market for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily share price on the KRX KOSPI Market for the one week period before the date of the adoption of the relevant resolution. However, a court may determine the purchase price if we or dissenting shareholders do not accept the purchase price.

***Registry of Shareholders and Record Dates***

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It records and registers transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the registry of shareholders is closed for the period from January 1 to January 31 of the following year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the shares, we

may, on at least two weeks public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of shares and the delivery of share certificates may continue while the register of shareholders is closed.

***Annual Report***

At least one week before the annual general meeting of shareholders, we must make our annual reports and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch

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offices. In addition, copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the FSCMA, we must file with the FSC and the Korea Exchange (1) an annual securities report within 90 days after the end of our fiscal year, (2) a mid-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the Korea Exchange.

***Transfer of Shares***

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his or her name, seal and address registered on our registry of shareholders, maintained by our transfer agent. A non-Korean shareholder may file a sample signature in place of a seal, unless he or she is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent in Korea authorized to receive notices on his or her behalf and file his or her mailing address in Korea.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Korean citizens. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations.

Our transfer agent is Kookmin Bank, located at 24, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, Korea.

***Restrictions Applicable to Shares***

Pursuant to the Telecommunications Business Act, the maximum aggregate foreign shareholding in us is limited to 49.0%. See Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements. In addition, certain foreign exchange controls and securities regulations apply to the acquisition of securities by non-residents or non-Korean citizens. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations.

***Acquisition of Shares by Us***

We may acquire our own shares pursuant to an approval at the general meeting of shareholders, through purchases on the Korea Exchange or a tender offer, or by acquiring the interests in a trust account holding our own shares through agreements with trust companies and asset management companies. The aggregate purchase price for the shares may not exceed the total amount available for distribution as dividends as of the end of the preceding fiscal year less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

Under the Korean Commercial Code, we may resell or transfer any shares acquired by us to a third party pursuant to an approval by the Board of Directors. In general, corporate entities in which we own a 50.0% or more equity interest may not acquire our common stock. Under the FSCMA, we are subject to certain selling restrictions with respect to the shares acquired by us.

***Liquidation Rights***

In the event of our liquidation, remaining assets after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to their shareholdings. Holders of non-voting preferred shares have no preference in liquidation. Holders of debt securities have no preference over other creditors in the event of liquidation.

**Item 10.C. *Material Contracts***

We have not entered into any material contracts during the two years immediately preceding the date of this annual report, other than in the ordinary course of our business. For information regarding our agreements and

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transactions with entities affiliated with the SK Group, see Item 7.B. Related Party Transactions and note 37 of the notes to our consolidated financial statements. For a description of certain agreements entered into during the past three years related to our capital commitments and obligations, see Item 5.B. Liquidity and Capital Resources.

### **Item 10.D. Exchange Controls**

#### **Korean Foreign Exchange Controls and Securities Regulations**

##### ***General***

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree, collectively referred to as the Foreign Exchange Transaction Laws, regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The FSC has also adopted, pursuant to its authority under the FSCMA, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Subject to certain limitations, the MOEF has authority to take the following actions under the Foreign Exchange Transaction Laws:

if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the MOEF may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange), impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies or impose an obligation on a resident that holds a claim against a non-resident to collect such claim to enable the recovery of the relevant debt back to Korea; and

if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries are likely to adversely affect the Won, exchange rate or other macroeconomic policies, the MOEF may take action to require any person who intends to effect or effects a capital transaction to deposit all or a portion of the means of payment acquired in such transactions with The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies.

Under the regulations of the FSC amended on February 4, 2009, (1) if a company listed on the KRX KOSPI Market or a company listed on the KRX KOSDAQ Market has submitted a public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the FSC and the Korea Exchange, and (2) if a KRX KOSPI Market-listed company or KRX KOSDAQ Market-listed company is approved for listing on a foreign stock market or determined to be de-listed from the foreign stock market or actually listed on, or de-listed from a foreign stock market, then it must submit a copy of any document, which it submitted to or received from the relevant foreign government, foreign financial investment supervisory authority or the foreign stock market, and a Korean translation thereof to the FSC and the Korea Exchange.



***Government Review of Issuances of ADSs***

In order for us to issue ADSs in excess of US\$30 million, we are required to submit a report to the MOEF with respect to the issuance of the ADSs prior to and after such issuance; provided that such US\$30 million threshold amount would be reduced by the aggregate principal amount of any foreign currency loans borrowed, and any securities offered and issued, outside Korea during the one-year period immediately preceding the report's submission date. The MOEF may at its discretion direct us to take necessary measures to avoid exchange rate fluctuation in connection with its acceptance of report of the issuance of the ADSs.

Under current Korean laws and regulations, the depositary is required to obtain our prior consent for any proposed deposit of common shares if the number of shares to be deposited in such proposed deposit

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exceeds the number of common shares initially deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent issuances of ADSs by us or with our consent and stock dividends or other distributions related to the ADSs).

In addition to such restrictions under Korean laws and regulations, there are also restrictions on the deposits of our common shares for issuance of ADSs. Therefore, a holder of ADRs who surrenders ADRs and withdraws shares may not be permitted subsequently to deposit those shares and obtain ADRs.

We submitted a report to and obtained acceptance thereof by the MOEF for the issuance of ADSs up to an amount corresponding to 24,321,893 common shares. No additional Korean governmental approval is necessary for the issuance of ADSs except that if the total number of our common shares on deposit for conversion into ADSs exceeds 24,321,893 common shares, we may be required to file a report to and obtain acceptance thereof by the MOEF with respect to the increase of such limit and the issuance of additional ADSs.

***Reporting Requirements for Holders of Substantial Interests***

Under the FSCMA, any person whose direct or beneficial ownership of shares with voting rights, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively referred to as equity securities), together with the equity securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5.0% or more of the total outstanding equity securities is required to report the status and purpose (in terms of whether the purpose of shareholding is to affect control over management of the issuer) of the holdings to the FSC and the Korea Exchange within five business days after reaching the 5.0% ownership interest threshold and promptly deliver a copy of such report to the issuer. In addition, any change (1) in the ownership interest subsequent to the report which equals or exceeds 1.0% of the total outstanding equity securities, or (2) in the shareholding purpose is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change. However, reporting deadline of such reporting requirement is extended to (1) certain professional investors, as specified under the FSCMA, or (2) persons who hold shares for purposes other than management control by the tenth day of the month immediately following the month of share acquisition or change in their shareholding. Those who reported the purpose of shareholding is to affect control over management of the issuer are prohibited from exercising their voting rights and acquiring additional shares for five days subsequent to the report under the FSCMA.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of unreported equity securities exceeding 5.0%. Furthermore, the FSC may issue an order to dispose of such non-reported equity securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our common shares accounts for 10.0% or more of the total issued and outstanding shares with voting rights (a major shareholder) must report the status of his or her shareholding to the Securities and Futures Commission and the Korea Exchange within five business days after he or she becomes a major shareholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Securities and Futures Commission and the Korea Exchange by the fifth business day of any changes in his or her shareholding. Violations of these reporting requirements may subject a person to criminal sanctions, such as fines or imprisonment.

***Restrictions Applicable to ADSs***

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery of shares in Korea in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service of Korea (the FSS ), as described below. The acquisition of the shares by a foreigner must be reported by the foreigner or his or her standing proxy in Korea immediately to the Governor of the FSS (the Governor ).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

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In addition, we are required to file a securities registration statement with the FSC and such securities registration statement has to become effective pursuant to the FSCMA in order for us to issue shares represented by ADSs, except in certain limited circumstances.

***Restrictions Applicable to Shares***

As a result of amendments to the Foreign Exchange Transaction Laws and the regulations of the FSC, together referred to as the Investment Rules, adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or the KRX KOSDAQ Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including, among others:

odd-lot trading of shares;

acquisition of shares by a foreign company as a result of a merger;

acquisition or disposal of shares in connection with a tender offer;

acquisition of shares by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company ( converted shares );

acquisition of shares through exercise of rights under securities issued outside of Korea;

acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;

acquisition of shares by direct investment under the Foreign Investment Promotion Law;

acquisition and disposal of shares on an overseas stock exchange market, if such shares are simultaneously listed on the KRX KOSPI Market or KRX KOSDAQ Market and such overseas stock exchange;

arm's length transactions between foreigners in the event all such foreigners belong to an investment group managed by the same person; and

acquisition and disposal of shares through alternative trading systems.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions through borrowing shares from financial investment companies with respect to shares which are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares for the first time on the KRX KOSPI Market or the KRX KOSDAQ Market (including converted shares) and shares being publicly offered for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire converted shares with the intention of selling such converted shares within three months from the date of acquisition of the converted shares or who acquire the shares in an over-the-counter transaction or dispose of shares where such acquisition or disposal is deemed to be a foreign direct investment pursuant to the Foreign Investment Promotion Law. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a financial investment company or financial institution in Korea. Foreigners eligible to obtain an investment registration card include foreign nationals

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who have not been residing in Korea for a consecutive period of six months or longer, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree promulgated under the FSCMA. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, where a foreign investor acquires or sells shares outside the KRX KOSPI Market and the KRX KOSDAQ Market, such acquisition or sale of shares must be reported by the foreign investor or such foreign investor's standing proxy to the Governor at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transaction. In the event a foreign investor desires to acquire or sell shares outside the KRX KOSPI Market or the KRX KOSDAQ Market and the circumstances in connection with such sale or acquisition do not fall within the exceptions made for certain limited circumstances described above, then the foreign investor must obtain the prior approval of the Governor. In addition, in the event a foreign investor acquires or sells shares outside the KRX KOSPI Market or the KRX KOSDAQ Market, a prior report to the Bank of Korea may also be required in certain circumstances. A foreign investor must appoint one or more standing proxies among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians which will act as a standing proxy to exercise shareholders' rights, or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than his, her or its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on his, her or its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. The Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his, her or its custodian deposits the shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40.0% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3.0% of the total number of shares in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor of not less than 10.0% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment

Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Trade, Industry and Energy of Korea, which delegates its authority to foreign exchange banks or the Korea Trade-Investment Promotion Agency under the relevant regulations. The acquisition of our shares by a foreign investor is also subject to the restrictions prescribed in the Telecommunications Business Act. The Telecommunications Business Act generally limits the maximum aggregate foreign shareholdings in us to 49.0% of

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the outstanding shares. A foreigner who has acquired shares in excess of such restriction described above may not exercise the voting rights with respect to the shares exceeding such limitations and may be subject to corrective orders.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to make a portfolio investment in shares of a Korean company listed on the KRX KOSPI Market or the KRX KOSDAQ Market must designate a foreign exchange bank at which he, she or it must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any such shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any such shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment companies with a securities dealing, brokerage or collective investment license or the investor's Won account. Funds in the investor's Won account may be transferred to such investor's foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount is reported to the tax authorities by the foreign exchange bank at which the Won account is maintained. Funds in the investor's Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these financial investment companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

**Item 10.E. *Taxation*****United States Taxation**

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold our common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;



a bank;

a life insurance company;

a tax-exempt organization;

a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10.0% or more of any class of our stock (by vote or value).

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

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Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are the beneficial owner of a common share or an ADS and are:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

***Dividends***

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source passive income dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your receipt of the dividend, in the case of common shares, or the depository's receipt, in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at a preferential rate if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) the ADSs are readily tradable on an established securities market in the United States and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes ( PFIC ), as discussed below under Passive Foreign Investment Company Rules. The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements, as well as relevant market and shareholder data, we believe that we were not a PFIC with respect to our 2018 taxable year, but the Internal Revenue Service ( IRS ) could disagree with that conclusion and it is possible that we could become a PFIC in 2019 or subsequent taxable years, as discussed below.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

***Sale or Other Disposition***

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

***Passive Foreign Investment Company Rules***

Special U.S. tax rules apply to companies that are considered to be PFICs. We will be classified as a PFIC in a particular taxable year if either (i) 75 percent or more of our gross income for the taxable year is passive income; or (ii) the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50 percent. Investments in companies in which we own less than 25 percent of the stock (by value) are considered to be assets that produce passive income.

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The determination whether we are a PFIC is made annually based on the particular facts and circumstances, such as the composition of our income and the valuation of our assets. Although we do not believe that we were a PFIC in 2018, it is possible that the IRS or a court could disagree with that conclusion, and there is a significant risk that we could be treated as a PFIC in the current year or in future years due to fluctuations in our stock price and changes in the value and composition of our assets, including our substantial investment in the stock of SK Hynix, which is treated as a passive asset for this purpose. Accordingly, there can be no assurance that we will not be classified as a PFIC for 2018 or in the current or future years.

You should consult your own tax advisors regarding our classification as a PFIC for 2018 or in the current or future years.

If we are classified as a PFIC, and you do not make a mark-to-market election, as described in the following paragraph, you will be subject to a special tax at ordinary income tax rates on excess distributions (generally, any distributions that you receive in a taxable year that are greater than 125 percent of the average annual distributions that you have received in the preceding three taxable years, or your holding period, if shorter), including gain that you recognize on the sale of your shares or ADSs. The amount of income tax on any excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period you hold your shares or ADSs. Classification as a PFIC may also have other adverse tax consequences, including, in the case of individuals, the denial of a step-up in the basis of your shares or ADSs at death.

You can avoid the unfavorable rules described in the preceding paragraph by electing to mark your shares or ADSs to market. If you make this mark-to-market election, you will be required in any year in which we are a PFIC to include as ordinary income the excess of the fair market value of your shares at year-end over your basis in those shares. In addition, any gain you recognize upon the sale of your shares will be taxed as ordinary income in the year of sale.

A U.S. Holder that owns an equity interest in a PFIC must annually file IRS Form 8621, and may be required to file other IRS forms. A failure to file one or more of these forms as required may toll the running of the statute of limitations in respect of each of the U.S. Holder's taxable years for which such form is required to be filed. As a result, the taxable years with respect to which the U.S. Holder fails to file the form may remain open to assessment by the IRS indefinitely, until the form is filed.

You should consult your own tax advisor regarding the U.S. federal income tax considerations discussed above and in particular the desirability of making a mark-to-market election.

***Foreign Tax Credit Considerations***

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs, so long as you have owned our common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on general category income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agricultural and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

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The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

***Specified Foreign Financial Assets***

Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of US\$50,000 are generally required to file an information statement along with their tax returns, currently on IRS Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the common shares or ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisers concerning the application of these rules to their investment in the common shares or ADSs, including the application of the rules to their particular circumstances.

***U.S. Information Reporting and Backup Withholding Rules***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient and demonstrates this when required or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

***Korean Taxation***

The following is a summary of the principal Korean tax consequences to owners of the common shares or ADSs, as the case may be, who are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable or with which the relevant income is effectively connected ( Non-resident Holders ). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the common shares or ADSs, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident, and any tax treaty between Korea and their country of residence, by consulting their own tax advisors.

***Tax on Dividends***

Dividends on the common shares or ADSs paid (whether in cash or in shares) to a Non-resident Holder will be subject to Korean withholding taxes at the rate of 22.0% (including local income tax) or such lower rate as is applicable under a treaty between Korea and such Non-resident Holder's country of tax residence. Free distributions of shares representing a capitalization of certain capital surplus reserves may be subject to Korean withholding taxes.

The tax is withheld by the payer of the dividend. While it is the payer that is required to withhold the tax, Korean law generally entitles the person who was subject to the withholding of Korean tax to recover from the Government any

part of the Korean tax withheld upon providing evidence that it was entitled to have tax withheld at a lower rate if certain conditions are met.

***Tax on Capital Gains***

As a general rule, capital gains earned by Non-resident Holders upon transfer of the common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11.0% (including local income tax) of the gross proceeds

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realized or (2) 22.0% (including local income tax) of the net realized gains (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs), unless exempt from Korean income taxation under the effective Korean tax treaty with the Non-resident Holder's country of tax residence.

However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the common shares through the KRX KOSPI Market if the Non-resident Holder (1) has no permanent establishment in Korea and (2) did not or has not owned (together with any shares owned by any entity with certain special relationship with such Non-resident Holder) 25.0% or more of the total issued and outstanding shares of us at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

It should be noted that capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation, provided that the ADSs are deemed to have been issued overseas. If and when an owner of the underlying common shares transfers the ADSs following the conversion of the underlying shares for ADSs, such person will not be exempt from Korean income taxation.

***Inheritance Tax and Gift Tax***

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of his death he was a tax resident of Korea and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and vary depending on the value of the property and the identity of the parties involved.

Under Korean inheritance and gift tax laws, securities issued by a Korean corporation are deemed to be located in Korea irrespective of where they are physically located or by whom they are owned.

***Securities Transaction Tax***

Securities transaction tax is imposed on the transfer of shares issued by a Korean corporation or the right to subscribe for such shares generally at the rate of 0.5% of the sales price. In the case of the transfer of shares listed on the KRX KOSPI Market (such as our common shares), the securities transaction tax is imposed generally at the rate of (1) 0.3% of the sales price of such shares (including agricultural and fishery special surtax thereon) if traded on the KRX KOSPI Market or (2) subject to certain exceptions, 0.5% of the sales price of such shares if traded outside the KRX KOSPI Market.

Securities transaction tax or the agricultural and fishery special surtax is not applicable if (1) the shares or rights to subscribe for shares are listed on a designated foreign stock exchange and (2) the sale of the shares takes place on such exchange.

Securities transaction tax, if applicable, must be paid by the transferor of the shares or rights, in principle. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay (to the tax authority) the tax, and when such transfer is made through a financial investment company with a brokerage license only, such company is required to withhold and pay the tax. Where the transfer is effected by a Non-resident Holder without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company with a brokerage license, the transferee is required to withhold the securities transaction tax. Failure to do so will result in the imposition of penalties equal to the sum of (1) between



10.0% to 40.0% of the tax amount due, depending on the nature of the improper reporting, and (2) 10.95% per annum on the tax amount due for the default period.

***Tax Treaties***

Currently, Korea has income tax treaties with a number of countries, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Ireland, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States under which the rate of withholding tax on dividend and interest is reduced, generally to between 5.0% and 16.5% (including local income

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tax), and the tax on capital gains derived by a non-resident from the transfer of securities issued by a Korean company is often eliminated.

Each Non-resident Holder of common shares should inquire for itself whether it is entitled to the benefits of a tax treaty with Korea. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest, dividend, capital gains or other income to submit to us (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, prior to or at the time of payment, such evidence of tax residence of the party claiming the treaty benefit as the Korean tax authorities may require in support of its claim for treaty protection. In the absence of sufficient proof, we (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, must withhold tax at the normal rates.

Furthermore, in order for a non-resident of Korea to obtain the benefits of tax exemption on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agent) to submit to the payer of such Korean source income an application for a tax exemption along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

For a non-resident of Korea to obtain the benefits of treaty-reduced tax rates on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for treaty-reduced tax rates prior to receipt of such Korean source income; provided, however, that an owner of ADSs who is a non-resident of Korea is not required to submit such application, if the Korean source income on the ADSs is paid through an account opened at the Korea Securities Depository by a foreign depository.

At present, Korea has not entered into any tax treaty relating to inheritance or gift tax.

**Item 10.F. *Dividends and Paying Agents***

Not applicable.

**Item 10.G. *Statements by Experts***

Not applicable.

**Item 10.H. *Documents on Display***

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC's Website at <http://www.sec.gov>.

Documents filed with annual reports and documents filed or submitted to the SEC are also available for inspection at our principal business office during normal business hours. Our principal business office is located at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 04539, Korea.

**Item 10.I. *Subsidiary Information***

Not applicable.

**Item 11. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities and to equity price risk as a result of our investment in equity instruments.

We have entered into a floating-to-fixed cross currency interest rate swap contract to hedge foreign currency and interest rate risks with respect to US\$300 million of bonds issued in March 2013. In addition, we have entered

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into fixed-to-fixed cross currency swap contracts to hedge the foreign currency risks of US\$400 million of bonds issued in July 2007, US\$40.3 million of borrowings from December 2013, US\$500 million of bonds issued in April 2018 and US\$300 million of bonds issued in August 2018. We also entered into floating-to-fixed interest rate swap contracts to hedge interest rate risks with respect to Won 36.8 billion of borrowings from December 2016, Won 12.3 billion of borrowings from January 2017 and Won 50.0 billion of borrowings from December 2017. See note 22 of the notes to our consolidated financial statements. We may consider in the future entering into other such transactions solely for hedging purposes.

The following discussion and tables, which constitute forward looking statements that involve risks and uncertainties, summarize our market-sensitive financial instruments including fair value, maturity and contract terms. These tables address market risk only and do not present other risks which we face in the normal course of business, including country risk, credit risk and legal risk.

**Exchange Rate Risk**

Korea is our main market and, therefore, substantially all of our cash flow is denominated in Won. We are exposed to foreign exchange risk related to foreign currency denominated liabilities. These liabilities relate primarily to foreign currency denominated debt, primarily in Dollars. A 10.0% increase in the exchange rate between the Won and all foreign currencies would result in an increase in profit before income tax of 0.4%, or Won 15.3 billion, with a decrease of 10.0% in the exchange rate having the opposite effect, as of December 31, 2018. For a further discussion of our exchange rate risk exposures, see note 36(1) of the notes to our consolidated financial statements.

**Interest Rate Risk**

We are also subject to market risk exposure arising from changing interest rates. The following table summarizes the carrying amounts and fair values, maturity and contract terms of our exchange rate and interest sensitive short-term and long-term liabilities as of December 31, 2018:

|                                      | 2019   | 2020  | 2021  | 2022  | 2023    | Thereafter | Total   | Fair Value |
|--------------------------------------|--|-------|-------|-------|---------|------------|---------|------------|
|                                      | Maturities<br>(In billions of Won, except for percentage data) |       |       |       |         |            |         |            |
| <b>Local currency:</b>               |  |       |       |       |         |            |         |            |
| Fixed-rate                           | 924.6  | 589.1 | 887.9 | 758.0 | 2,430.2 | 2,115.6    | 7,705.5 | 8,109.4    |
| Average weighted rate <sup>(1)</sup> | 2.78%  | 2.33% | 2.64% | 2.58% | 3.81%   | 2.82%      |         |            |
| Variable rate                        | 102.3  |       | 36.8  | 50.0  | 49.8    |            | 238.8   | 238.8      |
| Average weighted rate <sup>(1)</sup> | 3.32%  |       | 2.32% | 2.78% | 2.72%   |            |         |            |
| Sub-total                            | 1,026.9  | 589.1 | 924.7 | 808.0 | 2,480.0 | 2,115.6    | 7,944.3 | 8,348.2    |
| <b>Foreign currency:</b>             |  |       |       |       |         |            |         |            |
| Fixed-rate                           |  |       |       | 44.4  | 885.7   | 442.3      | 1,372.5 | 1,625.8    |
| Average weighted rate <sup>(1)</sup> |  |       |       | 1.70% | 3.80%   | 6.63%      |         |            |
| Variable rate                        |  | 335.1 |       |       |         |            | 335.1   | 335.1      |
|                                      |  | 2.80% |       |       |         |            |         |            |

|                                      |         |       |       |       |         |         |         |          |
|--------------------------------------|---------|-------|-------|-------|---------|---------|---------|----------|
| Average weighted rate <sup>(1)</sup> |         |       |       |       |         |         |         |          |
| Sub-total                            |         | 335.1 |       | 44.4  | 885.7   | 442.3   | 1,707.6 | 1,960.9  |
| <b>Total</b>                         | 1,026.9 | 924.2 | 924.7 | 852.4 | 3,365.7 | 2,558.0 | 9,651.9 | 10,309.1 |

(1) Weighted average rates of the portfolio at the period end.

A 1.0% point increase in interest rates would result in a decrease in profit before income tax of Won 1.4 billion with a 1.0% point decrease in interest rates having the opposite effect, as of December 31, 2018. For a further discussion of our interest rate risk exposures, see note 36(1) of the notes to our consolidated financial statements.

### ***Equity Price Risk***

We are also subject to market risk exposure arising from changes in the equity securities market, which affect the fair value of our equity portfolio. As of December 31, 2018, 2017 and 2016, a 10.0% increase in the equity

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indices where our equity investments at fair value through other comprehensive income are listed, with all other variables held constant, would have increased our total equity by Won 29.4 billion, Won 58.9 billion and Won 52.6 billion, respectively, with a 10.0% decrease in the equity index having the opposite effect. The foregoing sensitivity analysis assumes that all variables other than changes in the equity index are held constant, and that our available-for-sale equity instruments had moved according to the historical correlation to the index, and as such, does not reflect any correlation between the equity index and other variables.

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****Item 12.A. Debt Securities**

Not applicable.

**Item 12.B. Warrants and Rights**

Not applicable.

**Item 12.C. Other Securities**

Not applicable.

**Item 12.D. American Depositary Shares  
Fees and Charges under Deposit Agreement**

The ADR depository will charge the party receiving ADSs up to US\$5.00 per 100 ADSs (or fraction thereof), provided that the ADR depository has agreed to waive such fee as would have been payable by us in the case of (1) an offering of ADSs by us or (2) any distribution of shares of common stock or any rights to subscribe for additional shares of common stock. The ADR depository will not charge the party to whom ADSs are delivered against deposits. The ADR depository will charge the party surrendering ADSs for delivery of deposited securities up to US\$5.00 per 100 ADSs (or fraction thereof) surrendered. The ADR depository will also charge the party to whom any cash distribution, or for whom the sale or exercise of rights or other corporate action involving distributions to shareholders, is made with respect to ADSs up to US\$0.02 per ADS held plus the expenses of the ADR depository on a per-ADS basis. We will pay the expenses of the ADR depository and any entity acting as registrar for the shares only as specified in the deposit agreement. The ADR depository will pay any other charges and expenses of the ADR depository and the entity acting as registrar for the shares.

Holders of ADRs must pay (1) taxes and other governmental charges, (2) share transfer registration fees on deposits of shares of common stock, (3) such cable, telex, facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of persons depositing shares of common stock or holders of ADRs and (4) such reasonable expenses as are incurred by the ADR depository in the conversion of foreign currency into United States dollars.

Notwithstanding any other provision of the deposit agreement, in the event that the ADR depositary determines that any distribution in property (including shares or rights to subscribe therefor or other securities) is subject to any tax or governmental charges which the ADR depositary is obligated to withhold, the ADR depositary may dispose of all or a portion of such property (including shares and rights to subscribe therefor) in such amounts and in such manner as the ADR depositary deems necessary and practicable to pay such taxes or governmental charges, including by public or private sale, and the ADR depositary will distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes or governmental charges to the holders of ADSs entitled thereto in proportion to the number of ADSs held by them respectively.

All such charges may be changed by agreement between the ADR depositary and us at any time and from time to time, subject to the deposit agreement. The right of the ADR depositary to receive payment of fees, charges and expenses shall survive the termination of this deposit agreement and, as to any depositary, the resignation or removal of such depositary pursuant to the deposit agreement.

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**Payments made by ADR Depositary**

The ADR depositary reimburses us for certain expenses we incur in connection with our ADR program, subject to certain ceilings. These reimbursable expenses currently include expenses relating to the preparation of SEC filings and submissions, listing fees, education and training fees, corporate action expenses and other miscellaneous fees. In the fiscal year 2018, we received US\$2,764,793 from the ADR depositary in connection with such reimbursements.

**PART II**

**Item 13. *DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES***

None.

**Item 14. *MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS***

None.

**Item 15. *CONTROLS AND PROCEDURES***

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2018. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as of December 31, 2018. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. We acquired LSH and its subsidiaries during 2018, and we excluded



from our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018 LSH and its subsidiaries internal control over financial reporting associated with total assets (including amounts resulting from the purchase accounting adjustments and goodwill) of Won 2,611.8 billion and total revenues of Won 197.5 billion included in our consolidated financial statements as of and for the year ended December 31, 2018. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS as issued by the IASB. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

**Table of Contents****Report of the Independent Registered Public Accounting Firm on the Effectiveness of Our Internal Control Over Financial Reporting**

The report of our independent registered public accounting firm, KPMG Samjong Accounting Corp. ( KPMG Samjong ), on the effectiveness of our internal control over financial reporting as of December 31, 2018 is included in Item 18 of this Form 20-F.

**Changes in Internal Control Over Financial Reporting**

Beginning January 1, 2018, we adopted IFRS 15 and implemented significant new revenue accounting systems, processes and internal controls over revenue recognition to assist us in the application of IFRS 15. Other than as discussed above, there has been no change in our internal control over financial reporting during 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. *RESERVED*****Item 16A. *AUDIT COMMITTEE FINANCIAL EXPERT***

Seok-Dong Kim is the chairman of our audit committee and was determined to be an audit committee financial expert within the meaning of this Item 16A by the board of directors. The board of directors have further determined that Seok-Dong Kim is independent within the meaning of applicable SEC rules and the listing standards of the NYSE. See Item 6.C. Board Practices Audit Committee for additional information regarding our audit committee.

**Item 16B. *CODE OF ETHICS*****Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller**

We have a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, senior accounting officers and employees. We also have internal control and disclosure policy designed to promote full, fair, accurate, timely and understandable disclosure in all of our reports and publicly filed documents. A copy of our code of ethics is available on our website at [www.sktelecom.com](http://www.sktelecom.com). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website.

**Item 16C. *PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The table sets forth the fees we paid to our independent registered public accounting firm KPMG Samjong and its affiliates for the years ended December 31, 2018 and 2017:

| <b>Year Ended December 31,</b> |             |
|--------------------------------|-------------|
| <b>2018</b>                    | <b>2017</b> |
| <b>(In millions of Won)</b>    |             |

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|                    |              |              |
|--------------------|--------------|--------------|
| Audit Fees         | 5,845        | 5,625        |
| Audit-Related Fees | 222          | 35           |
| Tax Fees           | 355          | 323          |
| All Other Fees     | 120          | 300          |
| <b>Total</b>       | <b>6,542</b> | <b>6,283</b> |

*Audit Fees* are the aggregate fees billed by KPMG Samjong for the audit of our consolidated annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

*Audit-Related Fees* are fees charged by KPMG Samjong for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under *Audit Fees*. This category comprises fees billed for services which are related to issuance of comfort letters in connection with our bond offerings.

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*Tax Fees* are fees for professional services rendered by KPMG Samjong for tax compliance, tax advice on actual or contemplated transactions and tax planning services.

*All Other Fees* are fees billed by KPMG Samjong for consulting services related to the preparation of our investor relations materials in 2018 and our corporate social responsibility project in 2017.

**Pre-Approval of Audit and Non-Audit Services Provided by Independent Registered Public Accounting Firm**

Our audit committee pre-approves all audit services to be provided by KPMG Samjong, our independent registered public accounting firm. Our audit committee's policy regarding the pre-approval of non-audit services to be provided to us by our independent auditors is that all such services shall be pre-approved by our audit committee. Non-audit services that are prohibited to be provided to us by our independent auditors under the rules of the SEC and applicable law may not be pre-approved. In addition, prior to the granting of any pre-approval, our audit committee must be satisfied that the performance of the services in question will not compromise the independence of our independent registered public accounting firm.

Our audit committee did not pre-approve any non-audit services under the *de minimis* exception of Rule 2-01 (c)(7)(i)(C) of Regulation S-X as promulgated by the SEC.

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

**Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**Item 16G. CORPORATE GOVERNANCE**

The following is a summary of the significant differences between the NYSE's corporate governance standards and those that we follow under Korean law.

| <b>NYSE Corporate Governance Standards</b>  | <b>Our Corporate Governance Practice</b>  |
|---|---|
| <b>Director Independence</b><br>Listed companies must have a majority of independent directors. | Of the eight members of our board of directors, five are independent directors. |

**Executive Session**

Non-management directors must meet in regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year.

**Nomination/Corporate Governance Committee**

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.

Our audit committee, which is comprised solely of four independent directors, holds meetings whenever there are matters related to management directors, and such meetings are generally held once every month.

Although we do not have a separate nomination/corporate governance committee, we maintain an independent director nomination committee composed of two independent directors and one management director.

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**NYSE Corporate Governance Standards**

**Our Corporate Governance Practice**

**Compensation Committee**

Listed companies must have a compensation committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company's website. In addition, in accordance with the SEC rules adopted pursuant to Section 952 of the Dodd-Frank Act, the NYSE listing standards were amended to expand the factors relevant in determining whether a committee member has a relationship with the company.

We maintain a compensation review committee comprised of three independent directors.

**Audit Committee**

Listed companies must have an audit committee that satisfies the independence and other requirements of Rule 10A-3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available on the company's website.

We maintain an audit committee comprised solely of four independent directors.

**Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of at least three directors.

Our audit committee has four independent directors.

**Shareholder Approval of Equity Compensation Plan**

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

We currently have two equity compensation plans: a stock option plan for officers and directors and employee stock ownership plan for employees ( ESOP ). We manage such compensation plans in compliance with the applicable laws and our articles of incorporation, provided that, under certain limited circumstances, the grant of stock options or matters relating to ESOP are not subject to shareholders approval under Korean law.

**Shareholder Approval of Equity Offerings**

Listed companies must allow its shareholders to exercise their voting rights with respect to equity offerings that do not qualify as public offerings for cash, and offerings of equity of related parties.

Pursuant to the Korean Commercial Code and the FSCMA, our shareholders are generally entitled to preemptive rights with respect to the issuance of new shares. Exceptions include public offerings as prescribed in the FSCMA and allotments to third parties in cases necessary for the achievement of a business purpose, such as the introduction of new technology and the improvement of our financial condition.



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**NYSE Corporate Governance Standards**

**Our Corporate Governance Practice**

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

Although we do not maintain separate corporate governance guidelines, we are in compliance with the Korean Commercial Code in connection with such matters, including the governance of the board of directors.

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers.

We have adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees, and such code is also available on our website at [www.sktelecom.com](http://www.sktelecom.com).

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

**Item 18. FINANCIAL STATEMENTS**

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| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 1.1           | <u>Articles of Incorporation</u>  |
| 2.1           | <u>Deposit Agreement dated as of May 31, 1996, as amended by Amendment No. 1 dated as of March 15, 1999, Amendment No. 2 dated as of April 24, 2000 and Amendment No. 3 dated as of July 24, 2002, entered into among SK Telecom Co., Ltd., Citibank, N.A., as Depositary, and all Holders and Beneficial Owners of American Depositary Shares (incorporated by reference to Exhibit 2.1 to the Registrant's Annual Report on Form 20-F filed on June 30, 2006)</u> |
| 8.1           | <u>List of Subsidiaries of SK Telecom Co., Ltd.</u>   |
| 12.1          | <u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   |
| 12.2          | <u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   |
| 13.1          | <u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>  |
| 13.2          | <u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>  |
| 101.INS       | XBRL Instance Document  |
| 101.SCH       | XBRL Taxonomy Extension Schema Document   |
| 101.CAL       | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF       | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB       | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE       | XBRL Taxonomy Extension Presentation Linkbase Document  |

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**Report of Independent Registered Public Accounting Firm**

To the shareholders and the board of directors

SK Telecom Co., Ltd.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of financial position of SK Telecom Co., Ltd. and subsidiaries (the Group) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 26, 2019 expressed an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

*Adoption of New Accounting Standard*

As discussed in Note 3 and 4 to the consolidated financial statements, effective January 1, 2018, the Group changed its method for recognizing revenue as a result of adoption of IFRS 15, *Revenue from Contracts with Customers*. The Group has taken an exemption not to restate the comparative consolidated financial statements in accordance with transition requirements of the standard.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Samjong Accounting Corp.

We have served as the Group's auditor since 2012.

Seoul, Korea

April 26, 2019

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**Report of Independent Registered Public Accounting Firm**

To the shareholders and the board of directors

SK Telecom Co., Ltd.:

*Opinion on Internal Control Over Financial Reporting*

We have audited SK Telecom Co., Ltd. and subsidiaries (the Group) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Group as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements) and our report dated April 26, 2019, expressed an unqualified opinion on those consolidated financial statements.

The Group acquired Life & Security Holdings Co., Ltd. and subsidiaries during 2018, and management excluded from its assessment of the effectiveness of the Group's internal control over financial reporting as of December 31, 2018, Life & Security Holdings Co., Ltd. and subsidiaries' internal control over financial reporting associated with total assets (including amounts resulting from the purchase accounting adjustments and goodwill) of 2,611,838 million and total revenues of 197,487 million included in the consolidated financial statements of the Group as of and for the year ended December 31, 2018. Our audit of internal control over financial reporting of the Group also excluded an evaluation of the internal control over financial reporting of Life & Security Holdings Co., Ltd. and subsidiaries.

*Basis for Opinion*

The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 26, 2019

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2018 and 2017**

| <i>(In millions of won)</i>                  | <i>Note</i>     | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-----------------|------------------------------|------------------------------|
| <b>Assets</b>                                |                 |                              |                              |
| <b>Current Assets:</b>                       |                 |                              |                              |
| Cash and cash equivalents                    | 3,35,36         | 1,506,699                    | 1,457,735                    |
| Short-term financial instruments             | 3,6,35,36,38    | 1,045,676                    | 616,780                      |
| Short-term investment securities             | 3,11,35,36      | 195,080                      | 144,386                      |
| Accounts receivable trade, net               | 3,7,35,36,37    | 2,008,640                    | 2,126,007                    |
| Short-term loans, net                        | 3,7,35,36,37    | 59,094                       | 62,830                       |
| Accounts receivable other, net               | 3,7,35,36,37,38 | 937,837                      | 1,260,835                    |
| Prepaid expenses                             | 3,8             | 1,769,559                    | 197,046                      |
| Contract assets                              | 3,9             | 90,072                       |                              |
| Inventories, net                             | 10              | 288,053                      | 272,403                      |
| Derivative financial assets                  | 3,22,35,36      | 13                           |                              |
| Advance payments and other                   | 3,7,35,36,37    | 58,116                       | 63,777                       |
|  |                 | <b>7,958,839</b>             | <b>6,201,799</b>             |
| <b>Non-Current Assets:</b>                   |                 |                              |                              |
| Long-term financial instruments              | 3,6,35,36       | 1,221                        | 1,222                        |
| Long-term investment securities              | 3,11,35,36      | 664,726                      | 887,007                      |
| Investments in associates and joint ventures | 13              | 12,811,771                   | 9,538,438                    |
| Property and equipment, net                  | 14,37,38        | 10,718,354                   | 10,144,882                   |
| Goodwill                                     | 12,15           | 2,938,563                    | 1,915,017                    |
| Intangible assets, net                       | 16              | 5,513,510                    | 3,586,965                    |
| Long-term contract assets                    | 3,9             | 43,821                       |                              |
| Long-term loans, net                         | 3,7,35,36,37    | 29,034                       | 50,874                       |
| Long-term accounts receivable other          | 3,7,35,36,37,38 | 274,053                      | 287,048                      |
| Long-term prepaid expenses                   | 3,8             | 895,272                      | 90,834                       |
| Guarantee deposits                           | 3,7,35,36,37    | 313,140                      | 292,590                      |
| Long-term derivative financial assets        | 3,22,35,36      | 55,444                       | 253,213                      |
| Defined benefit assets                       | 21              | 31,926                       | 45,952                       |
| Deferred tax assets                          | 3,32            | 92,465                       | 88,132                       |
| Other non-current assets                     | 7,35,36         | 26,972                       | 44,696                       |
|  |                 | <b>34,410,272</b>            | <b>27,226,870</b>            |
| <b>Total Assets</b>                          |                 | <b>42,369,111</b>            | <b>33,428,669</b>            |



*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Financial Position (Continued)**

As of December 31, 2018 and 2017

| <i>(In millions of won)</i>                          | <i>Note</i> | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------|------------------------------|------------------------------|
| <b>Liabilities and Shareholders Equity</b>           |             |                              |                              |
| <b>Current Liabilities:</b>                          |             |                              |                              |
| Short-term borrowings                                | 17,35,36    | 80,000                       | 130,000                      |
| Current portion of long-term debt, net               | 17,35,36    | 984,272                      | 1,530,948                    |
| Current portion of long-term payables other          | 18,35,36    | 424,243                      | 302,703                      |
| Accounts payable trade                               | 35,36,37    | 381,302                      | 351,711                      |
| Accounts payable other                               | 35,36,37    | 1,913,813                    | 1,867,074                    |
| Withholdings   | 3,35,36,37  | 1,353,663                    | 961,501                      |
| Accrued expenses                                     | 35,36,37    | 1,299,217                    | 1,327,906                    |
| Income tax payable                                   | 32          | 182,343                      | 219,791                      |
| Unearned revenue                                     | 3           |                              | 175,732                      |
| Provisions   | 3,19,38     | 87,993                       | 52,057                       |
| Receipts in advance                                  | 3           |                              | 161,266                      |
| Contract liabilities                                 | 3,9         | 140,711                      |                              |
| Derivative financial liabilities                     | 22,35,36    |                              | 28,406                       |
| Other current liabilities                            |             |                              | 28                           |
|  |             | <b>6,847,557</b>             | <b>7,109,123</b>             |
| <b>Non-Current Liabilities:</b>                      |             |                              |                              |
| Debentures, excluding current portion, net           | 17,35,36    | 6,572,211                    | 5,596,570                    |
| Long-term borrowings, excluding current portion, net | 17,35,36,38 | 2,015,365                    | 211,486                      |
| Long-term payables other                             | 18,35,36    | 1,968,784                    | 1,346,763                    |
| Long-term unearned revenue                           | 3           |                              | 7,052                        |
| Long-term contract liabilities                       | 3,9         | 43,102                       |                              |
| Defined benefit liabilities                          | 21          | 141,529                      | 61,960                       |
| Long-term derivative financial liabilities           | 22,35,36    | 4,184                        | 11,064                       |
| Long-term provisions                                 | 19,38       | 99,215                       | 32,669                       |
| Deferred tax liabilities                             | 3,32        | 2,269,792                    | 978,693                      |
| Other non-current liabilities                        | 3,35,36     | 58,122                       | 44,094                       |
|  |             | <b>13,172,304</b>            | <b>8,290,351</b>             |
| <b>Total Liabilities</b>                             |             | <b>20,019,861</b>            | <b>15,399,474</b>            |
| <b>Shareholders Equity</b>                           |             |                              |                              |
| Share capital  | 1,23        | 44,639                       | 44,639                       |
| Capital surplus (deficit) and others                 | 12,23,24,26 | 256,325                      | (202,237)                    |

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|  |      |                   |                   |
|--|------|-------------------|-------------------|
| Hybrid bonds   | 25   | 398,759           | 398,518           |
| Retained earnings  | 3,27 | 22,144,541        | 17,835,946        |
| Reserves   | 3,28 | (373,442)         | (234,727)         |
| <b>Equity attributable to owners of the Parent Company</b> |      | <b>22,470,822</b> | <b>17,842,139</b> |
| <b>Non-controlling interests</b>                           |      | <b>(121,572)</b>  | <b>187,056</b>    |
| <b>Total Shareholders Equity</b>                           |      | <b>22,349,250</b> | <b>18,029,195</b> |
| <b>Total Liabilities and Shareholders Equity</b>           |      | <b>42,369,111</b> | <b>33,428,669</b> |

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Income****For the years ended December 31, 2018, 2017 and 2016**

| <i>(In millions of won except for per share data)</i>                            | <i>Note</i>   | <b>2018</b>      | <b>2017</b>      | <b>2016</b>      |
|--|---------------|------------------|------------------|------------------|
| <b>Operating revenue and other income:</b>                                       | <i>3,5,37</i> |                  |                  |                  |
| Revenue  |               | 16,873,960       | 17,520,013       | 17,091,816       |
| Other income   | <i>30,37</i>  | 71,950           | 31,997           | 66,548           |
|  |               | 16,945,910       | 17,552,010       | 17,158,364       |
| <b>Operating expenses:</b>   | <i>3,37</i>   |                  |                  |                  |
| Labor  |               | 2,288,655        | 1,966,156        | 1,869,763        |
| Commissions  |               | 5,002,598        | 5,486,263        | 5,376,726        |
| Depreciation and amortization  | <i>5</i>      | 3,126,118        | 3,097,466        | 2,941,886        |
| Network interconnection  |               | 808,403          | 875,045          | 954,267          |
| Leased line  |               | 309,773          | 342,240          | 394,412          |
| Advertising  |               | 468,509          | 522,753          | 438,453          |
| Rent   |               | 529,453          | 520,244          | 517,305          |
| Cost of goods sold   |               | 1,796,146        | 1,886,524        | 1,838,368        |
| Others   | <i>30</i>     | 1,782,404        | 1,630,747        | 1,523,766        |
|  |               | 16,112,059       | 16,327,438       | 15,854,946       |
| <b>Operating profit</b>  | <i>5</i>      | <b>833,851</b>   | <b>1,224,572</b> | <b>1,303,418</b> |
| Finance income   | <i>5,31</i>   | 256,435          | 366,561          | 575,050          |
| Finance costs  | <i>5,31</i>   | (385,232)        | (433,616)        | (326,830)        |
| Gain relating to investments in subsidiaries, associates and joint ventures, net | <i>1,5,13</i> | 3,270,912        | 2,245,732        | 544,501          |
| <b>Profit before income tax</b>  | <i>5</i>      | <b>3,975,966</b> | <b>3,403,249</b> | <b>2,096,139</b> |
| Income tax expense   | <i>32</i>     | 843,978          | 745,654          | 436,038          |
| <b>Profit for the year</b>   |               | <b>3,131,988</b> | <b>2,657,595</b> | <b>1,660,101</b> |
| Attributable to :  |               |                  |                  |                  |
| Owners of the Parent Company   |               | 3,127,887        | 2,599,829        | 1,675,967        |
| Non-controlling interests  |               | 4,101            | 57,766           | (15,866)         |
| <b>Earnings per share</b>  | <i>33</i>     |                  |                  |                  |
| Basic and diluted earnings per share (in won)                                    |               | 44,066           | 36,582           | 23,497           |

*See accompanying notes to the consolidated financial statements.*



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Comprehensive Income****For the years ended December 31, 2018, 2017 and 2016**

| <i>(In millions of won)</i>  | <i>Note</i> | <b>2018</b>      | <b>2017</b>      | <b>2016</b>      |
|--|-------------|------------------|------------------|------------------|
| <b>Profit for the year</b>   |             | <b>3,131,988</b> | <b>2,657,595</b> | <b>1,660,101</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   | 21          | (41,490)         | 5,921            | (7,524)          |
| Valuation loss on financial assets at fair value through other comprehensive income        | 28,31       | (130,035)        |                  |                  |
| <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                 | 28,31       |                  | 158,440          | (223,981)        |
| Net change in other comprehensive income of investments in associates and joint ventures   | 13,28,31    | (14,577)         | (141,008)        | (9,939)          |
| Net change in unrealized fair value of derivatives   | 22,28,31    | 32,227           | 22,586           | (13,218)         |
| Foreign currency translation differences for foreign operations                            | 28          | 12,291           | (46,952)         | 7,331            |
| <b>Other comprehensive loss for the year, net of taxes</b>                                 |             | <b>(141,584)</b> | <b>(1,013)</b>   | <b>(247,331)</b> |
| <b>Total comprehensive income</b>  |             | <b>2,990,404</b> | <b>2,656,582</b> | <b>1,412,770</b> |
| <b>Total comprehensive income (loss) attributable to:</b>                                  |             |                  |                  |                  |
| Owners of the Parent Company   |             | 3,000,503        | 2,597,160        | 1,432,982        |
| Non-controlling interests  |             | (10,099)         | 59,422           | (20,212)         |

*See accompanying notes to the consolidated financial statements.*

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## SK TELECOM CO., LTD. and Subsidiaries

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2018, 2017 and 2016

*(In millions of won)*

|   | Attributable to owners |                                      |                |                   |                  |                   | Non-controlling interests | Total equity      |
|---|------------------------|--------------------------------------|----------------|-------------------|------------------|-------------------|---------------------------|-------------------|
|   | Share capital          | Capital surplus (deficit) and others | Hybrid bonds   | Retained earnings | Reserves         | Total             |                           |                   |
| <b>Balance at January 1, 2016</b>                 | <b>44,639</b>          | <b>(209,008)</b>                     | <b>398,518</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 comprehensive income:                       |                        |                                      |                |                   |                  |                   |                           |                   |
| Profit (loss) for the year                        |                        |                                      |                | 1,675,967         |                  | 1,675,967         | (15,866)                  | 1,660,101         |
| Other comprehensive loss<br>(note 13,21,22,28,31) |                        |                                      |                | (7,499)           | (235,486)        | (242,985)         | (4,346)                   | (247,331)         |
|   |                        |                                      |                | 1,668,468         | (235,486)        | 1,432,982         | (20,212)                  | 1,412,770         |
| Transactions with owners:                         |                        |                                      |                |                   |                  |                   |                           |                   |
| Annual dividends<br>(note 34)                     |                        |                                      |                | (635,482)         |                  | (635,482)         | (300)                     | (635,782)         |
| Interim dividends<br>(note 34)                    |                        |                                      |                | (70,609)          |                  | (70,609)          |                           | (70,609)          |
| Interest on hybrid bonds                          |                        |                                      |                | (16,840)          |                  | (16,840)          |                           | (16,840)          |
| Changes in ownership in subsidiaries              |                        | 10,269                               |                |                   |                  | 10,269            | 42,526                    | 52,795            |
|   |                        | 10,269                               |                | (722,931)         |                  | (712,662)         | 42,226                    | (670,436)         |
| <b>Balance at December 31, 2016</b>               | <b>44,639</b>          | <b>(198,739)</b>                     | <b>398,518</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>Balance at January 1, 2017</b>                 | <b>44,639</b>          | <b>(198,739)</b>                     | <b>398,518</b> | <b>15,953,164</b> | <b>(226,183)</b> | <b>15,971,399</b> | <b>145,031</b>            | <b>16,116,430</b> |
| Total comprehensive income:                       |                        |                                      |                |                   |                  |                   |                           |                   |
| Profit for the year                               |                        |                                      |                | 2,599,829         |                  | 2,599,829         | 57,766                    | 2,657,595         |
|   |                        |                                      |                | 5,875             | (8,544)          | (2,669)           | 1,656                     | (1,013)           |

Other comprehensive  
income  
(note 13,21,22,28,31)

|   |               |                  |                |                   |                  |                   |                |                   |
|---|---------------|------------------|----------------|-------------------|------------------|-------------------|----------------|-------------------|
|   |               | 2,605,704        | (8,544)        | 2,597,160         | 59,422           | 2,656,582         |                |                   |
| Transactions with<br>owners:            |               |                  |                |                   |                  |                   |                |                   |
| Annual dividends<br>(note 34)           |               | (635,482)        |                | (635,482)         | (281)            | (635,763)         |                |                   |
| Interim dividends<br>(note 34)          |               | (70,609)         |                | (70,609)          |                  | (70,609)          |                |                   |
| Interest on hybrid<br>bonds             |               | (16,840)         |                | (16,840)          |                  | (16,840)          |                |                   |
| Share option (note 26)                  | 414           |                  |                | 414               |                  | 414               |                |                   |
| Changes in ownership<br>in subsidiaries | (3,912)       | 9                |                | (3,903)           | (17,116)         | (21,019)          |                |                   |
|   | (3,498)       | (722,922)        |                | (726,420)         | (17,397)         | (743,817)         |                |                   |
| <b>Balance at<br/>December 31, 2017</b> | <b>44,639</b> | <b>(202,237)</b> | <b>398,518</b> | <b>17,835,946</b> | <b>(234,727)</b> | <b>17,842,139</b> | <b>187,056</b> | <b>18,029,195</b> |

*See accompanying notes to the consolidated financial statements.*



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Changes in Equity (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

|   | Attributable to owners |                                      |                |                   |                  | Total             | Non-controlling interests | Total equity      |
|---|------------------------|--------------------------------------|----------------|-------------------|------------------|-------------------|---------------------------|-------------------|
|   | Share capital          | Capital surplus (deficit) and others | Hybrid bonds   | Retained earnings | Reserves         |                   |                           |                   |
| <b>Balance, December 31, 2017</b>                       | <b>44,639</b>          | <b>(202,237)</b>                     | <b>398,518</b> | <b>17,835,946</b> | <b>(234,727)</b> | <b>17,842,139</b> | <b>187,056</b>            | <b>18,029,195</b> |
| Impact of adopting IFRS 15 (note 3)                     |                        |                                      |                | 1,900,049         |                  | 1,900,049         |                           | 1,900,049         |
| Impact of adopting IFRS 9 (note 3)                      |                        |                                      |                | 60,026            | (68,804)         | (8,778)           |                           | (8,778)           |
| <b>Balance, January 1, 2018</b>                         | <b>44,639</b>          | <b>(202,237)</b>                     | <b>398,518</b> | <b>19,796,021</b> | <b>(303,531)</b> | <b>19,733,410</b> | <b>187,056</b>            | <b>19,920,466</b> |
| Total comprehensive income:                             |                        |                                      |                |                   |                  |                   |                           |                   |
| Profit for the year                                     |                        |                                      |                | 3,127,887         |                  | 3,127,887         | 4,101                     | 3,131,988         |
| Other comprehensive income (loss) (note 13,21,22,28,31) |                        |                                      |                | (57,473)          | (69,911)         | (127,384)         | (14,200)                  | (141,584)         |
|   |                        |                                      |                | 3,070,414         | (69,911)         | 3,000,503         | (10,099)                  | 2,990,404         |
| Transactions with owners:                               |                        |                                      |                |                   |                  |                   |                           |                   |
| Annual dividends (note 34)                              |                        |                                      |                | (635,482)         |                  | (635,482)         |                           | (635,482)         |
| Interim dividends (note 34)                             |                        |                                      |                | (70,609)          |                  | (70,609)          |                           | (70,609)          |
| Share option (note 26)                                  |                        | 593                                  |                |                   |                  | 593               | 196                       | 789               |
| Interest on hybrid bonds                                |                        |                                      |                | (15,803)          |                  | (15,803)          |                           | (15,803)          |
| Repayments of hybrid bonds (note 25)                    |                        | (1,482)                              | (398,518)      |                   |                  | (400,000)         |                           | (400,000)         |
| Proceeds from issuance of hybrid bonds (note 25)        |                        |                                      | 398,759        |                   |                  | 398,759           |                           | 398,759           |
| Comprehensive stock exchange (note 12)                  |                        | 129,595                              |                |                   |                  | 129,595           |                           | 129,595           |
|   |                        | 329,856                              |                |                   |                  | 329,856           | (298,725)                 | 31,131            |

|   |               |                |                |                   |                  |                   |                  |                   |
|---|---------------|----------------|----------------|-------------------|------------------|-------------------|------------------|-------------------|
| <b>Changes in ownership in subsidiaries</b> |               |                |                |                   |                  |                   |                  |                   |
|   |               | 458,562        | 241            | (721,894)         |                  | (263,091)         | (298,529)        | (561,620)         |
| <b>Balance at</b>                           |               |                |                |                   |                  |                   |                  |                   |
| <b>December 31, 2018</b>                    | <b>44,639</b> | <b>256,325</b> | <b>398,759</b> | <b>22,144,541</b> | <b>(373,442)</b> | <b>22,470,822</b> | <b>(121,572)</b> | <b>22,349,250</b> |

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2018, 2017 and 2016**

| <i>(In millions of won)</i>   | <b>2018</b>      | <b>2017</b>      | <b>2016</b>      |
|---|------------------|------------------|------------------|
| <b>Cash flows from operating activities:</b>                                |                  |                  |                  |
| Cash generated from operating activities                                    |                  |                  |                  |
| Profit for the year   | 3,131,988        | 2,657,595        | 1,660,101        |
| Adjustments for income and expenses (note 39)                               | 1,568,919        | 2,096,764        | 3,039,561        |
| Changes in assets and liabilities related to operating activities (note 39) | 25,949           | (261,468)        | 13,764           |
|   | 4,726,856        | 4,492,891        | 4,713,426        |
| Interest received   | 59,065           | 66,713           | 44,602           |
| Dividends received  | 195,671          | 106,674          | 98,267           |
| Interest paid   | (255,189)        | (234,127)        | (245,236)        |
| Income tax paid   | (393,823)        | (576,331)        | (367,891)        |
| <b>Net cash provided by operating activities</b>                            | <b>4,332,580</b> | <b>3,855,820</b> | <b>4,243,168</b> |
| <b>Cash flows from investing activities:</b>                                |                  |                  |                  |
| Cash inflows from investing activities:                                     |                  |                  |                  |
| Decrease in short-term financial instruments, net                           |                  |                  | 222,322          |
| Collection of short-term loans  | 117,610          | 216,700          | 238,980          |
| Decrease in long-term financial instruments                                 | 5                | 27               | 28               |
| Proceeds from disposals of long-term investment securities                  | 371,816          | 129,726          | 555,519          |
| Proceeds from disposals of investments in associates and joint ventures     | 74,880           | 5,925            | 66,852           |
| Proceeds from disposals of property and equipment                           | 58,256           | 29,368           | 22,549           |
| Proceeds from disposals of intangible assets                                | 5,851            | 8,848            | 16,532           |
| Collection of long-term loans   | 10,075           | 6,205            | 1,960            |
| Decrease in deposits  | 7,490            | 24,550           | 14,894           |
| Proceeds from disposals of other non-current assets                         | 1,186            | 1,185            | 728              |
| Proceeds from disposals of subsidiaries                                     |                  | 30,132           |                  |
| Cash inflow from business combination                                       | 38,925           | 4,112            |                  |
| Receipt of government grants  |                  |                  | 300              |
|   | 686,094          | 456,778          | 1,140,664        |
| Cash outflows for investing activities:                                     |                  |                  |                  |
| Increase in short-term financial instruments, net                           | (373,450)        | (156,012)        |                  |
| Increase in short-term investment securities, net                           | (49,791)         | (28,975)         | (6,334)          |
| Increase in short-term loans  | (112,319)        | (205,878)        | (239,303)        |
| Increase in long-term loans   | (6,057)          | (5,869)          | (32,287)         |
| Increase in long-term financial instruments                                 | (2)              | (2,034)          | (342)            |

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|  |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| Acquisitions of long-term investment securities              | (19,114)           | (19,328)           | (30,949)           |
| Acquisitions of investments in associates and joint ventures | (206,340)          | (193,100)          | (130,388)          |
| Acquisitions of property and equipment                       | (2,792,390)        | (2,715,859)        | (2,490,455)        |
| Acquisitions of intangible assets                            | (503,229)          | (145,740)          | (635,387)          |
| Increase in deposits   | (8,591)            | (26,377)           | (12,943)           |
| Increase in other non-current assets                         | (5,927)            | (47)               | (763)              |
| Cash outflow for business combination                        | (654,685)          | (26,566)           | (23,530)           |
| Cash outflow for disposal and liquidation of subsidiaries    | (1,924)            | (1,600)            | (191)              |
|  | (4,733,819)        | (3,527,385)        | (3,602,872)        |
| <b>Net cash used in investing activities</b>                 | <b>(4,047,725)</b> | <b>(3,070,607)</b> | <b>(2,462,208)</b> |

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Cash Flows (Continued)****For the years ended December 31, 2018, 2017 and 2016**

| <i>(In millions of won)</i>   | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|--------------------|
| <b>Cash flows from financing activities:</b>  |                    |                    |                    |
| Cash inflows from financing activities:   |                    |                    |                    |
| Proceeds from short-term borrowings, net  |                    | 127,386            |                    |
| Proceeds from issuance of debentures  | 1,809,641          | 973,291            | 776,727            |
| Proceeds from long-term borrowings  | 1,920,114          | 120,000            | 49,000             |
| Proceeds from issuance of hybrid bonds  | 398,759            |                    |                    |
| Cash inflows from settlement of derivatives   | 23,247             | 188                | 251                |
| Cash received from transfer of interests in subsidiaries to non-controlling interests | 499,926            | 40,938             | 35,646             |
|   | <b>4,651,687</b>   | <b>1,261,803</b>   | <b>861,624</b>     |
| Cash outflows for financing activities:   |                    |                    |                    |
| Decrease in short-term borrowings, net  | (87,701)           |                    | (257,386)          |
| Repayments of long-term account payables-other  | (305,644)          | (305,476)          | (122,723)          |
| Repayments of debentures  | (1,487,970)        | (842,733)          | (770,000)          |
| Repayments of long-term borrowings  | (1,780,708)        | (32,701)           | (33,387)           |
| Repayments of hybrid bonds  | (400,000)          |                    |                    |
| Cash outflows from settlement of derivatives  | (29,278)           | (105,269)          |                    |
| Payments of finance lease liabilities   |                    |                    | (26)               |
| Payments of dividends   | (706,091)          | (706,091)          | (706,091)          |
| Payments of interest on hybrid bonds  | (15,803)           | (16,840)           | (16,840)           |
| Transactions with non-controlling shareholders  | (76,805)           | (79,311)           |                    |
|   | <b>(4,890,000)</b> | <b>(2,088,421)</b> | <b>(1,906,453)</b> |
| <b>Net cash used in financing activities</b>  | <b>(238,313)</b>   | <b>(826,618)</b>   | <b>(1,044,829)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b>                           | <b>46,542</b>      | <b>(41,405)</b>    | <b>736,131</b>     |
| Cash and cash equivalents at beginning of the year                                    | 1,457,735          | 1,505,242          | 768,922            |
| Effects of exchange rate changes on cash and cash equivalents                         | 2,422              | (6,102)            | 189                |
| <b>Cash and cash equivalents at end of the year</b>                                   | <b>1,506,699</b>   | <b>1,457,735</b>   | <b>1,505,242</b>   |

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2018, 2017 and 2016****1. Reporting Entity****(1) General**

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

The Parent Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2018, 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.                                   | 21,624,120          | 26.78                                    |
| National Pension Service                                | 7,879,982           | 9.76                                     |
| Institutional investors and other minority shareholders | 42,365,726          | 52.47                                    |
| Treasury shares   | 8,875,883           | 10.99                                    |
|   | 80,745,711          | 100.00                                   |

These consolidated 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 December 31, 2018 and 2017 is as follows:

|  |                     |          | Ownership<br>(%)(*1)  |                  |       |
|--|---------------------|----------|---|------------------|-------|
|  |                     |          | Dec. 31,<br>2018  | Dec. 31,<br>2017 |       |
| Subsidiaries<br>owned by the<br>Parent | Subsidiary          | Location | Primary business  |                  |       |
|  | SK Telink Co., Ltd. | Korea    | Telecommunication and<br>Mobile Virtual Network<br>Operator service | 100.0            | 100.0 |

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| Company |                               |       |  |       |       |
|---------|-------------------------------|-------|--|-------|-------|
|         | SK Communications Co., Ltd.   | Korea | Internet website services  | 100.0 | 100.0 |
|         | SK Broadband Co., Ltd.        | Korea | Telecommunication services   | 100.0 | 100.0 |
|         | PS&Marketing Corporation      | Korea | Communications device retail business                                | 100.0 | 100.0 |
|         | SERVICE ACE Co., Ltd.         | Korea | Call center management service                                       | 100.0 | 100.0 |
|         | SERVICE TOP Co., Ltd.         | Korea | Call center management service                                       | 100.0 | 100.0 |
|         | Network O&S Co., Ltd.         | Korea | Base station maintenance service                                     | 100.0 | 100.0 |
|         | SK Planet Co., Ltd.(*2)       | Korea | Telecommunication service  | 98.7  | 98.1  |
|         | Eleven Street Co., Ltd.(*2,4) | Korea | E-commerce   | 81.8  |       |
|         | IRIVER LIMITED (*3)           | Korea | Manufacturing digital audio players and other portable media devices | 52.6  | 45.9  |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

|   | Subsidiary                                | Location       | Primary business                               | Ownership<br>(%)(*1) |                  |
|---|---|----------------|--|----------------------|------------------|
|   |   |                |  | Dec. 31,<br>2018     | Dec. 31,<br>2017 |
|   | 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.(*4)                 | Singapore      | Used device distribution business              |                      | 73.3             |
|   | SKT Americas, Inc.                        | USA            | Information gathering and consulting           | 100.0                | 100.0            |
|   | YTK Investment Ltd.                       | Cayman Islands | Investment association                         | 100.0                | 100.0            |
|   | Atlas Investment                          | Cayman Islands | Investment association                         | 100.0                | 100.0            |
|   | SK techx Co., Ltd.(*4)                    | Korea          | System software development and supply         |                      | 100.0            |
|   | One Store Co., Ltd.                       | Korea          | Telecommunication services                     | 65.5                 | 65.5             |
|   | SK Telecom Japan Inc.(*4)                 | Japan          | Information gathering and consulting           | 100.0                |                  |
|   | id Quantique SA(*4)                       | Switzerland    | Quantum information and communications service | 65.6                 | 4.6              |
|   | Quantum Innovation Fund I(*4)             | Korea          | Investment (holdings company)                  | 59.9                 |                  |
|   | Life & Security Holdings Co., Ltd.(*4)    | Korea          | Investment(holdings company)                   | 55.0                 |                  |
|   | SK Infosec Co., Ltd.(*4)                  | Korea          | Information security service                   | 100.0                |                  |
| Subsidiaries owned by SK Planet Co., Ltd. | SK m&service Co., Ltd.                    | Korea          | Data base and internet website service         | 100.0                | 100.0            |
|   | SK Planet Japan, K. K.                    | Japan          | Digital contents sourcing service              | 79.5                 | 79.5             |
|   | SK Planet Global PTE. Ltd.(*4)            | Singapore      | Digital contents sourcing service              |                      | 100.0            |
|   | SKP GLOBAL HOLDINGS PTE. LTD.             | Singapore      | Investment                                     | 100.0                | 100.0            |
|   | SKP America LLC.                          | USA            |  | 100.0                | 100.0            |



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|   |          | Digital contents sourcing service                             |       |       |
|---|----------|---|-------|-------|
| shopkick Management Company, Inc.       | USA      | Investment  | 100.0 | 100.0 |
| shopkick, Inc.                          | USA      | Reward points-based in-store shopping application development | 100.0 | 100.0 |
| 11street (Thailand) Co., Ltd.(*4)       | Thailand | Electronic commerce   |       | 100.0 |
| K-net Culture and Contents Venture Fund | Korea    | Capital investing in startups                                 | 59.0  | 59.0  |
| Hello Nature Ltd.(*4)                   | Korea    | Retail of agro-fisheries and livestock                        | 49.9  | 100.0 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

|  | Subsidiary   | Location   | Primary business   | Ownership<br>(%)(*1) |                  |
|--|--|--|--|----------------------|------------------|
|  |  |  |  | Dec. 31,<br>2018     | Dec. 31,<br>2017 |
| Subsidiaries<br>owned by<br>IRIVER<br>LIMITED                        | iriver Enterprise Ltd.   | Hong<br>Kong   | Management of Chinese<br>subsidiaries                                | 100.0                | 100.0            |
|  | iriver Inc.  | USA  | Marketing and sales in<br>North America                              | 100.0                | 100.0            |
|  | iriver China Co., Ltd.   | China  | Sales of and<br>manufacturing MP3<br>and 4                           | 100.0                | 100.0            |
|  | Dongguan iriver Electronics Co., Ltd.  | China  | Sales of and<br>manufacturing e-book                                 | 100.0                | 100.0            |
|  | groovers Japan Co., Ltd.   | Japan  | Digital music contents<br>sourcing and distribution<br>service       | 100.0                | 100.0            |
|  | LIFE DESIGN COMPANY Inc.<br>(formerly, S.M. LIFE DESIGN<br>COMPANY JAPAN INC.) | Japan  | Sale of goods in Japan   | 100.0                | 100.0            |
|  | S.M. Mobile Communications JAPAN<br>Inc.(*4)                                   | Japan  | Digital contents service   |                      | 100.0            |
| groovers Inc.(*4)  | Korea  | Sale of contents and<br>Mastering Quality Sound<br>album | 100.0  | 44.2                 |                  |
| Subsidiaries<br>owned by SK<br>Telink Co.,<br>Ltd.                   | NSOK Co., Ltd.(*4)   | Korea  | Security and maintenance<br>services                                 |                      | 100.0            |
|  | SK TELINK VIETNAM Co., Ltd.(*4)  | Vietnam  | Communications device<br>retail business                             | 100.0                |                  |
| Subsidiaries<br>owned by<br>Life & Security<br>Holdings Co.,<br>Ltd. | ADT CAPS Co., Ltd.(*4)   | Korea  | Unmanned security  | 100.0                |                  |
|  | CAPSTEC Co., Ltd.(*4)  | Korea  | Manned security  | 100.0                |                  |
|  | ADT SECURITY Co., Ltd.(*4)   | Korea  | Sales and trade of<br>anti-theft devices and<br>surveillance devices | 100.0                |                  |
| Subsidiary<br>owned by id<br>Quantique SA                            | Id Quantique LLC(*4)   | Korea  | Quantum information and<br>communications service                    | 100.0                |                  |
| Subsidiaries<br>owned by SK<br>Broadband Co.,<br>Ltd.                | Home & Service Co., Ltd.   | Korea  | Operation of information<br>and communications<br>facility           | 100.0                | 100.0            |
|  | SK stoa Co., Ltd.  | Korea  |  | 100.0                | 100.0            |

|            |                                 |                   | Other telecommunication<br>retail business |       |       |
|------------|---------------------------------|-------------------|--|-------|-------|
| Others(*5) | SK Telecom Innovation Fund, L.P | USA               | Investment                                 | 100.0 | 100.0 |
|            | SK Telecom China Fund I L.P.    | Cayman<br>Islands | Investment                                 | 100.0 | 100.0 |

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

(\*2) SK Planet Co., Ltd. spun off the business unit of 11st (E-commerce and Internet-related business) and incorporated Eleven Street Co., Ltd. on August 31, 2018. 80.3% of the shares issued by Eleven Street Co., Ltd. are owned by the Parent Company and 1.5% are held by SK Planet Co., Ltd. H&Q Korea Partners, LLC acquired 1,863,093 shares of redeemable convertible preferred stocks for 500,000 million in cash and owns 18.2% of the shares issued by Eleven Street Co., Ltd. The Parent Company is obliged to guarantee at least 1% of dividend per

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

annum of the preferred stock's issue price to the investor by the date on which Eleven Street Co., Ltd. is publicly listed or the date the qualifying listing period is completed, whichever occurs first (see note 29). The present value of obligatory dividends amounting to 23,191 million are recognized as financial liabilities as of December 31, 2018.

(\*3) The Parent Company participated in a third party allotment offering to itself and to SM Entertainment Co., Ltd., and acquired 7,420,091 shares out of 7,990,867 new shares that were issued by the subsidiary. As a result, the ownership interest has changed from 45.9% to 52.6%.

(\*4) Details of changes in the consolidation scope for the year ended December 31, 2018 are presented and explained separately in Note 1-(4).

(\*5) Others are owned together by Atlas Investment and another subsidiary of the Parent Company.

**(3) Condensed financial information of subsidiaries**

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

| <i>(In millions of won)</i>             | As of December 31, 2018 |                   |              | 2018      |               |
|---|-------------------------|-------------------|--------------|-----------|---------------|
|   | Total assets            | Total liabilities | Total equity | Revenue   | Profit (loss) |
| SK Telink Co., Ltd.(*1)                 | 493,972                 | 107,565           | 386,407      | 373,019   | 39,962        |
| Eleven Street Co., Ltd.(*2)             | 1,045,946               | 495,907           | 550,039      | 228,000   | (9,507)       |
| SK m&service Co., Ltd.                  | 97,924                  | 48,182            | 49,742       | 208,936   | (119)         |
| SK Communications Co., Ltd.             | 79,646                  | 28,458            | 51,188       | 41,604    | (10,323)      |
| SK Broadband Co., Ltd.                  | 4,266,458               | 2,682,236         | 1,584,222    | 3,158,877 | 154,999       |
| K-net Culture and Contents Venture Fund | 147,691                 | 20,873            | 126,818      |           | 58,584        |
| PS&Marketing Corporation                | 432,699                 | 216,624           | 216,075      | 1,587,203 | 76            |
| SERVICE ACE Co., Ltd.                   | 76,770                  | 45,229            | 31,541       | 198,164   | 4,217         |
| SERVICE TOP Co., Ltd.                   | 74,452                  | 49,400            | 25,052       | 205,574   | 5,276         |
| Network O&S Co., Ltd.                   | 81,773                  | 42,257            | 39,516       | 265,183   | 1,089         |
| SK Planet Co., Ltd.                     | 753,630                 | 436,501           | 317,129      | 672,648   | (436,106)     |
| IRIVER LIMITED(*3)                      | 204,479                 | 44,620            | 159,859      | 137,849   | (21,314)      |
| SKP America LLC.                        | 383,697                 |                   | 383,697      |           | (370)         |
| Life & Security Holdings Co., Ltd.(*4)  | 2,611,838               | 2,261,456         | 350,382      | 197,487   | 6,038         |

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|                          |         |        |         |         |          |
|--------------------------|---------|--------|---------|---------|----------|
| SK Infosec Co., Ltd.(*5) | 183,896 | 54,301 | 129,595 |         |          |
| One Store Co., Ltd.      | 116,716 | 65,890 | 50,826  | 110,284 | (13,903) |
| Home & Service Co., Ltd. | 87,159  | 45,341 | 41,818  | 325,177 | (1,264)  |
| SK stoa Co., Ltd.        | 41,305  | 37,560 | 3,745   | 116,459 | (16,987) |

- (\*1) The condensed financial information of SK Telink Co., Ltd. is consolidated financial information including SK TELINK VIETNAM Co., Ltd.
- (\*2) The condensed financial information of Eleven Street Co., Ltd. includes four months of revenue and profit and loss since the spin-off on August 31, 2018.
- (\*3) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and six other subsidiaries of IRIVER LIMITED.
- (\*4) The condensed financial information of Life & Security Holdings Co., Ltd. is consolidated financial information including ADT CAPS Co., Ltd. and two other subsidiaries, including 3 months of revenue and profit and loss since Life & Security Holdings Co., Ltd. acquired by the Parent Company on October 1, 2018.
- (\*5) SK Infosec Co., Ltd. was acquired by the Parent Company and newly included in consolidation as of December 27, 2018.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

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

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

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

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

| <i>(In millions of won)</i> | As of December 31, 2016 |                   |              | 2016    |               |
|-----------------------------|-------------------------|-------------------|--------------|---------|---------------|
|                             | Total assets            | Total liabilities | Total equity | Revenue | Profit (loss) |
| SK Telink Co., Ltd.         | 440,956                 | 122,741           | 318,215      | 406,930 | 61,585        |
| SK m&service Co., Ltd.      | 107,768                 | 56,596            | 51,172       | 173,816 | 4,958         |

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|                             |           |           |           |           |          |
|-----------------------------|-----------|-----------|-----------|-----------|----------|
| 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) |

(\*1) The separate financial information of SK Planet Co., Ltd. includes pre-merger income and expenses of Commerce Planet Co., Ltd. prior to the merger date of February 1, 2016.

(\*2) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and five other subsidiaries of IRIVER LIMITED.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****(4) Changes in subsidiaries**

The list of subsidiaries that were newly included in consolidation during the year ended December 31, 2018 is as follows:

| <b>Subsidiary</b>                  | <b>Reason</b>   |
|------------------------------------|---|
| Eleven Street Co., Ltd.            | Spun-off from SK Planet Co., Ltd.                             |
| id Quantique SA                    | Acquired additional ownership interests by the Parent Company |
| SK Telecom Japan Inc.              | Established by the Parent Company                             |
| groovers Inc.                      | Acquired additional ownership interests by IRIVER LIMITED     |
| SK TELINK VIETNAM Co., Ltd.        | Established by SK Telink Co., Ltd.                            |
| Quantum Innovation Fund I          | Acquired by the Parent Company                                |
| Life & Security Holdings Co., Ltd. | Acquired by the Parent Company                                |
| ADT CAPS Co., Ltd.                 | Subsidiary of Life & Security Holdings Co., Ltd.              |
| CAPSTEC Co., Ltd.                  | Subsidiary of Life & Security Holdings Co., Ltd.              |
| ADT SECURITY Co., Ltd.             | Subsidiary of Life & Security Holdings Co., Ltd.              |
| SK Infosec Co., Ltd.               | Acquired by the Parent Company                                |
| Id Quantique LLC                   | Established by id Quantique SA                                |

The list of subsidiaries that were excluded from consolidation during the year ended December 31, 2018 is as follows:

| <b>Subsidiary</b>                     | <b>Reason</b>                                     |
|---------------------------------------|---|
| 11street (Thailand) Co., Ltd.         | Disposed by SK Planet Co., Ltd.                   |
| Hello Nature Ltd.                     | Loss of control due to third parties' investments |
| SK techx Co., Ltd.                    | Merged into SK Planet Co., Ltd.                   |
| S.M. Mobile Communications JAPAN Inc. | Merged into groovers Japan Co., Ltd.              |
| SK Planet Global PTE. Ltd.            | Liquidated  |
| NSOK Co., Ltd.                        | Merged into ADT CAPS Co., Ltd.                    |
| SKT Vietnam PTE. Ltd.                 | Liquidated  |





**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(5) *The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2018, 2017 and 2016 are as follows. There were no dividends paid during the years ended December 31, 2017 and 2016 by subsidiaries of which non-controlling interests are significant.*

(In millions of won)

|  | <b>K-net Culture<br/>and Contents<br/>Venture Fund</b> | <b>RIVER LIMITED</b> | <b>One Store Co.,<br/>Ltd.</b> | <b>Eleven Street Co.,<br/>Ltd.</b> | <b>Life &amp; Security<br/>Holdings Co., Ltd.<br/>(* )</b> |
|--|--|----------------------|--------------------------------|------------------------------------|--|
| Ownership of<br>non-controlling interests<br>(%)                         | 41.00  | 47.36                | 34.46                          | 18.19                              | 45.00  |
| <b>As of December 31, 2018</b>   |  |                      |                                |                                    |  |
| Current assets   | 118  | 150,199              | 92,844                         | 923,153                            | 124,091  |
| Non-current assets   | 147,573  | 54,465               | 23,872                         | 122,793                            | 2,487,747  |
| Current liabilities  | (20,873)   | (42,142)             | (63,440)                       | (486,391)                          | (243,064)  |
| Non-current liabilities  |  | (2,663)              | (2,450)                        | (9,516)                            | (2,018,392)  |
| Net assets   | 126,818  | 159,859              | 50,826                         | 550,039                            | 350,382  |
| Fair value adjustment and<br>others                                      |  |                      |                                | (23,191)                           | (1,216,347)  |
| Net assets on the<br>consolidated financial<br>statements                | 126,818  | 159,859              | 50,826                         | 526,848                            | (865,965)  |
| Carrying amount of<br>non-controlling interests                          | 51,995   | 76,204               | 17,711                         | 95,811                             | (389,684)  |
| <b>2018</b>  |  |                      |                                |                                    |  |
| Revenue  |  | 137,849              | 110,284                        | 228,000                            | 197,487  |
| Profit (Loss) for the year   | 58,584   | (21,314)             | (13,903)                       | (9,507)                            | 6,038  |
| Depreciation of the fair<br>value adjustment and<br>others               |  |                      |                                | (161)                              | (2,954)  |
| Profit(Loss) for the year<br>on the consolidated<br>financial statements | 58,584   | (21,314)             | (13,903)                       | (9,668)                            | 3,084  |
| Total comprehensive<br>income (loss)                                     | 27,773   | (21,125)             | (14,386)                       | (8,897)                            | (991)  |
|  | 24,019   | (10,094)             | (4,791)                        | (1,758)                            | 1,387  |

Profit (Loss) attributable  
to non-controlling  
interests

|   |           |          |          |           |           |
|---|-----------|----------|----------|-----------|-----------|
| Net cash provided by<br>(used in) operating<br>activities                                   | 115,566   | 13,635   | 7,181    | (69,347)  | (23,451)  |
| Net cash provided by<br>(used in) investing<br>activities                                   | 600       | (10,169) | (11,482) | (470,211) | (139,430) |
| Net cash provided by<br>(used in) financing<br>activities                                   | (116,150) | 69,267   | 5        | 494,923   | 124,076   |
| Net increase(decrease) in<br>cash and cash equivalents                                      | 16        | 72,733   | (4,296)  | (44,635)  | (38,805)  |
| Dividend paid to<br>non-controlling interests<br>during the year ended<br>December 31, 2018 | 36,178    |          |          |           |           |

(\*) The financial information of Life & Security Holdings Co., Ltd. is related to the period subsequent to the acquisition by the Parent Company on October 1, 2018 and includes fair value adjustments from the business combination.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

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

*(In millions of won)*

|  | <b>SK Communications Co., Ltd. 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 Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2018, 2017 and 2016**

**2. Basis of Preparation**

**(1) Statement of compliance**

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ( IFRS ), as issued by the International Accounting Standards Board ( IASB ).

The consolidated financial statements were authorized for issuance by the Board of Directors on January 30, 2019.

**(2) Basis of measurement**

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

derivative financial instruments measured at fair value;

financial instruments measured at fair value through profit or loss;

financial instruments measured at fair value through other comprehensive income;

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

**(3) Functional and presentation currency**

Financial statements of Group entities within the Group are prepared in functional currency of each group entity, which is the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

**(4) Use of estimates and judgments**

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

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

*1) Critical judgments*

Information about critical judgments in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in notes for the following areas: consolidation (whether the Group has de facto control over an investee), determination of amortization period of incremental costs of obtaining a contract, determination of stand-alone selling prices and classification of lease.

*2) Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: loss allowance (notes 7 and 36), estimated useful lives of costs to obtain a contract (notes 3 (1) and 8), property and equipment and intangible assets (notes 4 (8), (10), 14 and 16), impairment of goodwill (notes 4 (13) and 15), recognition of provision (notes 4 (18) and 19), measurement of defined benefit liabilities (notes 4 (17) and 21), and recognition of deferred tax assets (liabilities) (notes 4 (26) and 19).

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2018, 2017 and 2016**

3) *Fair value measurement*

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

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

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

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

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

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

Information about assumptions used for fair value measurements are included in note 36.

**3. Changes in accounting policies**

The significant accounting policies applied by the Group in these consolidated financial statements are the same for all periods presented, except for the changes in accounting policies described below.

**(1) IFRS 15, Revenue from Contracts with Customers**



IFRS 15, *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. IFRS 15 replaced the revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts*, SIC 31, *Revenue: Barter Transactions Involving Advertising Services*, International Financial Reporting Interpretations Committee ( IFRIC ) 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, and IFRIC 18, *Transfers of Assets from Customers*.

The Group has initially applied IFRS 15, *Revenue from Contracts with Customers*, from January 1, 2018 using the cumulative effect method with the effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at January 1, 2018. The Group applied IFRS 15 only to contracts that were not completed at the date of initial application, which is January 1, 2018 using the practical expedient permitted by IFRS 15.

*1) Identification of performance obligations in the contract*

A substantial portion of the Group's revenue is generated from providing wireless telecommunications services. IFRS 15 requires the Group to evaluate goods or services promised to customers to determine if there are performance obligations other than wireless telecommunications service that should be accounted for separately. In the case of providing a wireless telecommunications service and selling a handset together to one customer, the

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

Group allocates considerations from the customer between handset sales revenue and wireless telecommunications service revenue. The handset sales revenue is recognized when handset is delivered and the wireless telecommunications service revenue is recognized as revenue over the period of the contract term as stated in the subscription contract.

The Group also determined that pursuant to IFRS 15, the installation service provided with the fixed-line telecommunication services is not distinct from the related fixed-line telecommunication services such as high speed broadband Internet or Internet Protocol TV (IPTV) services. Therefore, the Group concluded that the installation service and related fixed-line telecommunication service together represents one performance obligation. Therefore, installation fee is recognized as revenue over the contract term in which the Group has to provide fixed-line telecommunication services. The Group recognized 23,063 million as contract liability on the consolidated statement of financial position as of January 1, 2018 due to such change in the accounting policies.

2) *Allocation of the transaction price to each performance obligations*

In accordance with IFRS 15, the Group allocates the transaction price of a contract to each performance obligation on a relative stand-alone selling price basis. The Group uses adjusted market assessment approach method for estimating the stand-alone selling price of a good or service. However, in some circumstances, the Group uses expected cost plus a margin approach.

In the case of providing a telecommunications service and selling a handset together to one customer, the Group allocates the transaction price based on relative stand-alone selling prices. As a result of applying IFRS 15, the Group recognized 112,690 million and 30,363 million of considerations allocated to handset sales revenue as contract assets and long-term contract assets, respectively, at January 1, 2018.

3) *Incremental costs to acquire a contract*

The Group pays commissions to its retail stores and authorized dealers in connection with acquiring service contracts. The commissions paid to these parties historically were expensed as incurred and recognized as operating expenses. These commissions would not have been paid if there have been no binding contracts with subscribers. IFRS 15 requires the Group to capitalize certain costs associated with commissions paid to obtain new customer contracts and amortize them over the expected contract periods with customers that were calculated based on the Group's historical subscriber churn rate. The Group identifies units for recognizing and amortizing incremental costs of obtaining contracts by service. As a result of applying IFRS 15, the Group recognized 1,695,704 and 693,393 million of prepaid expenses and long-term prepaid expenses respectively as at the date of initial application, January 1, 2018

4) *Presentation of contract liability*

Under IFRS 15, the Group reclassified the receipts in advance and unearned revenue amounting to 109,555 million that are related to prepaid rate plans and customer loyalty program to contract liabilities as at January 1, 2018.

5) *Impact of adopting IFRS 15 on the consolidated financial statements*

If the previous standards were applied to the Group's consolidated statement of financial position as of December 31, 2018, prepaid expenses and long-term prepaid expenses would have been decreased by 1,577,992 million and 799,607 million, respectively, and contract assets and long-term contract assets would have been decreased by 90,072 million and 43,821 million. As a result, total assets would have been decreased by 2,503,025 million with 8,467 million increase in deferred tax assets. In addition, contract liabilities, long-term contract liabilities and deferred tax liabilities would have been decreased by 140,711 million, 43,102 million and 664,240 million, respectively, while other liabilities such as receipts in advance and

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unearned revenue would have been increased by 156,880 million. As a result, total liabilities would have been decreased by 691,173 million. In relation to these changes in assets and liabilities, retained earnings and capital surplus and others would have been decreased by 1,811,780 million, 4,596 million respectively. Non-controlling interests would have been increased by 4,524 million.

If the previous standards were applied to the Group's consolidated statement of income for year ended December 31, 2018, revenues, advertising expenses and commission expenses would have been increased by 85,801 million, 51,204 million and 12,714 million respectively, for which the total operating expenses would have been increased by 66,137 million resulting in operating profit and profit before income tax to be increased by 19,664 million. As a result, profit for the year would have been increased by 88,197 million with decrease in income tax expense of 68,533 million.

The adoption of IFRS 15 did not have a material impact on the Group's consolidated statement of cash flows for the year ended December 31, 2018.

**(2) IFRS 9, Financial Instruments**

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The Group adopted IFRS 9, *Financial Instruments*, from January 1, 2018, and the Group has taken an exemption not to restate the consolidated financial statements for prior years with respects to transition requirements.

The following table explains the impact of transition to IFRS 9 on the opening balance of reserves and retained earnings as at January 1, 2018.

(In millions of won)

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

**1) Classification of financial assets and financial liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, available-for-sale, and loans and receivables.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI-debt investment; FVOCI-equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. If a contract contains embedded derivatives and the host is an asset within the scope of IFRS 9, then such embedded derivatives are not separated.

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

it is held within a business model whose objective is to hold assets to collect contractual cash flow; and

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**For the years ended December 31, 2018, 2017 and 2016**

its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

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

it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

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

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

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

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

|                                    |  |
|------------------------------------|--|
| Financial assets at FVTPL          | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.   |
| Financial assets at amortized cost | These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. |
| Debt investments at FVOCI          | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and   |

losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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The following table explains the original measurement categories under IAS 39 and the changes in measurement categories under IFRS 9 for each class of the Group's financial assets as at the date of initial application, January 1, 2018:

(In millions of won)

|                                      | Original<br>classification<br>under IAS 39 | New<br>classification<br>under IFRS 9 | Original carrying<br>amount<br>under<br>IAS 39 | New carrying<br>amount under<br>IFRS 9 | Difference |
|--------------------------------------|--|---------------------------------------|--|--|------------|
| <b>Short-term financial assets:</b>  |  |                                       |  |  |            |
| Cash and cash equivalents            | Amortized cost                             | Amortized cost                        | 1,457,735                                      | 1,457,735                              |            |
| Short-term financial instruments     | Amortized cost                             | Amortized cost                        | 616,780  | 616,780                                |            |
| Short-term investment securities(*1) | Available-for-sale                         | FVTPL                                 | 47,383   | 47,383                                 |            |
| Short-term investment securities     | Designated as at FVTPL                     | FVTPL                                 | 97,003   | 97,003                                 |            |
| Accounts receivable trade            | Amortized cost                             | Amortized cost                        | 2,126,007                                      | 2,113,057                              | (12,950)   |
| Short-term loans                     | Amortized cost                             | Amortized cost                        | 62,830   | 62,830                                 |            |
| Accounts receivable other(*3)        | Amortized cost                             | FVTPL                                 | 830,321  | 830,321                                |            |
| Accounts receivable other            | Amortized cost                             | Amortized cost                        | 430,514  | 430,415                                | (99)       |
| Accrued revenue                      | Amortized cost                             | Amortized cost                        | 3,979  | 3,979                                  |            |
| Guarantee deposits                   | Amortized cost                             | Amortized cost                        | 3,927  | 3,927                                  |            |
|                                      |  |                                       | 5,676,479                                      | 5,663,430                              | (13,049)   |
| <b>Long-term financial assets:</b>   |  |                                       |  |  |            |
| Long-term financial instruments      | Amortized cost                             | Amortized cost                        | 1,222  | 1,222                                  |            |
| Long-term investment securities(*1)  | Available-for-sale                         | FVTPL                                 | 173,394  | 169,005                                | (4,389)    |
| Long-term investment securities(*2)  | Available-for-sale                         | FVOCI                                 | 713,613  | 719,054                                | 5,441      |
| Long-term accounts receivable trade  | Amortized cost                             | Amortized cost                        | 12,748   | 12,748                                 |            |
| Long-term loans                      | Amortized cost                             | Amortized cost                        | 50,874   | 50,874                                 |            |
|                                      | Amortized cost                             | FVTPL                                 | 243,742  | 243,742                                |            |



|   |                                |                                |           |           |           |
|---|--------------------------------|--------------------------------|-----------|-----------|-----------|
| Long-term accounts receivable other(*3) |                                |                                |           |           |           |
| Long-term accounts receivable other     | Amortized cost                 | Amortized cost                 | 43,306    | 43,306    |           |
| Guarantee deposits                      | Amortized cost                 | Amortized cost                 | 292,590   | 292,590   |           |
| Derivative financial assets             | Derivatives hedging instrument | Derivatives hedging instrument | 21,902    | 21,902    |           |
| Derivative financial assets(*1)         | Designated as at FVTPL         | FVTPL                          | 231,311   | 9,054     | (222,257) |
| Long-term investment securities(*1)     | Designated as at FVTPL         | FVTPL                          |           | 222,257   | 222,257   |
|   |                                |                                | 1,784,702 | 1,785,754 | 1,052     |
|   |                                |                                | 7,461,181 | 7,449,184 | (11,997)  |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

- (\*1) As of January 1, 2018, available-for-sale financial assets such as beneficiary certificates and equity investments amounting to 205,435 million were reclassified to financial assets measured at FVTPL. In addition, as derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are never separated, the available-for-sale financial assets related to the redeemable convertible preferred shares of 15,342 million and the related derivative financial assets of 222,257 million were reclassified to financial assets measured at FVTPL which were not designated as financial assets measured at amortized cost as the contractual terms of these assets do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates. As a result of this reclassification, as at January 1, 2018, accumulated OCI of 5,336 million was reclassified to retained earnings, and due to its reclassification to financial assets measured at FVTPL, retained earnings was decreased by 4,389 million in relation to fair value measurement. In addition, change in the fair value of these financial assets of 1,984 million was recognized in profit before income tax during the year ended December 31, 2018.
- (\*2) As of January 1, 2018, available-for-sale financial assets such as marketable equity instruments amounting to 713,613 million were reclassified to equity investments at FVOCI and debt instrument at FVOCI of 713,399 million and 214 million, respectively. As a result of this reclassification, as at January 1, 2018, retained earnings of (-)90,322 million was reclassified to accumulated OCI and accumulated OCI was increased by 5,441 million due to the fair value measurement of financial assets which were stated at cost under IAS 39. The Group designated equity instruments that are not held for trading as FVOCI on initial application of IFRS 9 with no subsequent recycling of amounts from OCI to profit and loss.
- (\*3) As of January 1, 2018, accounts receivable other of 1,074,063 million were reclassified to financial assets at FVTPL. Upon the initial application of IFRS 9, the Group reclassified the debt instruments to financial assets at FVTPL whose objectives of the business model are not achieved both by collecting contractual cash flows and selling financial assets. There was no material impact on retained earnings as at January 1, 2018 as the fair values of these debt instruments were not significantly different from the carrying amounts as of December 31, 2017.

2) *Impairment of financial assets*

IFRS 9 sets out the expected credit loss (ECL) impairment model which replaces the incurred loss model under IAS 39 for recognizing and measuring impairment. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

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

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

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

3) *Hedge accounting*

Upon initial application of IFRS 9, the Group elected to apply hedge accounting requirements under IFRS 9. The Group designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Group's hedging instruments as

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of January 1, 2018 satisfy the hedge requirements of retrospective testing (80~125%) under IAS 39, there is no material effect of applying IFRS 9.

(3) *The following table explains the impacts of adopting IFRS 15 and 9 on the Group's statement of financial position as of January 1, 2018.*

(In millions of won)

|                                       | December 31, | Adjustments |           | January 1, |
|---------------------------------------|--------------|-------------|-----------|------------|
|                                       | 2017         | IFRS 15     | IFRS 9    | 2018       |
|                                       | As reported  |             |           | Restated   |
| <b>Current Assets:</b>                | 6,201,799    | 1,804,080   | (13,049)  | 7,992,830  |
| Accounts receivable trade, net        | 2,126,007    | (4,314)     | (12,950)  | 2,108,743  |
| Accounts receivable other, net        | 1,260,835    |             | (99)      | 1,260,736  |
| Prepaid expenses                      | 197,046      | 1,695,704   |           | 1,892,750  |
| Contract assets                       |              | 112,690     |           | 112,690    |
| Others                                | 2,617,911    |             |           | 2,617,911  |
| <b>Non-Current Assets:</b>            | 27,226,870   | 718,898     | 1,052     | 27,946,820 |
| Long-term investment securities       | 887,007      |             | 223,309   | 1,110,316  |
| Long-term prepaid expenses            | 90,834       | 693,393     |           | 784,227    |
| Long-term contract assets             |              | 30,363      |           | 30,363     |
| Deferred tax assets                   | 88,132       | (4,858)     |           | 83,274     |
| Long-term derivative financial assets | 253,213      |             | (222,257) | 30,956     |
| Others                                | 25,907,684   |             |           | 25,907,684 |
| <b>Total Assets</b>                   | 33,428,669   | 2,522,978   | (11,997)  | 35,939,650 |
| <b>Current Liabilities:</b>           | 7,109,123    | 12,485      |           | 7,121,608  |
| Provisions                            | 52,057       | (215)       |           | 51,842     |
| Contract liabilities                  |              | 114,284     |           | 114,284    |
| Receipts in advance                   | 161,266      | (161,266)   |           |            |
| Unearned revenue                      | 175,732      | (175,732)   |           |            |
| Withholdings                          | 961,501      | 235,414     |           | 1,196,915  |
| Others                                | 5,758,567    |             |           | 5,758,567  |
| <b>Non-Current Liabilities:</b>       | 8,290,351    | 610,444     | (3,219)   | 8,897,576  |
| Long-term contract liabilities        |              | 19,100      |           | 19,100     |
| Long-term unearned revenue            | 7,052        | (7,052)     |           |            |
| Other non-current liabilities         | 44,094       | (919)       |           | 43,175     |
| Deferred tax liabilities              | 978,693      | 599,315     | (3,219)   | 1,574,789  |

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|  |            |           |          |            |
|--|------------|-----------|----------|------------|
| Others   | 7,260,512  |           |          | 7,260,512  |
| <b>Total Liabilities</b>                         | 15,399,474 | 622,929   | (3,219)  | 16,019,184 |
| Share capital                                    | 44,639     |           |          | 44,639     |
| Capital surplus and others                       | 196,281    |           |          | 196,281    |
| Retained earnings                                | 17,835,946 | 1,900,049 | 60,026   | 19,796,021 |
| Reserves   | (234,727)  |           | (68,804) | (303,531)  |
| Non-controlling interests                        | 187,056    |           |          | 187,056    |
| <b>Total Shareholders Equity</b>                 | 18,029,195 | 1,900,049 | (8,778)  | 19,920,466 |
| <b>Total Liabilities and Shareholders Equity</b> | 33,428,669 | 2,522,978 | (11,997) | 35,939,650 |

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

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**4. Significant Accounting Policies**

The significant accounting policies applied by the Group in the preparation of its consolidated financial statements in accordance with IFRS are included below. The significant accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2017, except for the changes in accounting policies described in note 3.

**(1) Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's operating segments have been determined to be each business unit, for which the Group generates separately identifiable financial information that is regularly reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance. The Group has four reportable segments as described in Note 5. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

**(2) Basis of consolidation**

**1) Business combination**

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Consideration transferred is generally measured at fair value, identical to the measurement of identifiable net assets acquired at fair value. The difference between the acquired company's fair value and the consideration transferred is accounted for goodwill. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received excluding costs to issue debt or equity securities recognized based on IAS 32 and IFRS 9.

Consideration transferred does not include the amount settled in relation to the pre-existing relationship and the amount settled in relation to the pre-existing relationship is generally recognized through profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. If contingent consideration is not classified as equity, the Group subsequently recognizes changes in fair value of contingent consideration through profit or loss.

**2) Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in a Controlling Company's ownership interest in a subsidiary that do not result in the Controlling Company losing control of the subsidiary are accounted for as equity transactions.

3) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

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*4) Loss of control*

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

*5) Interest in investees accounted for using the equity method*

Interest in investees accounted for using the equity method composed of interest in associates and joint ventures. An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the net assets of the arrangement.

The investment in an associate and a joint venture is initially recognized at cost including transaction costs and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture after the date of acquisition.

The investment in an associate and a joint venture is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

significant financial difficulty of the associate or joint venture;

a breach of contract, such as a default or delinquency in payments by the associate or joint venture;

the entity, for economic or legal reasons relating to its associate's or joint venture's financial difficulty, granting to the associate or joint venture a concession that the entity would not otherwise consider;

it becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganization;  
or

the disappearance of an active market for the net investment because of financial difficulties of the associate or joint venture.



6) *Intra-group transactions*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with investees accounted for using the equity method are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

7) *Business combinations under common control*

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

(3) *Cash and cash equivalents*

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

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**(4) Inventories**

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

**(5) Financial assets Policies applicable from January 1, 2018**

**1) Classification**

The Group classifies its financial assets into one of the following categories:

financial assets at fair value through profit or loss ( FVTPL )

financial assets at fair value through other comprehensive income ( FVOCI ), and

financial assets measured at amortized cost

Financial assets are classified based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Group reclassifies a debt instrument when, and only when, the business model for managing the financial asset is changed.

**2) Measurement**

A financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to the acquisition. Transaction costs for a financial asset at FVTPL are recognized in profit or loss.

A hybrid financial instrument with embedded derivatives in the contract is considered as a whole when assessing whether contractual cash flows are solely payments of principal and interest.

**(i) Debt investments**

A financial asset is subsequently measured based on its contractual cash flow characteristics and the business model in which a financial asset is managed. The Group classifies debt investments into one of the following categories:

Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held within a business model whose objective is to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest. A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the financial asset is derecognized or impaired. Interest calculated using the effective interest method is included in finance income.

Financial assets measured at fair value through other comprehensive income ( FVOCI )

A financial asset is classified as FVOCI when it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual cash flows are solely payments of principal and interest.

Changes in fair value other than impairment losses and reversal of impairment losses, interest income and foreign exchange gains and losses are recognized in other comprehensive income. The amounts accumulated in other comprehensive income are recycled to profit or loss when the financial assets is derecognized. Interest income calculated using the effective interest method is included in finance income. Foreign exchange gains and losses are presented as finance income or finance costs, impairment losses are presented as other expenses.

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

Debt investments that are not classified at amortized cost or FVOCI are classified as FVTPL. A gain or loss on debt investments that are not part of a hedging relationship is recognized in profit or loss and is presented in finance income or costs in the statement of income for the period.

*(ii) Equity investments*

The Group subsequently measures all of its equity investments at fair value. The Group elected to recognize the changes in fair value of the equity investments that are held for long term or strategic purposes in other comprehensive income. The amounts accumulated in other comprehensive income are not reclassified into profit or loss upon derecognition. Dividends from these equity investments are recognized as finance income when the right to receive the dividends is established.

Changes in the value of equity investments measured at FVTPL are presented in finance income or costs in the statement of income for the period.

*3) Impairment*

The Group estimates the expected credit losses (ECL) for the debt instruments that are measured at amortized cost and FVOCI based on the forward-looking data. The impairment approach is decided based on the assessment of significant increase in credit risk. However, the Group applies a practical expedient and recognizes impairment losses equal to lifetime ECLs for Accounts receivables trade and lease receivables from the initial recognition.

*4) Recognition and derecognition*

A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting. A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

If the Group retains substantially all the risks and rewards of ownership of a transferred asset due to a non-recourse features or others, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

*5) Offsetting*

A financial asset and a financial liability is offset only when the right of set-off is not contingent on future event and legally enforceable even on the event of default, insolvency or bankruptcy.

*(6) Financial assets Policies applied before January 1, 2018*

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

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

*1) Financial assets at fair value through profit or loss*

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

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2) *Held-to-maturity investments*

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

3) *Loans and receivables*

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

4) *Available-for-sale financial assets*

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

5) *Impairment of financial assets*

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

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

significant financial difficulty of the issuer or obligor;

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

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

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

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

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

In addition, for an investment in an equity security classified as available-for-sale financial asset, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

*(i) Financial assets measured at amortized cost*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's

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original effective interest rate. The Group can recognize impairment losses directly or by establishing an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed either directly or by adjusting an allowance account.

*(ii) Financial assets carried at cost*

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

*(iii) Available-for-sale financial assets*

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

*6) De-recognition of financial assets*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or the Group transfers the rights to receive the cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

*7) Offsetting between financial assets and financial liabilities*

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

*(7) Derivative financial instruments, including hedge accounting*



Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value at the end of each reporting period, and changes therein are accounted for as described below.

1) *Hedge accounting*

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

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

**Cash flow hedge**

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

**2) *Other derivative financial instruments***

Other derivative financial instrument not designated as a hedging instrument are measured at fair value, and the changes in fair value of the derivative financial instrument is recognized immediately in profit or loss.

**(8) *Property and equipment***

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

Property and equipment, subsequently, are carried at cost less accumulated depreciation and accumulated impairment losses.

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

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

useful life.

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

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

|                              | <b>Useful lives (years)</b> |
|------------------------------|-----------------------------|
| Buildings and structures     | 15 ~ 40                     |
| Machinery                    | 3 ~ 15                      |
| Other property and equipment | 2 ~ 10                      |

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

**(9) Borrowing costs**

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

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period do not exceed the amount of borrowing costs incurred during that period.

**(10) Intangible assets**

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

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

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

|                        | <b>Useful lives (years)</b> |
|------------------------|-----------------------------|
| Frequency usage rights | 5 ~ 13                      |
| Land usage rights      | 5                           |
| Industrial rights      | 5, 10                       |
| Development costs      | 3 ~ 5                       |

|                       |        |
|-----------------------|--------|
| Facility usage rights | 10, 20 |
| Customer relations    | 3 ~ 20 |
| Software              | 2 ~ 5  |
| Other                 | 3 ~ 20 |

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

Expenditures on research activities are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be reliably measured, the product or process is technically and

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commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

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

***(11) Government grants***

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

***1) Grants related to assets***

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

***2) Grants related to income***

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

***(12) Investment property***

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment loss.

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

Investment properties, except for land, are depreciated on a straight-line basis over 15-40 years as estimated useful lives.

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

**(13) Impairment of non-financial assets**

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

The Group estimates the recoverable amount of an individual asset, and if it is impossible to measure the individual recoverable amount of an asset, the Group estimates the recoverable amount of cash-generating unit

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

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

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

***(14) Leases***

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

***1) Finance leases***

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

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

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



assets are impaired at the reporting date.

2) *Operating leases*

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

3) *Determining whether an arrangement contains a lease*

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

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

**(15) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sales rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the assets (or disposal groups) must be available for immediate sale in their present condition and their sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amounts and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of assets (or disposal groups) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS 36, *Impairment of Assets*.

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

**(16) Non-derivative financial liabilities**

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

**1) Financial liabilities at fair value through profit or loss**

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

Subsequent to initial recognition, these liabilities are measured at fair value. Effective January 1, 2018, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk is recognized in other comprehensive income with the remaining amount of the change in fair value recognized in profit or loss, unless this treatment of credit risk component creates or enlarges measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. However, for financial liabilities held for

trading and loan commitments and financial guarantee contracts that are designated as at fair value through profit or loss, all changes in fair value are recognized in profit or loss.

2) *Other financial liabilities*

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

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3) *Derecognition of financial liability*

The Group extinguishes a financial liability only when the contractual obligation is fulfilled, canceled or expires. The Group recognizes new financial liabilities at fair value based on new contracts and eliminates existing liabilities when the contractual terms of the financial liabilities change and the cash flows change substantially.

When a financial liability is derecognized, the difference between the carrying amount and the consideration paid (including any transferred non-cash assets or liabilities assumed) is recognized in profit or loss.

(17) ***Employee benefits***

1) *Short-term employee benefits*

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

2) *Other long-term employee benefits*

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

3) *Retirement benefits: defined contribution plans*

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

4) *Retirement benefits: defined benefit plans*

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

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

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

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

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**SK TELECOM CO., LTD. and Subsidiaries**

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**For the years ended December 31, 2018, 2017 and 2016**

*5) Termination benefits*

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

*(18) Provisions*

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

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

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

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

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

*(19) Transactions in foreign currencies*

*1) Foreign currency transactions*

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

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

2) *Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and translated at the closing rate at the reporting date.

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When a foreign operation is disposed, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

**(20) *Share capital***

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

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

**(21) *Hybrid bond***

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

**(22) *Share-based Payment***

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

**(23) *Revenue Policies applicable from January 1, 2018***

The Group has initially adopted IFRS 15, *Revenue from Contracts with Customers* from January 1, 2018. See note 3 (1) for additional information.

Revenues are recorded net of value-added tax and other taxes collected from customers that are remitted to governmental authorities.

**1) *Identification of performance obligations in contracts with customers***



The Group identifies the distinct services or goods as performance obligations in contracts with customers such as (1) wireless telecommunications services and (2) selling other goods and services. In the case of providing both wireless telecommunications service and selling a handset together to one customer, the Group allocates considerations from the customer between the separate performance obligations for handset sale and wireless telecommunications service. The handset sale revenue is recognized when handset is delivered and the wireless telecommunications service revenue is recognized over the period of the contract term as stated in the subscription contract.

2) *Allocation of the transaction price to each performance obligation*

In accordance with IFRS 15, the Group allocates the transaction price of a contract to each performance obligation identified on a relative stand-alone selling price basis. The Group uses adjusted market assessment approach for estimating the stand-alone selling price of a good or service. Thus, the stand-alone selling price is the

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**For the years ended December 31, 2018, 2017 and 2016**

observable price of a good or service when the good or service is sold separately in similar circumstances and to similar customers. As an exception, the Group uses Expected cost plus a margin approach for insignificant transactions.

*3) Customer loyalty programs*

The Group provides customer loyalty points to customers based on the usage of the service to which the Group allocates a portion of consideration received as a performance obligation distinct from wireless telecommunications services. The amount allocated to the loyalty program is deferred and is recognized as revenue when loyalty points are redeemed. The deferred revenue is included in contract liabilities.

**(24) Revenue Policies applied before January 1, 2018**

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

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

*1) Services rendered*

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

Revenue from fixed-line services includes domestic and long-distance call charges, international phone connection charges, installation service and broadband internet services. Such revenues are recognized as the related services are performed.

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

*2) Goods sold*

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

3) *Commission revenue*

In connection with the commission revenue from e-commerce services, the Group has determined that it is acting as an agent due to the followings:

The Group does not bear inventory risk or have responsibility for the delivery goods;

All of the credit risks are borne by suppliers of goods though the Group collects the proceeds from end customers on behalf of the suppliers; and

The Group has no latitude in establishing prices regarding goods sold in e-commerce.

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*4) Customer loyalty programs*

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

**(25) Finance income and finance costs**

Finance income comprises interest income on funds invested (including financial assets measured at fair value), dividend income, gains on disposal of financial assets at FVTPL, changes in fair value of financial instruments at FVTPL, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss when the right to receive the dividend is established.

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

**(26) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except for transactions or events directly recognized in other comprehensive income or equity.

The Group pays income tax in accordance with the tax-consolidation system when the parent company and its subsidiaries are economically unified.

*1) Current tax*

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

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and includes interests and fines related to income taxes paid

or payable. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

2) *Deferred tax*

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

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**For the years ended December 31, 2018, 2017 and 2016**

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to offset the amount recognized and intends to settle the current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

**(27) *Earnings per share***

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

**(28) *Standards issued but not yet effective***

The following new standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Group has not adopted the following new standards early in preparing the accompanying consolidated financial statements.

**IFRS 16 Leases**

IFRS 16, published on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16, replaces existing leases guidance including IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the*

*Substance of Transactions Involving the Legal Form of a Lease.*

The Group will assess at inception of a contract whether that contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. However, the Group can apply a practical expedient to grandfather their previous assessment of whether existing contracts are, or contain, leases.

A lessee recognizes a right-of-use asset representing its right to use the underlying assets and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (lease term ends within 12 months at the commencement date of the lease) or leases of low-value items (assets with a value of 6 million or less). As a practical expedient, a lessee can elect, by class of underlying asset, not to separate lease components from any associated non-lease components. A lessee that takes this election accounts for the lease component and the associated non-lease components as a single lease component.

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**For the years ended December 31, 2018, 2017 and 2016**

A lessor's accounting remains similar to current requirements, IAS 17 *Leases*.

*1) A lessee's accounting application and financial impacts*

A lessee is permitted to adopt the standard retrospectively according to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ( Full retrospective approach ) or to follow a modified retrospective approach in which the lessee recognizes the cumulative effect of initial application of the standard as an adjustment to equity at the date of initial application.( Modified retrospective approach )

The Group plans to apply IFRS 16 initially on January 1, 2019 by using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019 with no restatement of comparative information.

The Group is assessing the financial impact of the adoption of IFRS 16 on its consolidated financial statements. It is impractical to provide a reasonable estimate of the financial impact until the Group completes this analysis.

The Group plans to account for the lease component and the associated non-lease components as a single lease component applying the practical expedient. In addition, the Group plans to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

According to the Group's preliminary analysis of application of the IFRS 16, right-of-use assets and lease liabilities are expected to increase as of January 1, 2019. Based on the preliminary assessment, the Group expects lease expenses to decrease and, depreciation expenses of the right-of-use assets and interest expenses of lease liabilities to increase.

*2) A lessor's accounting application and financial impacts*

The Group expects that financial impact of the lessor accounting is not significant to the consolidated financial statements due to the lessor accounting remaining similar to current requirements, IAS 17, *Leases*.

**5. Operating Segments**

The Group's operating segments have been identified to be each business unit, by which the Group provides independent services and merchandise. The Group's reportable segments are cellular services, which include cellular voice service, wireless data service and wireless internet services; fixed-line telecommunication services, which include telephone services, internet services, and leased line services; e-commerce services, which from 2018 include only the Eleven Street Co., Ltd., the open marketplace platform; and all other businesses, which include the Group's internet portal services and other immaterial operations, each of which does not meet the quantitative threshold to be considered as a reportable segment and are presented collectively as others.



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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(1) Segment information for the years ended December 31, 2018, 2017 and 2016 are as follows:

(In millions of won)

|  | 2018                 |  |                        |           |            |             |            |
|--|----------------------|--|------------------------|-----------|------------|-------------|------------|
|  | Cellular<br>Services | Fixed-line<br>telecommu-<br>nication<br>services | E-commerce<br>Services | Others    | Sub-total  | Adjustments | Total      |
| Total revenue  | 13,961,762           | 3,973,533  | 674,359                | 1,198,865 | 19,808,519 | (2,934,559) | 16,873,960 |
| Inter-segment<br>revenue   | 1,582,865            | 1,040,935  | 56,280                 | 254,479   | 2,934,559  | (2,934,559) |            |
| External revenue   | 12,378,897           | 2,932,598  | 618,079                | 944,386   | 16,873,960 |             | 16,873,960 |
| Depreciation and<br>amortization   | 2,341,862            | 643,941  | 16,446                 | 123,869   | 3,126,118  |             | 3,126,118  |
| Operating profit<br>(loss)   | 1,299,869            | 228,225  | (67,757)               | (258,577) | 1,201,760  | (367,909)   | 833,851    |
| Gain relating to<br>investments in<br>subsidiaries,<br>associates and joint<br>ventures, net |                      |  |                        |           |            |             | 3,270,912  |
| Finance income   |                      |  |                        |           |            |             | 256,435    |
| Finance costs  |                      |  |                        |           |            |             | (385,232)  |
| Profit before<br>income tax  |                      |  |                        |           |            |             | 3,975,966  |

(In millions of won)

|                          | 2017                 |  |                           |           |            |             |            |
|--------------------------|----------------------|--|---------------------------|-----------|------------|-------------|------------|
|                          | Cellular<br>Services | Fixed-line<br>telecommu-<br>nication<br>services | E-commerce<br>Services(*) | Others(*) | Sub-total  | Adjustments | Total      |
| Total revenue            | 14,873,543           | 3,586,887  | 684,762                   | 1,195,977 | 20,341,169 | (2,821,156) | 17,520,013 |
| Inter-segment<br>revenue | 1,611,408            | 862,736  | 37,662                    | 309,350   | 2,821,156  | (2,821,156) |            |
| External revenue         | 13,262,135           | 2,724,151  | 647,100                   | 886,627   | 17,520,013 |             | 17,520,013 |

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|  |           |         |           |           |           |           |           |
|--|-----------|---------|-----------|-----------|-----------|-----------|-----------|
| Depreciation and amortization  | 2,390,016 | 592,877 | 15,221    | 99,352    | 3,097,466 |           | 3,097,466 |
| Operating profit (loss)  | 1,714,078 | 167,515 | (153,946) | (191,021) | 1,536,626 | (312,054) | 1,224,572 |
| Gain relating to investments in subsidiaries, associates and joint ventures, net |           |         |           |           |           |           | 2,245,732 |
| Finance income   |           |         |           |           |           |           | 366,561   |
| Finance costs  |           |         |           |           |           |           | (433,616) |
| Profit before income tax   |           |         |           |           |           |           | 3,403,249 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

|  | <b>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  | 14,635,720                   | 3,349,905  | 608,585                           | 1,295,112        | 19,889,322       | (2,797,506)        | 17,091,816   |
| Inter-segment<br>revenue   | 1,630,811                    | 698,712  | 62,360                            | 405,623          | 2,797,506        | (2,797,506)        |              |
| External revenue   | 13,004,909                   | 2,651,193  | 546,225                           | 889,489          | 17,091,816       |                    | 17,091,816   |
| Depreciation and<br>amortization   | 2,262,363                    | 551,811  | 14,783                            | 112,929          | 2,941,886        |                    | 2,941,886    |
| Operating profit<br>(loss)   | 1,799,127                    | 132,459  | (245,703)                         | (150,139)        | 1,535,744        | (232,326)          | 1,303,418    |
| Gain relating to<br>investments in<br>subsidiaries,<br>associates and joint<br>ventures, net |                              |  |                                   |                  |                  |                    | 544,501      |
| Finance income   |                              |  |                                   |                  |                  |                    | 575,050      |
| Finance costs  |                              |  |                                   |                  |                  |                    | (326,830)    |
| Profit before income<br>tax  |                              |  |                                   |                  |                  |                    | 2,096,139    |

(\*) Segment information for the years ended December 31, 2017 and 2016 were recast to reflect Eleven Street Co., Ltd. only in the E-Commerce Services segment, with all the other businesses that were previously included in the E-Commerce Services segment now presented in others segment.

Segment information is based on information derived from IFRS financial statements, except for certain items included in operating profit as disclosed in note 5-(2).

(2) Reconciliation of total segment operating income to consolidated operating profit from continuing operations for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|  | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|-------------|
| Total segment operating income                                   | 1,201,760   | 1,536,626   | 1,535,744   |
| Other operating income:  |             |             |             |
| Gain on disposal of property and equipment and intangible assets | 38,933      | 13,991      | 6,908       |
| Others(*1)   | 33,017      | 18,006      | 59,640      |
|  | 71,950      | 31,997      | 66,548      |
| Other operating expenses:  |             |             |             |
| Impairment loss on property and equipment and intangible assets  | (255,839)   | (54,946)    | (24,506)    |
| Loss on disposal of property and equipment and intangible assets | (87,257)    | (60,086)    | (63,797)    |
| Donations  | (59,012)    | (112,634)   | (96,633)    |
| Bad debt for accounts receivable other                           | (7,718)     | (5,793)     | (40,312)    |
| Others(*2)   | (30,033)    | (110,592)   | (73,626)    |
|  | (439,859)   | (344,051)   | (298,874)   |
| Consolidated operating profit from continuing operations         | 833,851     | 1,224,572   | 1,303,418   |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(\*1) Others for the years ended December 31, 2018 and 2016 include 11 billion and 25 billion of penalty refund, respectively.

(\*2) Others for the years ended December 31, 2018, 2017 and 2016 include 0.4 billion, 21.4 billion and 7.6 billion of penalties, respectively, and various other expenses with inconsequential amounts.

Since there are no intersegment sales of inventory or depreciable assets, there is no unrealized intersegment profit to be eliminated on consolidation. Domestic revenue for the years ended December 31, 2018, 2017 and 2016 amounts to 16,656 billion, 17,374 billion and 16,940 billion, respectively. Domestic non-current assets (excluding financial assets, investments in associates and joint ventures and deferred tax assets) as of December 31, 2018, 2017 and 2016 amount to 20,040 billion, 15,554 billion and 15,949 billion, and non-current assets outside of Korea amount to 72 billion, 257 billion and 286 billion, respectively.

No single customer contributed 10% or more to the Group's total sales for the years ended December 31, 2018, 2017 and 2016.

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.

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

*(In millions of won)*

|   |           | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-----------|-------------|-------------|-------------|
| <b>Products transferred at a point in time:</b> |           |             |             |             |
| Cellular revenue                                | Goods(*1) | 1,215,886   | 1,213,314   | 1,080,015   |
| Fixed-line telecommunication revenue            | Goods     | 119,599     | 74,065      | 95,218      |
| Other revenue                                   | Goods     | 112,859     | 93,109      | 60,914      |
|   | Products  | 31,974      | 25,068      | 28,002      |
|   |           | 1,480,318   | 1,405,556   | 1,264,149   |
| <b>Services transferred over time:</b>          |           |             |             |             |

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|                                      |  |            |            |            |
|--------------------------------------|--|------------|------------|------------|
| Cellular revenue                     | Wireless service(*2)                   | 9,770,423  | 10,638,961 | 10,582,963 |
|                                      | Cellular interconnection               | 532,156    | 592,755    | 614,446    |
|                                      | Other(*3)                              | 860,432    | 817,105    | 727,485    |
| Fixed-line telecommunication revenue | Fixed-line telephone service           | 291,028    | 308,051    | 346,580    |
|                                      | Fixed-line interconnection             | 95,742     | 116,069    | 134,089    |
|                                      | Internet Protocol Television(*4)       | 1,140,327  | 1,010,159  | 825,111    |
|                                      | International calls                    | 80,415     | 89,412     | 95,986     |
|                                      | Internet service and miscellaneous(*5) | 1,205,487  | 1,126,395  | 1,154,209  |
| E-commerce services revenue          | E-commerce service                     | 618,079    | 647,100    | 546,225    |
| Other revenue                        | Miscellaneous(*6)                      | 799,553    | 768,450    | 800,573    |
|                                      |  | 15,393,642 | 16,114,457 | 15,827,667 |
|                                      |  | 16,873,960 | 17,520,013 | 17,091,816 |

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

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

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

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

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

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

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

**6. Restricted Deposits**

Deposits which are restricted in use as of December 31, 2018 and 2017 are summarized as follows:

*(In millions of won)*

|                                     | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|-------------------------------------|--------------------------|--------------------------|
| Short-term financial instruments(*) | 79,511                   | 89,850                   |
| Long-term financial instruments(*)  | 1,218                    | 1,222                    |
|                                     | <b>80,729</b>            | <b>91,072</b>            |

(\* ) Financial instruments include charitable trust fund established by the Group where profits from the fund are donated to charitable institutions. As of December 31, 2018, the funds cannot be withdrawn before maturity.

**7. Trade and Other Receivables**



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

(In millions of won)

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

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

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

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

(2) Changes in the loss allowance on accounts receivable trade measured at amortized costs during the years ended December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|      | <b>Beginning<br/>balance</b> | <b>Impact of<br/>adopting<br/>IFRS 9</b> | <b>Impairment</b> | <b>Write-<br/>offs(*)</b> | <b>Collection of<br/>receivables<br/>previously<br/>written-off</b> | <b>Business<br/>combination<br/>and<br/>others</b> | <b>Ending<br/>Balance</b> |
|------|------------------------------|--|-------------------|---------------------------|---|--|---------------------------|
| 2018 | 239,448                      | 12,950                                   | 38,211            | (46,616)                  | 13,455  | 2,709  | 260,157                   |
| 2017 | 241,828                      |  | 34,584            | (52,897)                  | 15,933  |  | 239,448                   |

(\*)

The Group writes off the trade and other receivables when contractual payments are more than 5 years past due, or for reasons such as termination of operations or liquidation.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(3) The Group applies the practical expedient that allows the Group to estimate the loss allowance for accounts receivable trade at an amount equal to the lifetime expected credit losses. The expected credit losses include the forward-looking information. To make the assessment, the Group uses its historical credit loss experience over the past three years and classified the accounts receivable trade by their credit risk characteristics and days overdue. Details of loss allowance on accounts receivable trade as of December 31, 2018 are as follows:

(In millions of won)

|                                    |                           | <b>Less than<br/>6<br/>months</b> | <b>6 months ~<br/>1 year</b> | <b>1 year ~<br/>3 years</b> | <b>More than 3<br/>years</b> |
|------------------------------------|---------------------------|-----------------------------------|------------------------------|-----------------------------|------------------------------|
| Telecommunications service revenue | Expected credit loss rate | 2.70%                             | 58.20%                       | 74.10%                      | 86.36%                       |
|                                    | Gross amount              | 1,135,441                         | 48,796                       | 125,181                     | 31,547                       |
|                                    | Loss allowance            | 30,628                            | 28,401                       | 92,753                      | 27,244                       |
| Other revenue                      | Expected credit loss rate | 1.18%                             | 35.47%                       | 40.03%                      | 68.44%                       |
|                                    | Gross amount              | 817,201                           | 9,126                        | 31,345                      | 81,453                       |
|                                    | Loss allowance            | 9,603                             | 3,237                        | 12,546                      | 55,745                       |

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

Receivables related to other revenue mainly consist of receivables from corporate customers. The Group transacts only with corporate customers with credit ratings that are considered to be low at credit risk. In addition, the Group was not exposed to significant credit concentration risk as the Group regularly assesses their credit risk by monitoring their credit rating. While the contract assets are under the impairment requirements, no significant credit risk has been identified.

**8. Prepaid expenses**

As discussed in note 3, the Group adopted IFRS 15, *Revenue from Contracts with Customers*, during the year beginning January 1, 2018. The Group pays commissions to its retail stores and authorized dealers for wireless and fixed-line telecommunications services and for each service contract and installation contract secured. The Group capitalized certain costs associated with commissions paid to retail stores and authorized dealers to obtain new and retained customer contracts as prepaid expenses, which the Group previously expensed. These prepaid expenses are amortized on a straight-line basis over the periods that the Group expects to maintain its customers based on the

Group's historical subscriber churn rate.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****(1) Details of prepaid expenses as of December 31, 2018 and 2017 are as follows:***(In millions of won)*

|  | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|--|--------------------------|--------------------------|
| <b>Current assets:</b>                   |                          |                          |
| Incremental costs of obtaining contracts | 1,577,992                |                          |
| Others                                   | 191,567                  | 197,046                  |
|  | 1,769,559                | 197,046                  |
| <b>Non-current assets:</b>               |                          |                          |
| Incremental costs of obtaining contracts | 799,607                  |                          |
| Others                                   | 95,665                   | 90,834                   |
|  | 895,272                  | 90,834                   |

**(2) Incremental costs of obtaining contracts**

Incremental costs of obtaining contracts that are capitalized as assets as of December 31, 2018 and the related amortization recognized as commissions during the year ended December 31, 2018 are as follows:

*(In millions of won)*

|  | <b>2018</b> |
|--|-------------|
| Amortization recognized as commissions | 2,002,460   |

**9. Contract assets and liabilities**

As discussed in note 3, the Group adopted IFRS 15, *Revenue from Contracts with Customers* during the year beginning January 1, 2018. In case of providing both wireless telecommunication services and sales of mobile devices, the Group allocated the consideration based on relative stand-alone selling prices and recognizes un invoiced receivables from handset sales as contract assets. The Group recognized contract liabilities for receipts in advance for telecommunications service and for unearned revenue for customer loyalty program.

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

*(In millions of won)*

|   | <b>December 31, 2018</b> | <b>January 1, 2018</b> |
|---|--------------------------|------------------------|
| <b>Contract assets:</b>                                     |                          |                        |
| Allocation of consideration between performance obligations | 133,893                  | 143,053                |
| <b>Contract liabilities:</b>                                |                          |                        |
| Wireless service contracts                                  | 18,425                   | 16,624                 |
| Customer loyalty programs                                   | 17,113                   | 10,739                 |
| Fixed-line service contracts                                | 57,327                   | 47,125                 |
| Commerce services   | 10                       | 10                     |
| Security services (note 12)                                 | 38,109                   |                        |
| Others  | 52,829                   | 58,886                 |
|   | 183,813                  | 133,384                |

The amount of revenue recognized during the year ended December 31, 2018 related to the contract liabilities carried forward from the prior period and the performance obligations satisfied in the prior reporting period is 52,746 million.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****10. Inventories**

(1) Details of inventories as of December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|                 | December 31, 2018 |            |                 | December 31, 2017 |            |                 |
|-----------------|-------------------|------------|-----------------|-------------------|------------|-----------------|
|                 | Acquisition cost  | Write-down | Carrying amount | Acquisition cost  | Write-down | Carrying amount |
| Merchandise     | 268,366           | (8,842)    | 259,524         | 251,463           | (7,488)    | 243,975         |
| Finished goods  | 1,260             | (251)      | 1,009           | 1,889             | (557)      | 1,332           |
| Work in process | 3,985             | (338)      | 3,647           | 1,906             | (956)      | 950             |
| Raw materials   | 11,729            | (2,706)    | 9,023           | 10,426            | (3,249)    | 7,177           |
| Supplies        | 14,850            |            | 14,850          | 18,969            |            | 18,969          |
|                 | 300,190           | (12,137)   | 288,053         | 284,653           | (12,250)   | 272,403         |

(2) The amount of the inventory write-downs and write-off of inventories charged to statement of income are as follows:

*(In millions of won)*

|   | 2018    | 2017    | 2016    |
|---|---------|---------|---------|
| Charged to cost of products that have been resold | 2,509   | 6,079   | 3,751   |
| Write-off upon sale                               | (2,396) | (2,820) | (1,299) |

There are no significant reversals of inventory write-downs for the periods presented.

(3) Inventories recognized as operating expenses during the years ended December 31, 2018 and 2017 are 1,411,986 million and 1,498,087 million, respectively, which are included in cost of goods sold.

**11. Investment Securities**

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



*(In millions of won)*

|                          | <b>Category</b>                     | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|--------------------------|-------------------------------------|--------------------------|--------------------------|
| Beneficiary certificates | Available-for-sale financial assets |                          | 144,386                  |
|                          | FVTPL                               | 195,080                  |                          |
|                          |                                     | 195,080                  | 144,386                  |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

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

(In millions of won)

|                    | Category                            | December 31, 2018 | December 31, 2017 |
|--------------------|-------------------------------------|-------------------|-------------------|
| Equity instruments | Available-for-sale financial assets |                   | 867,079           |
|                    | FVOCI(*1, 2)                        | 542,496           |                   |
|                    |                                     | 542,496           | 867,079           |
| Debt instruments   | Available-for-sale financial assets |                   | 19,928            |
|                    | FVOCI                               | 2,147             |                   |
|                    | FVTPL(*2)                           | 120,083           |                   |
|                    |                                     | 122,230           | 19,928            |
|                    |                                     | 664,726           | 887,007           |

(\*1) The Group designated 542,496 million of investments in equity instruments that are not held for trading as financial assets at FVOCI. During the year ended December 31, 2018, the Group disposed of 3,520,964 common shares issued by KB Financial Group Inc. in exchange for 179,569 million in cash.

(\*2) During the year ended December 31, 2018, the Group disposed 200,000 shares of the redeemable convertible preference shares issued by KRAFTON Co., Ltd. (formerly, Bluehole Inc.) in exchange for 130,000 million in cash, and recognized 58,000 million of gain on disposal. In addition, the Group acquired 460,000 of common shares by exercising the conversion right and recognized 138,000 million of financial asset at FVOCI.

**12. Business Combinations**

(1) 2018

1) Acquisition of id Quantique SA by the Parent Company

As of April 30, 2018, the Parent Company acquired additional 41,157,506 shares in exchange of 55,249 million in cash, which resulted in the Parent Company obtaining control over id Quantique SA with 44,157,506 shares and 58.1% ownership of the outstanding shares, in aggregate. Taking control of id Quantique SA will enable the Parent Company to increase its corporate value as the leading mobile telecommunication operator in Korea and to generate profit in overseas markets by utilizing quantum cryptographic technologies.

In addition, the Parent Company acquired additional 16,666,666 shares in exchange for assets amounting to 5,672 million resulting in the increase of the ownership to 65.6%.

id Quantique SA has recognized 9,935 million in revenue and 5,220 million in net losses since the Group obtained control.

(i) Summary of the acquiree

**Information of Acquiree**

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

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(ii) Considerations transferred, identifiable assets acquired and liabilities assumed at the acquisition date are as follows:

*(In millions of won)*

|  | <b>Amount</b> |
|--|---------------|
| <b>I. Considerations transferred:</b>  |               |
| Cash and cash equivalents  | 55,249        |
| Existing shares (financial assets at FVOCI) at fair value                      | 3,965         |
|  | 59,214        |
| <b>II. Fair value of identifiable assets acquired and liabilities assumed:</b> |               |
| Cash and cash equivalent   | 1,538         |
| Trade and other receivables  | 13,609        |
| Inventories  | 2,003         |
| Property and equipment   | 415           |
| Intangible assets  | 7,566         |
| Other assets   | 447           |
| Trade and other payables   | (1,569)       |
| Other liabilities  | (2,880)       |
|  | 21,129        |
| <b>III. Non-controlling interests:</b>   | 9,290         |
| <b>IV. Goodwill (I-II+III)(*)</b>  | 47,375        |

(\*) The goodwill is attributable to the synergies with the Group's existing telecommunications business.

2) Acquisition of Life & Security Holdings Co., Ltd. by the Parent Company

As of October 1, 2018, the Parent Company obtained control by acquiring 55% ownership of Life & Security Holdings Co., Ltd which owns 100% ownership of ADT CAPS Co., Ltd. in order to strengthen the security business and expand residential customer base. The consideration for the business combination was 696,665 million in cash, and the difference between the fair value of net assets acquired and the consideration paid amounting to 1,155,037 million was recognized as goodwill. Subsequent to the acquisition, Life & Security Holdings Co., Ltd.

recognized revenue of 197,487 million, and net profit of 6,038 million. In addition, assuming that the business combination occurred at the beginning of 2018, the Group would have additionally recognized revenue of 763,375 million, and an additional reduction to profit for the period of 19,548 million in its consolidated financial statements.

(i) Summary of the acquiree

**Information of Acquiree**

|                |  |
|----------------|--|
| Corporate name | Life & Security Holdings Co., Ltd.                             |
| Location       | 323, Incheon tower-daero, Yeonsu-gu, Incheon, Korea            |
| CEO            | Yoo, Yeongsang   |
| Industry       | Holding company of subsidiaries primarily in security business |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(ii) Considerations transferred, identifiable assets acquired and liabilities assumed at the acquisition date are as follows:

*(In millions of won)*

|  | <b>Amount</b>    |
|--|------------------|
| <b>I. Considerations transferred:</b>  |                  |
| Cash and cash equivalents  | 696,665          |
| <b>II. Fair value of identifiable assets acquired and liabilities assumed:</b> |                  |
| Cash and cash equivalent   | 101,896          |
| Trade and other receivables  | 40,241           |
| Inventories  | 2,440            |
| Property and equipment   | 427,752          |
| Intangible assets  | 1,019,503        |
| Other assets   | 3,956            |
| Trade and other payables   | (296,660)        |
| Borrowings   | (1,744,839)      |
| Deferred tax liabilities   | (229,207)        |
| Other liabilities  | (158,042)        |
|  | (832,960)        |
| <b>III. Non-controlling interests:</b>   | <b>(374,588)</b> |
| <b>IV. Goodwill (I-II+III)(*)</b>  | <b>1,155,037</b> |

(\*) The goodwill is attributable to the assembled workforce and the synergies with the Group's existing security operations.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

## 3) Business combination under common control: Acquisition of SK Infosec Co., Ltd.

The Group acquired 100% ownership of SK Infosec Co., Ltd. from SK Holdings Co., Ltd., the ultimate controlling entity of the Parent Company, in order to create synergy in the security business and increase corporate value. As this transaction is a business combination under common control, the acquired assets and liabilities were recognized at the carrying amounts in the ultimate controlling entity's consolidated financial statements. Considerations paid and assets and liabilities recognized at the acquisition date are as follows:

*(In millions of won)*

|  | <b>Amount</b>  |
|--|----------------|
| <b>I. Considerations paid:</b>                             |                |
| Treasury shares of the Parent Company(*)                   | 281,151        |
| <b>II. Assets and liabilities acquired:</b>                |                |
| Cash and cash equivalent                                   | 30,762         |
| Trade and other receivables                                | 62,448         |
| Inventories  | 1,293          |
| Property and equipment                                     | 8,047          |
| Intangible assets  | 5,528          |
| Other assets   | 79,951         |
| Trade and other payables                                   | (38,431)       |
| Other liabilities  | (20,003)       |
|  | 129,595        |
| <b>III. Deduction of capital surplus and others (I-II)</b> | <b>151,556</b> |

(\*) The Parent Company provided 1,260,668 shares of its treasury shares as considerations, and the fair value of the considerations was 335,338 million at the transfer date.

In addition, assuming that the business combination occurred at the beginning of the reporting period, the Group would have additionally recognized revenue of 172,905 million, and net profit of 19,512 million.

## 4) Business combination under common control: Acquisition of Device business unit by SK Telink Co., Ltd.

During the year ended December 31, 2018, SK Telink Co., Ltd., the subsidiary owned by the Parent Company, acquired a device business in exchange of 4,450 million in cash from SK Holdings Co., Ltd., the ultimate controlling entity of the Parent Company. As this transaction is a business combination under common control, the difference between the consideration and carrying amount of net assets amounting to 1,018 million was recognized as capital surplus and others.

(2) 2017

1) Acquisition of S.M. LIFE DESIGN COMPANY JAPAN INC. by IRIVER LIMITED

On September 1, 2017, IRIVER LIMITED, a subsidiary of the Parent Company, acquired all of the S.M. LIFE DESIGN COMPANY JAPAN INC. s shares from S.M. ENTERTAINMENT JAPAN, Inc. in order to enter overseas business and enhance its competitiveness. The consideration was 30,000 million in cash, and the difference between the fair value of net assets acquired and the consideration paid amounting to 21,748 million was recognized as goodwill. Subsequent to the acquisition, S.M. LIFE DESIGN COMPANY JAPAN INC. recognized revenue of 6,365 million, which resulted in the net profit of 1,244 million in 2017.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

## 2) Merger of SM mobile communications Co., Ltd. by IRIVER LIMITED

On October 1, 2017, IRIVER LIMITED merged SM mobile communications Co., Ltd. in order to enter contents business and enhance competitiveness of its device business. As a result of merger, IRIVER LIMITED obtained control over S.M. Mobile Communications JAPAN Inc. which was wholly owned by SM mobile communications Co., Ltd. The consideration transferred was measured at the fair value of the shares transferred based on the merger ratio set on October 1, 2017. The Group recognized the difference between the fair value of net assets acquired and the consideration paid amounting to 13,473 million as goodwill. Subsequent to the consummation of the merger, S.M. Mobile Communications JAPAN Inc. recognized no revenue with 103 million of net loss in 2017.

## 3) Considerations transferred, identifiable assets acquired and liabilities assumed at the acquisition date are as follows:

*(In millions of won)*

|   | <b>S.M. LIFE DESIGN<br/>COMPANY JAPAN INC.</b> | <b>S.M. Mobile<br/>Communications JAPAN Inc.</b> |
|---|--|--|
| <b>Considerations paid:</b>             |  |  |
| Cash and cash equivalents               | 30,000   |  |
| Shares of IRIVER LIMITED                |  | 24,650   |
| <b>Assets and liabilities acquired:</b> |  |  |
| Cash and cash equivalents               | 3,434  | 4,112  |
| Trade and other receivables             | 1,471  | 237  |
| Inventories                             | 1,879  |  |
| Property and equipment                  | 4  | 311  |
| Intangible assets                       | 6,677  | 7,445  |
| Other assets                            |  | 41   |
| Trade and other payables                | (2,563)  | (815)  |
| Deferred tax liabilities                | (2,324)  |  |
| Other liabilities                       | (326)  | (154)  |
| <b>Net assets</b>                       | <b>8,252</b>                                   | <b>11,177</b>                                    |

## (3) 2016

During the year ended December 31, 2016, the Parent Company distributed its entire ownership interests in Neosnetworks Co., Ltd. to SK Telink Co., Ltd., a subsidiary of the Parent Company as contribution in kind. Neosnetworks Co., Ltd. became a wholly owned subsidiary of SK Telink Co., Ltd. As this transaction is a business

combination under common control, SK Telink Co., Ltd. recognized the book value of the assets and liabilities of Neosnetworks Co., Ltd. in its financial statements. There is no effect on the assets and liabilities of the consolidated financial statements.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****13. Investments in Associates and Joint Ventures**

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

(In millions of won)

|  | Country        | December 31, 2018<br>Ownership<br>(%) | December 31, 2018<br>Carrying<br>amount | December 31, 2017<br>Ownership<br>(%) | December 31, 2017<br>Carrying<br>amount |
|--|----------------|---------------------------------------|---|---------------------------------------|---|
| <b>Investments in associates:</b>                  |                |                                       |   |                                       |   |
| SK China Company Ltd.                              | China          | 27.3                                  | 551,548                                 | 27.3                                  | 526,099                                 |
| Korea IT Fund(*1)                                  | Korea          | 63.3                                  | 281,684                                 | 63.3                                  | 257,003                                 |
| KEB HanaCard Co., Ltd.(*2)                         | Korea          | 15.0                                  | 288,457                                 | 15.0                                  | 280,988                                 |
| NanoEnTek, Inc.                                    | Korea          | 28.9                                  | 40,974                                  | 28.5                                  | 38,718                                  |
| SK Technology Innovation Company                   | Cayman Islands | 49.0                                  | 42,469                                  | 49.0                                  | 42,511                                  |
| HappyNarae Co., Ltd.(*3)                           | Korea          |                                       |   | 45.0                                  | 21,873                                  |
| SK hynix Inc.                                      | Korea          | 20.1                                  | 11,208,315                              | 20.1                                  | 8,130,000                               |
| SK MENA Investment B.V.                            | Netherlands    | 32.1                                  | 14,420                                  | 32.1                                  | 13,853                                  |
| S.M. Culture & Contents Co., Ltd.                  | Korea          | 23.4                                  | 63,801                                  | 23.4                                  | 64,966                                  |
| Xian Tianlong Science and Technology Co., Ltd.(*3) | China          |                                       |   | 49.0                                  | 25,891                                  |
| Hello Nature Ltd.(*4)                              | Korea          | 49.9                                  | 28,549                                  |                                       |   |
| 12CM Japan, Inc.(*5)                               | Japan          | 28.2                                  | 7,734                                   |                                       |   |
| MAKEUS Corp.(*2,5)                                 | Korea          | 8.9                                   | 9,193                                   |                                       |   |
| SK South East Asia Investment Pte. Ltd.(*5)        | Singapore      | 20.0                                  | 111,000                                 |                                       |   |
| Pacific Telecom Inc.(*2,5)                         | USA            | 15.0                                  | 37,075                                  |                                       |   |
| Health Connect Co., Ltd. and others                |                |                                       | 106,394                                 |                                       | 96,479                                  |
|  |                |                                       | 12,791,613                              |                                       | 9,498,381                               |
| <b>Investments in joint ventures:</b>              |                |                                       |   |                                       |   |
| Dogus Planet, Inc.(*6)                             | Turkey         | 50.0                                  | 12,487                                  | 50.0                                  | 13,991                                  |
| Finnq Co. Ltd.(*6)                                 | Korea          | 49.0                                  | 7,671                                   | 49.0                                  | 16,474                                  |
| 12CM GLOBAL PTE. LTD.(*3)                          | Singapore      |                                       |   | 62.7                                  | 9,592                                   |
| Celcom Planet(*6,7)                                | Malaysia       | 44.7                                  |   | 49.5                                  |   |
|  |                |                                       | 20,158                                  |                                       | 40,057                                  |

|       |            |           |
|-------|------------|-----------|
| Total | 12,811,771 | 9,538,438 |
|-------|------------|-----------|

- (\*1) Investment in Korea IT Fund was classified as investment in associates as the Group does not have control over the investee under the contractual agreement with other shareholders.
- (\*2) These investments were classified as investments in associates as the Group can exercise significant influence through its right to appoint the members of board of directors even though the Group has less than 20% of equity interests.
- (\*3) During the year ended December 31, 2018, the Group disposed of the entire shares.
- (\*4) During the year ended December 31, 2018, Hello Nature Ltd. increased capital by allocation to third parties, which decreased the Parent Company's ownership to 49.9% and was reclassified into the associate from the subsidiary due to the loss of the control. In addition, the Group has obligation for additional investments up to 20,000 million according to the agreement with the shareholders.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

- (\*5) These investments are newly acquired during the year ended December 31, 2018.
- (\*6) These investments were classified as investment in joint ventures as the Group has a joint control pursuant to the agreement with the other shareholders.
- (\*7) During the year ended December 31, 2018, the Group invested 12,932 million by purchasing newly issued stocks, and the entire amount of this investment was recognized as equity losses.
- (2) The market value of investments in listed associates as of December 31, 2018 and 2017 are as follows:

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

|                                  | December 31, 2018     |                  |              | December 31, 2017     |                  |              |
|----------------------------------|-----------------------|------------------|--------------|-----------------------|------------------|--------------|
|                                  | Market price          |                  | Market value | Market price          |                  | Market value |
|                                  | per share<br>(in won) | Number of shares |              | per share<br>(in won) | Number of shares |              |
| NanoEnTek, Inc.                  | 4,235                 | 7,600,649        | 32,189       | 5,950                 | 6,960,445        | 41,415       |
| SK hynix Inc.                    | 60,500                | 146,100,000      | 8,839,050    | 76,500                | 146,100,000      | 11,176,650   |
| S.M.Culture & Contents Co., Ltd. | 2,020                 | 22,033,898       | 44,508       | 2,700                 | 22,033,898       | 59,492       |

- (3) The condensed financial information of significant associates as of and for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

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

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

(\* The financial information of SK hynix Inc., KEB HanaCard Co., Ltd., and SK China Company Ltd. are consolidated financial information.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2018, 2017 and 2016**

(In millions of won)

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

(\*) The financial information of SK hynix Inc., KEB HanaCard Co., Ltd., and SK China Company Ltd. are consolidated financial information.

(In millions of won)

|                                   | SK hynix Inc.(*) | KEB HanaCard Co., Ltd.(*) |
|-----------------------------------|------------------|---------------------------|
| <b>As of December 31, 2016</b>    |                  |                           |
| Current assets                    | 9,838,982        | 6,868,387                 |
| Non-current assets                | 22,377,044       | 239,758                   |
| Current liabilities               | 4,160,849        | 1,219,327                 |
| Non-current liabilities           | 4,031,647        | 4,476,979                 |
| <b>2016</b>                       |                  |                           |
| Revenue                           | 17,197,975       | 1,413,077                 |
| Profit for the year               | 2,960,483        | 75,595                    |
| Other comprehensive income (loss) | 28,844           | (154)                     |
| Total comprehensive income        | 2,989,327        | 75,441                    |

(\* The financial information of SK hynix Inc. and KEB HanaCard Co., Ltd. are consolidated financial information.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(4) The condensed financial information of joint ventures as of and for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

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

*(In millions of won)*

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

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

|  | Dogus Planet, Inc.      | PT XL Planet<br>Digital | Finnq Co., Ltd |
|--|-------------------------|-------------------------|----------------|
|  | As of December 31, 2016 |                         |                |
| Current assets                                 | 46,433                  | 20,077                  | 48,699         |
| Cash and cash equivalents                      | 45,839                  | 14,985                  | 48,408         |
| Non-current assets                             | 20,218                  | 50,765                  | 673            |
| Current liabilities                            | 26,417                  | 14,513                  | 138            |
| Accounts payable, other payables and provision | 1,971                   | 10,306                  | 15             |
| Non-current liabilities                        | 72                      | 1,305                   | 784            |
|  | 2016                    |                         |                |
| Revenue  | 53,864                  | 9,492                   |                |
| Depreciation and amortization                  | (5,299)                 | (940)                   | (12)           |
| Interest income                                | 394                     | 267                     | 182            |
| Interest expense                               | (2,139)                 |                         |                |
| Income tax benefit                             |                         | 51                      |                |
| Loss for the year                              | (22,017)                | (49,438)                | (829)          |
| Total comprehensive loss                       | (22,017)                | (49,438)                | (829)          |

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

*(In millions of won)*

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

*(In millions of won)*

December 31, 2017

Net assets  
attributable to

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

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

(\*2) The ownership interest is based on the number of shares owned by the Parent Company as divided by the total shares issued by the investee company. The Group applied the equity method using the effective ownership interest which is based on the number of shares owned by the Parent Company and the investee's total shares outstanding. The effective ownership interest changed from 20.69% to 21.36% due to the investee company's acquisition of treasury shares.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

|   | Beginning<br>balance | Acquisition<br>and<br>Disposal | Share of<br>profits<br>(losses) | 2018<br>Other<br>compre-<br>hensive<br>income<br>(loss) | Other<br>increase<br>(decrease) | Ending<br>balance |
|---|----------------------|--------------------------------|---------------------------------|---|---------------------------------|-------------------|
| <b>Investments in associates:</b>                 |                      |                                |                                 |   |                                 |                   |
| SK China Company Ltd.                             | 526,099              |                                | 7,618                           | 17,831  |                                 | 551,548           |
| Korea IT Fund(*)                                  | 257,003              |                                | 38,099                          | (9,919)   | (3,499)                         | 281,684           |
| KEB HanaCard Co., Ltd.                            | 280,988              |                                | 14,581                          | (7,112)   |                                 | 288,457           |
| NanoEnTek, Inc.                                   | 38,718               | 3,180                          | (116)                           | (808)   |                                 | 40,974            |
| SK Technology Innovation Company                  | 42,511               |                                | (1,880)                         | 1,838   |                                 | 42,469            |
| HappyNarae Co., Ltd.                              | 21,873               | (29,325)                       | 7,479                           | (27)  |                                 |                   |
| SK hynix Inc.(*)                                  | 8,130,000            |                                | 3,238,054                       | (13,639)  | (146,100)                       | 11,208,315        |
| SK MENA Investment B.V.                           | 13,853               |                                | (24)                            | 591   |                                 | 14,420            |
| S.M.Culture & Contents Co., Ltd.                  | 64,966               |                                | (909)                           | (256)   |                                 | 63,801            |
| Xian Tianlong Science and<br>Technology Co., Ltd. | 25,891               | (25,553)                       | (338)                           |   |                                 |                   |
| Hello Nature Ltd.                                 |                      |                                | (959)                           |   | 29,508                          | 28,549            |
| 12CM Japan, Inc.                                  |                      | 7,697                          | (43)                            | 80  |                                 | 7,734             |
| MAKEUS Corp.                                      |                      | 9,773                          | (574)                           |   | (6)                             | 9,193             |
| SK South East Asia Investment Pte.<br>Ltd.        |                      | 111,000                        |                                 |   |                                 | 111,000           |
| Pacific Telecom Inc.                              |                      | 36,487                         | 473                             | 115   |                                 | 37,075            |
| Health Connect Co., Ltd. and<br>others(*)         | 96,479               | 22,902                         | (6,474)                         | 197   | (6,710)                         | 106,394           |
|   | 9,498,381            | 136,161                        | 3,294,987                       | (11,109)  | (126,807)                       | 12,791,613        |
| <b>Investments in joint ventures:</b>             |                      |                                |                                 |   |                                 |                   |
| Dogus Planet, Inc.                                | 13,991               | 1,537                          | 563                             | (3,604)   |                                 | 12,487            |
| Finnq Co., Ltd.                                   | 16,474               |                                | (8,728)                         | (75)  |                                 | 7,671             |
| 12CM GLOBAL PTE. LTD.                             | 9,592                | (9,631)                        | 42                              | (3)   |                                 |                   |
| Celcom Planet                                     |                      | 12,932                         | (12,932)                        |   |                                 |                   |
|   | 40,057               | 4,838                          | (21,055)                        | (3,682)   |                                 | 20,158            |

|           |         |           |          |           |            |
|-----------|---------|-----------|----------|-----------|------------|
| 9,538,438 | 140,999 | 3,273,932 | (14,791) | (126,807) | 12,811,771 |
|-----------|---------|-----------|----------|-----------|------------|

(\*) Dividends received from the associates are deducted from the carrying amount during the year ended December 31, 2018.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

|   | <b>Beginning<br/>balance</b> | <b>Acquisition<br/>and<br/>disposition</b> | <b>Share of<br/>profit<br/>(loss)</b> | <b>2017<br/>Other<br/>compre-<br/>hensive<br/>income<br/>(loss)</b> | <b>Impair-<br/>ment<br/>loss</b> | <b>Other<br/>increase<br/>(decrease)</b> | <b>Ending<br/>balance</b> |
|---|------------------------------|--|---------------------------------------|---|----------------------------------|--|---------------------------|
| <b>Investments in associates:</b>                 |                              |  |                                       |   |                                  |  |                           |
| SK China Company Ltd.(*1)                         | 46,354                       | 113,803                                    | 2,707                                 | (36,783)  |                                  | 400,018                                  | 526,099                   |
| Korea IT Fund(*2)                                 | 263,850                      |  | (8,815)                               | 3,371   |                                  | (1,403)                                  | 257,003                   |
| KEB HanaCard Co., Ltd.                            | 265,798                      |  | 15,494                                | (304)   |                                  |  | 280,988                   |
| NanoEnTek, Inc.                                   | 39,514                       |  | (733)                                 | (63)  |                                  |  | 38,718                    |
| SK Industrial Development<br>China Co., Ltd.(*1)  | 74,717                       |  | 5,154                                 | (1,092)   |                                  | (78,779)                                 |                           |
| SK Technology Innovation<br>Company               | 47,488                       |  | 433                                   | (5,410)   |                                  |  | 42,511                    |
| HappyNarae Co., Ltd.                              | 17,236                       | 688  | 3,929                                 | 20  |                                  |  | 21,873                    |
| SK hynix Inc.(*2)                                 | 6,132,122                    |  | 2,175,887                             | (90,349)  |                                  | (87,660)                                 | 8,130,000                 |
| SK MENA Investment B.V.                           | 15,451                       |  | 131                                   | (1,729)   |                                  |  | 13,853                    |
| SKY Property Mgmt.<br>Ltd.(*1)                    | 263,225                      |  | 2,362                                 | 1,141   |                                  | (266,728)                                |                           |
| S.M. Culture & Contents<br>Co., Ltd.              |                              | 65,341                                     | (375)                                 |   |                                  |  | 64,966                    |
| Xian Tianlong Science and<br>Technology Co., Ltd. | 25,880                       |  | 11                                    |   |                                  |  | 25,891                    |
| Health Connect Co., Ltd.<br>and others(*2)        | 115,181                      | (1,306)                                    | (6,924)                               | (2,723)   | (1,311)                          | (6,438)                                  | 96,479                    |
|   | 7,306,816                    | 178,526                                    | 2,189,261                             | (133,921)   | (1,311)                          | (40,990)                                 | 9,498,381                 |
| <b>Investments in joint ventures:</b>             |                              |  |                                       |   |                                  |  |                           |
| Dogus Planet, Inc.                                | 20,081                       | 2,162                                      | (2,267)                               | (5,985)   |                                  |  | 13,991                    |
| PT XL Planet Digital(*3)                          | 27,512                       | (18,864)                                   | (8,648)                               |   |                                  |  |                           |
| Finnq Co., Ltd                                    | 24,174                       |  | (7,691)                               | (9)   |                                  |  | 16,474                    |
| Celcom Planet and others                          | 25,740                       |  | (6,228)                               | (833)   |                                  | (9,087)                                  | 9,592                     |
|   | 97,507                       | (16,702)                                   | (24,834)                              | (6,827)   |                                  | (9,087)                                  | 40,057                    |
|   | 7,404,323                    | 161,824                                    | 2,164,427                             | (140,748)   | (1,311)                          | (50,077)                                 | 9,538,438                 |

- (\*1) Other increase (decrease) is due to merger of SK China Company Ltd., SK Industrial Development China Co., Ltd. and SKY Property Mgmt. Ltd.
- (\*2) Dividends received from the associates are deducted from the carrying amount during the year ended December 31, 2017.
- (\*3) During the year ended December 31, 2017, the Group disposed the shares of PT XL Planet Digital and recognized loss on disposal of 27,900 million.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

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

*(In millions of won)*

|   | Unrecognized loss |                 | Unrecognized change in equity |                 |
|---|-------------------|-----------------|-------------------------------|-----------------|
|   | 2018              | Cumulative loss | 2018                          | Cumulative loss |
| Wave City Development Co., Ltd.         | 4,434             | 6,534           |                               |                 |
| Daehan Kanggun BcN Co., Ltd. and others | 10,094            | 15,410          |                               | 365             |
|   | 14,528            | 21,944          |                               | 365             |

**14. Property and Equipment**

(1) Property and equipment as of December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|                          | Acquisition cost | December 31, 2018        |                             | Carrying amount |
|--------------------------|------------------|--------------------------|-----------------------------|-----------------|
|                          |                  | Accumulated depreciation | Accumulated impairment loss |                 |
| Land                     | 938,344          |                          |                             | 938,344         |
| Buildings                | 1,670,486        | (807,192)                |                             | 863,294         |
| Structures               | 883,032          | (525,537)                | (1,456)                     | 356,039         |
| Machinery                | 32,096,543       | (24,922,091)             | (27,728)                    | 7,146,724       |
| Other                    | 2,182,960        | (1,331,971)              | (2,393)                     | 848,596         |
| Construction in progress | 565,357          |                          |                             | 565,357         |
|                          | 38,336,722       | (27,586,791)             | (31,577)                    | 10,718,354      |

*(In millions of won)*

**December 31, 2017**

|                          | <b>Acquisition<br/>cost</b> | <b>Accumulated<br/>depreciation</b> | <b>Accumulated<br/>impairment<br/>loss</b> | <b>Carrying<br/>amount</b> |
|--------------------------|-----------------------------|-------------------------------------|--|----------------------------|
| Land                     | 862,861                     |                                     |  | 862,861                    |
| Buildings                | 1,638,749                   | (756,099)                           |  | 882,650                    |
| Structures               | 866,909                     | (488,334)                           |  | 378,575                    |
| Machinery                | 30,343,739                  | (23,262,762)                        | (1,179)                                    | 7,079,798                  |
| Other                    | 1,722,441                   | (1,188,893)                         | (2,491)                                    | 531,057                    |
| Construction in progress | 409,941                     |                                     |  | 409,941                    |
|                          | 35,844,640                  | (25,696,088)                        | (3,670)                                    | 10,144,882                 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(2) Changes in property and equipment for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

|                             | 2018                 |             |          |             |                   |                     |                                  |                                |                   |
|-----------------------------|----------------------|-------------|----------|-------------|-------------------|---------------------|----------------------------------|--------------------------------|-------------------|
|                             | Beginning<br>balance | Acquisition | Disposal | Transfer    | Depreci-<br>ation | Impair-<br>ment(*1) | Business<br>Combinations<br>(*2) | Disposal<br>of<br>Subsidiaries | Ending<br>balance |
| Land                        | 862,861              | 4,734       | (7,151)  | 15,062      |                   |                     | 62,838                           |                                | 938,344           |
| Buildings                   | 882,650              | 5,858       | (4,313)  | 25,249      | (52,153)          |                     | 6,003                            |                                | 863,294           |
| Structures                  | 378,575              | 9,188       | (36)     | 5,859       | (36,091)          | (1,456)             |                                  |                                | 356,039           |
| Machinery                   | 7,079,798            | 806,520     | (74,465) | 1,347,320   | (2,214,957)       | (27,264)            | 229,772                          |                                | 7,146,724         |
| Other                       | 531,057              | 892,103     | (7,408)  | (539,068)   | (148,223)         |                     | 123,214                          | (3,079)                        | 848,596           |
| Construction<br>in progress | 409,941              | 1,223,410   | (3,906)  | (1,078,539) |                   |                     | 14,451                           |                                | 565,357           |
|                             | 10,144,882           | 2,941,813   | (97,279) | (224,117)   | (2,451,424)       | (28,720)            | 436,278                          | (3,079)                        | 10,718,354        |

(\*1) The Group recognized impairment losses for obsolete assets during the year ended December 31, 2018.

(\*2) Includes assets from the acquisitions of id Quantique SA, Life & Security Holdings Co., Ltd. and SK Infosec Co., Ltd.

(In millions of won)

|                             | 2017                 |             |          |             |              |            |                          |       |                   |
|-----------------------------|----------------------|-------------|----------|-------------|--------------|------------|--------------------------|-------|-------------------|
|                             | Beginning<br>balance | Acquisition | Disposal | Transfer    | Depreciation | Impairment | Business<br>Combinations | Other | Ending<br>balance |
| Land                        | 835,909              | 13,093      | (4,449)  | 18,308      |              |            |                          |       | 862,861           |
| Buildings                   | 899,972              | 5,098       | (477)    | 29,614      | (51,557)     |            |                          |       | 882,650           |
| Structures                  | 358,955              | 46,614      | (74)     | 8,386       | (35,306)     |            |                          |       | 378,575           |
| Machinery                   | 7,036,050            | 656,731     | (41,692) | 1,644,045   | (2,214,524)  | (778)      |                          | (34)  | 7,079,798         |
| Other                       | 563,034              | 720,431     | (9,252)  | (597,404)   | (143,261)    | (2,234)    | 315                      | (572) | 531,057           |
| Construction<br>in progress | 680,292              | 1,317,389   | (4,172)  | (1,583,560) |              |            |                          | (8)   | 409,941           |

|            |           |          |           |             |         |     |       |            |
|------------|-----------|----------|-----------|-------------|---------|-----|-------|------------|
| 10,374,212 | 2,759,356 | (60,116) | (480,611) | (2,444,648) | (3,012) | 315 | (614) | 10,144,882 |
|------------|-----------|----------|-----------|-------------|---------|-----|-------|------------|

## 15. Goodwill

(1) Goodwill as of December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|------------------------------|------------------------------|
| Goodwill related to acquisition of Shinsegi Telecom, Inc.             | 1,306,236                    | 1,306,236                    |
| Goodwill related to acquisition of SK Broadband Co., Ltd.             | 358,443                      | 358,443                      |
| Goodwill related to acquisition of Life & Security Holdings Co., Ltd. | 1,155,037                    |                              |
| Other goodwill  | 118,847                      | 250,338                      |
|   | <b>2,938,563</b>             | <b>1,915,017</b>             |

(2) Details of the impairment testing of Goodwill as of December 31, 2018 is as follows:

Goodwill is allocated to the following CGUs for the purpose of impairment testing.

goodwill related to Shinsegi Telecom, Inc.(\*1): Cellular services;

goodwill related to SK Broadband Co., Ltd.(\*2): Fixed-line telecommunication services;

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

goodwill related to Life & Security Holdings Co., Ltd.: Security services; and

other goodwill: e-commerce, Security services, and other.

Operating income and expense each are key assumptions in cash flow projections. Based on the Group's experience, the operating income was estimated by considering market shares with the inclusion of the expected number of subscribers during the projection period and the operating expense was calculated by utilizing costs incurred per subscriber over the projection period.

(\*1) Goodwill related to acquisition of Shinsegi Telecom, Inc.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.1% (6.6% in 2017) to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of (-)0.4% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group's long-term wireless telecommunication business growth rate. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

(\*2) Goodwill related to acquisition of SK Broadband Co., Ltd.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.2% (5.1% in 2017) to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 1.0% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group's long-term wireless telecommunication business growth rate. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

(3) Details of the changes in goodwill for the years ended December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|                       | <b>2018</b> | <b>2017</b> |
|-----------------------|-------------|-------------|
| Beginning balance     | 1,915,017   | 1,932,452   |
| Acquisition           | 1,206,702   | 35,221      |
| Disposal              | (807)       |             |
| Impairment loss(*1,2) | (166,838)   | (33,441)    |

|       |           |           |
|-------|-----------|-----------|
| Other | (15,511)  | (19,215)  |
|       | 2,938,563 | 1,915,017 |

(\*1) As managements of the Group changed their strategy related to investment in shopkick, the Group recognized 153,367 million and 52,373 million of impairment losses for goodwill and intangible assets, respectively. The Group classified shopkick, Inc. as a single CGU and the recoverable amount was determined based on fair value less cost of disposal, and the fair value is estimated based on the bidding prices from multiple third parties in their respective letter of intent. This fair value is classified as level 3 in the fair value hierarchy.

(\*2) Digital contents service related goodwill of IRIVER LIMITED

The recoverable amount of the CGU was measured based on the value estimated on the present value of the future cash flows for the next five years discounted by 14.4% per annum. The cash flows expected to occur in the period exceeding five years were assumed to increase by 0.0% based on the characteristics of the business unit and of the industry it belongs to. As a result of the impairment test, the carrying value of the CGU exceeds the recoverable amount, thus the Group recognized 13,471 million of impairment loss.

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As of December 31, 2018 and 2017, accumulated impairment losses are 217,548 million and 50,710 million, respectively.

**16. Intangible Assets**

(1) Intangible assets as of December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|                        | <b>December 31, 2018</b> |                                 |                               | <b>Carrying amount</b> |
|------------------------|--------------------------|---------------------------------|-------------------------------|------------------------|
|                        | <b>Acquisition cost</b>  | <b>Accumulated amortization</b> | <b>Accumulated impairment</b> |                        |
| Frequency usage rights | 6,210,882                | (3,070,904)                     |                               | 3,139,978              |
| Land usage rights      | 65,974                   | (55,463)                        |                               | 10,511                 |
| Industrial rights      | 163,983                  | (50,640)                        | (29,716)                      | 83,627                 |
| Development costs      | 54,941                   | (44,304)                        | (1,647)                       | 8,990                  |
| Facility usage rights  | 155,470                  | (124,443)                       |                               | 31,027                 |
| Customer relations     | 643,421                  | (18,330)                        |                               | 625,091                |
| Club memberships(*1)   | 114,650                  |                                 | (34,175)                      | 80,475                 |
| Brand                  | 374,096                  |                                 |                               | 374,096                |
| Other(*2)              | 4,256,377                | (3,058,022)                     | (38,640)                      | 1,159,715              |
|                        | 12,039,794               | (6,422,106)                     | (104,178)                     | 5,513,510              |

*(In millions of won)*

|                        | <b>December 31, 2017</b> |                                 |                               | <b>Carrying amount</b> |
|------------------------|--------------------------|---------------------------------|-------------------------------|------------------------|
|                        | <b>Acquisition cost</b>  | <b>Accumulated amortization</b> | <b>Accumulated impairment</b> |                        |
| Frequency usage rights | 4,843,955                | (2,667,015)                     |                               | 2,176,940              |
| Land usage rights      | 65,841                   | (50,091)                        |                               | 15,750                 |
| Industrial rights      | 166,082                  | (54,735)                        |                               | 111,347                |
| Development costs      | 140,460                  | (134,828)                       | (1,529)                       | 4,103                  |
| Facility usage rights  | 153,438                  | (116,987)                       |                               | 36,451                 |
| Customer relations     | 20,796                   | (16,761)                        |                               | 4,035                  |
| Club memberships(*1)   | 108,382                  |                                 | (34,768)                      | 73,614                 |

|           |           |             |          |           |
|-----------|-----------|-------------|----------|-----------|
| Other(*2) | 3,911,749 | (2,733,485) | (13,539) | 1,164,725 |
|           | 9,410,703 | (5,773,902) | (49,836) | 3,586,965 |

(\*1) Club memberships are classified as intangible assets with indefinite useful life and are not amortized.

(\*2) Other intangible assets primarily consist of computer software and usage rights to a research facility which the Group built and donated, and the Group is given rights-to-use for a definite number of years in return.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(2) Details of the changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

|                        | <b>2018</b>                  |                    |                 |                 |                     |                            |   |                           |
|------------------------|------------------------------|--------------------|-----------------|-----------------|---------------------|----------------------------|---|---------------------------|
|                        | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Disposal</b> | <b>Transfer</b> | <b>Amortization</b> | <b>Impair<br/>ment(*1)</b> | <b>Business<br/>combina<br/>tions(*2)</b> | <b>Ending<br/>balance</b> |
| Frequency usage rights | 2,176,940                    | 1,366,926          |                 |                 | (403,888)           |                            |   | 3,139,978                 |
| Land usage rights      | 15,750                       | 2,918              | (1,142)         | 406             | (7,421)             |                            |   | 10,511                    |
| Industrial rights      | 111,347                      | 6,694              | (1,598)         | 5,254           | (7,418)             | (30,748)                   | 96  | 83,627                    |
| Development costs      | 4,103                        | 4,250              |                 | (6)             | (1,866)             | (118)                      | 2,627                                     | 8,990                     |
| Facility usage rights  | 36,451                       | 2,223              | (39)            | 101             | (7,709)             |                            |   | 31,027                    |
| Customer relations     | 4,035                        | 213                |                 | 149             | (9,541)             |                            | 630,235                                   | 625,091                   |
| Club memberships       | 73,614                       | 6,719              | (2,950)         | (7)             |                     | (173)                      | 3,272                                     | 80,475                    |
| Brand                  |                              |                    |                 |                 |                     |                            | 374,096                                   | 374,096                   |
| Other                  | 1,164,725                    | 126,164            | (9,181)         | 277,504         | (395,072)           | (29,242)                   | 24,817                                    | 1,159,715                 |
|                        | 3,586,965                    | 1,516,107          | (14,910)        | 283,401         | (832,915)           | (60,281)                   | 1,035,143                                 | 5,513,510                 |

(\*1) The Group recognized the difference between recoverable amount and the carrying amount of intangible assets amounting to 60,281 million as impairment loss for the year ended December 31, 2018.

(\*2) Includes assets from the Parent Company's acquisitions of id Quantique SA, Life & Security Holdings Co., Ltd. and SK Infosec Co., Ltd. and 374,096 million of brand determined to have indefinite useful lives acquired from the acquisition of Life & Security Holdings is included in other.

(In millions of won)

**2017**

|                           | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Disposal</b> | <b>Transfer</b> | <b>Amortization</b> | <b>Impairment(*1)</b> | <b>Business<br/>combinations(*2)</b> | <b>Others</b> | <b>Ending<br/>balance</b> |
|---------------------------|------------------------------|--------------------|-----------------|-----------------|---------------------|-----------------------|--------------------------------------|---------------|---------------------------|
| Frequency<br>usage rights | 2,580,828                    |                    |                 |                 | (403,888)           |                       |                                      |               | 2,176,940                 |
| Land usage<br>rights      | 20,834                       | 3,689              | (972)           | 200             | (8,001)             |                       |                                      |               | 15,750                    |
| Industrial<br>rights      | 121,200                      | 2,677              | (28)            | (5,635)         | (6,870)             |                       | 4                                    | (1)           | 111,347                   |
| Development<br>costs      | 4,871                        | 3,813              | (9)             | (793)           | (2,660)             | (1,119)               |                                      |               | 4,103                     |
| Facility usage<br>rights  | 41,788                       | 2,805              | (36)            | 129             | (8,235)             |                       |                                      |               | 36,451                    |
| Customer<br>relations     | 6,652                        | 1,054              |                 |                 | (3,671)             |                       |                                      |               | 4,035                     |
| Club<br>memberships       | 74,039                       | 5,023              | (3,452)         | 122             |                     | (769)                 |                                      | (1,349)       | 73,614                    |
| Brand<br>Other            | 926,142                      | 127,396            | (19,698)        | 503,277         | (369,546)           | (16,605)              | 14,118                               | (359)         | 1,164,725                 |
|                           | 3,776,354                    | 146,457            | (24,195)        | 497,300         | (802,871)           | (18,493)              | 14,122                               | (1,709)       | 3,586,965                 |

(\*1) The Group recognized the difference between recoverable amount and the carrying amount of intangible assets amounting to 18,493 million as impairment loss for the year ended December 31, 2017.

(\*2) Includes intangible assets acquired as a result of IRIVER LIMITED's purchase and merge of S.M. LIFE DESIGN COMPANY INC. and SM mobile communications Co., Ltd. during the year ended December 31, 2017.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(3) Research and development expenditures recognized as expense for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|   | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|-------------|
| Research and development costs expensed as incurred | 387,675     | 395,276     | 344,787     |

(4) Details of frequency usage rights as of December 31, 2018 are as follows:

*(In millions of won)*

|                   | <b>Amount</b>    | <b>Description</b>        | <b>Commencement of<br/>amortization</b> | <b>Completion of<br/>amortization</b> |
|-------------------|------------------|---------------------------|---|---------------------------------------|
| 800MHz license    | 101,969          | CDMA and LTE service      | Jul. 2011                               | Jun. 2021                             |
| 1.8GHz license    | 376,860          | LTE service               | Sept. 2013                              | Dec. 2021                             |
| 2.6GHz license    | 971,350          | LTE service               | Sept. 2016                              | Dec. 2026                             |
| 2.1GHz license    | 322,873          | W-CDMA and LTE<br>service | Dec. 2016                               | Dec. 2021                             |
| 3.5GHz license(*) | 1,164,243        | 5G service                |   | Nov. 2028                             |
| 28GHz license(*)  | 202,683          | 5G service                |   | Nov. 2023                             |
|                   | <b>3,139,978</b> |                           |   |                                       |

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

**17. Borrowings and Debentures**

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

*(In millions of won)*

|                       | <b>Lender</b> | <b>Annual<br/>interest<br/>rate (%)</b> | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-----------------------|---------------|---|------------------------------|------------------------------|
| Short-term borrowings | Shinhan Bank  | 3.19                                    | 30,000                       | 30,000                       |
|                       | Shinhan Bank  | 2.27                                    | 30,000                       |                              |
|                       | Shinhan Bank  | 3.75                                    | 15,000                       |                              |
|                       | KEB Hana Bank | 3.95                                    | 5,000                        |                              |
| Commercial paper      | KEB Hana Bank | 1.67                                    |                              | 50,000                       |
| Bank overdraft        | KEB Hana Bank | 3.17                                    |                              | 30,000                       |
|                       | Shinhan Bank  | 3.38                                    |                              | 20,000                       |
|                       |               |   | 80,000                       | 130,000                      |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(2) Long-term borrowings as of December 31, 2018 and 2017 are as follows:

*(In millions of won and thousands of U.S. dollars)*

| <b>Lender</b>               | <b>Annual interest rate (%)</b> | <b>Maturity</b> | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|-----------------------------|---------------------------------|-----------------|--------------------------|--------------------------|
| Korea Development Bank(*1)  | 3.20                            | Mar. 31, 2020   |                          | 30,000                   |
| KEB Hana Bank               | 3.51                            | Feb. 28, 2019   | 40,000                   | 40,000                   |
| Kookmin Bank                | 1.95                            | Mar. 15, 2018   |                          | 717                      |
| Korea Development Bank(*2)  | 2.20                            | Jul. 30, 2019   | 9,750                    | 22,750                   |
| Korea Development Bank(*2)  | 2.20                            | Jul. 30, 2019   | 2,500                    | 5,833                    |
| Korea Development Bank(*2)  | 2.32                            | Dec. 20, 2021   | 36,750                   | 49,000                   |
| Korea Development Bank(*2)  | 2.78                            | Dec. 21, 2022   | 50,000                   | 50,000                   |
| Credit Agricole CIB         | 2.72                            | Dec. 14, 2023   | 50,000                   |                          |
| Export Kreditnamnden(*3)    | 1.70                            | Apr. 29, 2022   | 45,007                   | 55,471                   |
|                             |                                 |                 | (USD 40,253)             | (USD 51,775)             |
| Shinhan Bank and others     | 4.21                            | Sept. 30, 2023  | 1,750,000                |                          |
| Shinhan Bank and others     | 7.20                            | Sept. 30, 2023  | 150,000                  |                          |
| Sub-total                   |                                 |                 | 2,134,007                | 253,771                  |
| Less present value discount |                                 |                 | (29,011)                 | (954)                    |
|                             |                                 |                 | 2,104,996                | 252,817                  |
| Less current installments   |                                 |                 | (89,631)                 | (41,331)                 |
|                             |                                 |                 | 2,015,365                | 211,486                  |

(\*1) SK Planet Co., Ltd., one of the subsidiaries of the Parent Company entered into a floating-to-fixed interest rate swap agreement to hedge the interest rate risk.

(\*2) SK Broadband Co., Ltd., one of the subsidiaries of the Parent Company entered into a floating-to-fixed interest rate swap agreement to hedge the interest rate risk.

(\*3) The long-term borrowings are to be repaid by installments on an annual basis until 2022.

(3) Debentures as of December 31, 2018 and 2017 are as follows:

*(In millions of won and thousands of U.S. dollars)*

|                               | <b>Purpose</b>   | <b>Maturity</b> | <b>Annual interest rate (%)</b> | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|-------------------------------|------------------|-----------------|---------------------------------|--------------------------|--------------------------|
| Unsecured corporate bonds     | Other fund       | 2018            | 5.00                            |                          | 200,000                  |
| Unsecured corporate bonds     | Operating fund   | 2021            | 4.22                            | 190,000                  | 190,000                  |
| Unsecured corporate bonds     | Operating and    | 2019            | 3.24                            | 170,000                  | 170,000                  |
| Unsecured corporate bonds     | refinancing fund | 2022            | 3.30                            | 140,000                  | 140,000                  |
| Unsecured corporate bonds     |                  | 2032            | 3.45                            | 90,000                   | 90,000                   |
| Unsecured corporate bonds     | Operating fund   | 2023            | 3.03                            | 230,000                  | 230,000                  |
| Unsecured corporate bonds     |                  | 2033            | 3.22                            | 130,000                  | 130,000                  |
| Unsecured corporate bonds     |                  | 2019            | 3.30                            | 50,000                   | 50,000                   |
| Unsecured corporate bonds     |                  | 2024            | 3.64                            | 150,000                  | 150,000                  |
| Unsecured corporate bonds(*1) |                  | 2029            | 4.72                            | 61,813                   | 60,278                   |
| Unsecured corporate bonds     | Refinancing      | 2019            | 2.53                            | 160,000                  | 160,000                  |
| Unsecured corporate bonds     | fund             | 2021            | 2.66                            | 150,000                  | 150,000                  |
| Unsecured corporate bonds     |                  | 2024            | 2.82                            | 190,000                  | 190,000                  |
| Unsecured corporate bonds     | Operating and    | 2022            | 2.40                            | 100,000                  | 100,000                  |
| Unsecured corporate bonds     | refinancing fund | 2025            | 2.49                            | 150,000                  | 150,000                  |
| Unsecured corporate bonds     |                  | 2030            | 2.61                            | 50,000                   | 50,000                   |

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|                           | <b>Purpose</b>                 | <b>Maturity</b> | <b>Annual interest rate (%)</b> | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|---------------------------|--------------------------------|-----------------|---------------------------------|--------------------------|--------------------------|
| Unsecured corporate bonds | Operating fund                 | 2018            | 1.89                            |                          | 90,000                   |
| Unsecured corporate bonds |                                | 2025            | 2.66                            | 70,000                   | 70,000                   |
| Unsecured corporate bonds |                                | 2030            | 2.82                            | 90,000                   | 90,000                   |
| Unsecured corporate bonds | Operating and refinancing fund | 2018            | 2.07                            |                          | 80,000                   |
| Unsecured corporate bonds |                                | 2025            | 2.55                            | 100,000                  | 100,000                  |
| Unsecured corporate bonds |                                | 2035            | 2.75                            | 70,000                   | 70,000                   |
| Unsecured corporate bonds | Operating fund                 | 2019            | 1.65                            | 70,000                   | 70,000                   |
| Unsecured corporate bonds |                                | 2021            | 1.80                            | 100,000                  | 100,000                  |
| Unsecured corporate bonds |                                | 2026            | 2.08                            | 90,000                   | 90,000                   |
| Unsecured corporate bonds |                                | 2036            | 2.24                            | 80,000                   | 80,000                   |
| Unsecured corporate bonds |                                | 2019            | 1.62                            | 50,000                   | 50,000                   |
| Unsecured corporate bonds |                                | 2021            | 1.71                            | 50,000                   | 50,000                   |
| Unsecured corporate bonds |                                | 2026            | 1.97                            | 120,000                  | 120,000                  |
| Unsecured corporate bonds |                                | 2031            | 2.17                            | 50,000                   | 50,000                   |
| Unsecured corporate bonds | Refinancing fund               | 2020            | 1.93                            | 60,000                   | 60,000                   |
| Unsecured corporate bonds |                                | 2022            | 2.17                            | 120,000                  | 120,000                  |
| Unsecured corporate bonds |                                | 2027            | 2.55                            | 100,000                  | 100,000                  |
| Unsecured corporate bonds | Operating and refinancing fund | 2032            | 2.65                            | 90,000                   | 90,000                   |
| Unsecured corporate bonds | Refinancing fund               | 2020            | 2.39                            | 100,000                  | 100,000                  |
| Unsecured corporate bonds | Operating and refinancing fund | 2022            | 2.63                            | 80,000                   | 80,000                   |
| Unsecured corporate bonds | Refinancing fund               | 2027            | 2.84                            | 100,000                  | 100,000                  |
| Unsecured corporate bonds |                                | 2021            | 2.57                            | 110,000                  |                          |
| Unsecured corporate bonds |                                | 2023            | 2.81                            | 100,000                  |                          |
| Unsecured corporate bonds |                                | 2028            | 3.00                            | 200,000                  |                          |
| Unsecured corporate bonds |                                | 2038            | 3.02                            | 90,000                   |                          |
| Unsecured corporate bonds | Operating and refinancing fund | 2021            | 2.10                            | 100,000                  |                          |
| Unsecured corporate bonds |                                | 2023            | 2.33                            | 150,000                  |                          |

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|                               |                |      |      |         |         |
|-------------------------------|----------------|------|------|---------|---------|
| Unsecured corporate bonds     |                | 2038 | 2.44 | 50,000  |         |
| Unsecured corporate bonds(*2) | Operating fund | 2019 | 3.49 | 210,000 | 210,000 |
| Unsecured corporate bonds(*2) |                | 2019 | 2.76 | 130,000 | 130,000 |
| Unsecured corporate bonds(*2) |                | 2018 | 2.23 |         | 50,000  |
| Unsecured corporate bonds(*2) |                | 2020 | 2.49 | 160,000 | 160,000 |
| Unsecured corporate bonds(*2) |                | 2020 | 2.43 | 140,000 | 140,000 |
| Unsecured corporate bonds(*2) |                | 2020 | 2.18 | 130,000 | 130,000 |
| Unsecured corporate bonds(*2) |                | 2019 | 1.58 | 50,000  | 50,000  |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won and thousands of U.S. dollars)*

|                               | <b>Purpose</b>                 | <b>Maturity</b> | <b>Annual interest rate (%)</b> | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|-------------------------------|--------------------------------|-----------------|---------------------------------|--------------------------|--------------------------|
| Unsecured corporate bonds(*2) | Operating and refinancing fund | 2021            | 1.77                            | 120,000                  | 120,000                  |
| Unsecured corporate bonds(*2) | Operating fund                 | 2022            | 2.26                            | 150,000                  | 150,000                  |
| Unsecured corporate bonds(*2) | Refinance fund                 | 2022            | 2.34                            | 30,000                   | 30,000                   |
| Unsecured corporate bonds(*2) | Operating and refinancing fund | 2022            | 2.70                            | 140,000                  | 140,000                  |
| Unsecured corporate bonds(*2) |                                | 2021            | 2.59                            | 70,000                   |                          |
| Unsecured corporate bonds(*2) |                                | 2023            | 2.93                            | 80,000                   |                          |
| Convertible bonds(*3)         | Operating fund                 | 2019            | 1.00                            | 5,479                    | 5,558                    |
| Unsecured global bonds        | Operating fund                 |                 |                                 | 447,240                  | 428,560                  |
| Unsecured global bonds        |                                | 2027            | 6.63                            | (USD 400,000)            | (USD 400,000)            |
| Unsecured global bonds        |                                | 2018            | 2.13                            |                          | (USD 700,000)            |
| Unsecured global bonds        |                                |                 |                                 | 559,050                  |                          |
| Unsecured global bonds(*2)    | Refinancing fund               | 2023            | 3.75                            | (USD 500,000)            |                          |
| Unsecured global bonds(*2)    |                                |                 |                                 | 335,430                  |                          |
| Unsecured global bonds(*2)    |                                | 2023            | 3.88                            | (USD 300,000)            |                          |
| Unsecured global bonds(*2)    | Operating fund                 |                 |                                 |                          | 321,420                  |
| Floating rate notes(*4)       | Operating fund                 | 2018            | 2.88                            |                          | (USD 300,000)            |
| Floating rate notes(*4)       |                                |                 |                                 | 335,430                  | 321,420                  |
| Floating rate notes(*4)       |                                | 2020            | 3M LIBOR + 0.88                 | (USD 300,000)            | (USD 300,000)            |
| Sub-total                     |                                |                 |                                 | 7,494,442                | 7,107,216                |
| Less discounts on bonds       |                                |                 |                                 | (27,590)                 | (21,029)                 |
|                               |                                |                 |                                 | 7,466,852                | 7,086,187                |

|                                    |           |             |
|------------------------------------|-----------|-------------|
| Less current installments of bonds | (894,641) | (1,489,617) |
|                                    | 6,572,211 | 5,596,570   |

(\*1) The Group eliminated a measurement inconsistency of accounting profit or loss between the bonds and related derivatives by designating the structured bonds as financial liabilities at fair value through profit or loss. The carrying amount of financial liabilities designated at fair value through profit or loss exceeds the principal amount required to pay at maturity by 11,813 million as of December 31, 2018.

(\*2) Unsecured corporate bonds were issued by SK Broadband Co., Ltd.

(\*3) Convertible bonds were issued by IRIVER LIMITED.

(\*4) As of December 31, 2018, 3M LIBOR rate is 2.80%.

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

*(In millions of won)*

|   | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|---|--------------------------|--------------------------|
| Payables related to acquisition of frequency usage rights | 1,939,082                | 1,328,630                |
| Other(*)  | 29,702                   | 18,133                   |
|   | <b>1,968,784</b>         | <b>1,346,763</b>         |

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

(2) As of December 31, 2018 and 2017, details of long-term payables other which consist of payables related to the acquisition of frequency usage rights are as follows (See note 16):

*(In millions of won)*

|  | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|--|--------------------------|--------------------------|
| Long-term payables other                           | 2,476,738                | 1,710,255                |
| Present value discount on long-term payables other | (113,772)                | (79,874)                 |
| Current installments of long-term payables other   | (423,884)                | (301,751)                |
| Carrying amount at December 31                     | 1,939,082                | 1,328,630                |

(3) The repayment schedule of the principal amount of long-term payables other related to acquisition of frequency usage rights as of December 31, 2018 is as follows:

*(In millions of won)*

**Amount**

|                   |           |
|-------------------|-----------|
| Less than 1 year  | 425,349   |
| 1~3 years         | 850,699   |
| 3~5 years         | 444,480   |
| More than 5 years | 756,210   |
|                   | 2,476,738 |

### 19. Provisions

Changes in provisions for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

|  | 2018              |                            |          |             |          |       | As of December 31, 2018 |                |         |             |
|--|-------------------|----------------------------|----------|-------------|----------|-------|-------------------------|----------------|---------|-------------|
|  | Beginning balance | Impact of adopting IFRS 15 | Increase | Utilization | Reversal | Other | Business combination    | Ending balance | Current | Non-current |
| Provision for installment of handset subsidy | 3,874             |                            |          | (1,075)     | (2,799)  |       |                         |                |         |             |
| Provision for restoration(*1)                | 73,267            |                            | 6,684    | (1,788)     | (765)    | 2     | 341                     | 77,741         | 47,293  | 30,448      |
| Emission allowance(*2)                       | 4,650             |                            | 2,228    | (1,334)     | (3,306)  |       |                         | 2,238          | 2,238   |             |
| Other provisions(*3)                         | 2,935             | (215)                      | 110,628  | (15,176)    | (272)    |       | 9,329                   | 107,229        | 38,462  | 68,767      |
|  | 84,726            | (215)                      | 119,540  | (19,373)    | (7,142)  | 2     | 9,670                   | 187,208        | 87,993  | 99,215      |

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|  | 2017                 |          |             |          |       | As of December 31, 2017 |         |             |
|--|----------------------|----------|-------------|----------|-------|-------------------------|---------|-------------|
|  | Beginning<br>balance | Increase | Utilization | Reversal | Other | Ending<br>balance       | Current | Non-current |
| Provision for installment of handset subsidy | 24,710               | 2        | (8,898)     | (11,940) |       | 3,874                   | 3,874   |             |
| Provision for restoration(*1)                | 64,679               | 12,066   | (2,517)     | (1,006)  | 45    | 73,267                  | 40,598  | 32,669      |
| Emission allowance(*2)                       | 2,788                | 4,663    | (518)       | (2,283)  |       | 4,650                   | 4,650   |             |
| Other provisions                             | 5,740                | 952      | (3,757)     |          |       | 2,935                   | 2,935   |             |
|  | 97,917               | 17,683   | (15,690)    | (15,229) | 45    | 84,726                  | 52,057  | 32,669      |

(\*1) In the course of the Group's activities, base station and other assets are installed on leased premises which are expected to have costs associated with restoring the premises to their original conditions where these assets are situated upon ceasing their use on those premises. The associated cash outflows, which are long-term in nature, are generally expected to occur at the dates of the termination of lease contracts to which the assets relate. These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Forecasts of estimated future cash outflows are revised in light of future changes in business conditions or technological requirements. The Group records these restoration costs as property and equipment and subsequently expenses them using the straight-line method over the asset's useful life, and records the accretion of the liability as a charge to finance costs.

(\*2) The Group recognizes estimated future payment for the number of emission certificates required to settle the Group's obligation exceeding the actual number of certificates on hand as emission allowances according to the Act on Allocation and Trading of Greenhouse Gas Emission Permits.

(\*3) 36,844 million of current provisions and 57,310 million of non-current provisions are included in the other provisions relating to SK Planet Co., Ltd.'s onerous contracts. (See note 39)

**20. Leases**

The Group entered into operating lease arrangements such as rented office space and cell sites. The expected future minimum lease payments as of December 31, 2018 are as follows:

*(In millions of won)*

|                   | <b>Minimum<br/>lease<br/>payments</b> |
|-------------------|---------------------------------------|
| Less than 1 year  | 347,679                               |
| 1~5 years         | 350,988                               |
| More than 5 years | 71,087                                |
|                   | 769,754                               |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****21. Defined Benefit Liabilities (Assets)**

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

*(In millions of won)*

|  | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | 926,302                  | 679,625                  |
| Fair value of plan assets                    | (816,699)                | (663,617)                |
| Defined benefit assets(*)                    | (31,926)                 | (45,952)                 |
| Defined benefit liabilities                  | 141,529                  | 61,960                   |

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

(2) Principal actuarial assumptions as of December 31, 2018 and 2017 are as follows:

|   | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|---|--------------------------|--------------------------|
| Discount rate for defined benefit obligations | 2.24~3.07%               | 2.58%~4.03%              |
| Expected rate of salary increase              | 3.42~5.61%               | 3.08%~5.93%              |

Discount rate for defined benefit obligation is determined based on market yields of high-quality corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of salary increase is determined based on the Group's historical promotion index, inflation rate and salary increase ratio.

(3) Changes in defined benefit obligations for the years ended December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|                                  | <b>For the year ended December 31,</b> |             |
|----------------------------------|--|-------------|
|                                  | <b>2018</b>                            | <b>2017</b> |
| Beginning balance                | 679,625                                | 595,667     |
| Current service cost             | 143,725                                | 125,526     |
| Interest cost                    | 23,131                                 | 15,991      |
| Remeasurement                    |  |             |
| - Demographic assumption         | (1,929)                                | (287)       |
| - Financial assumption           | 30,519                                 | (20,731)    |
| - Adjustment based on experience | 16,085                                 | 11,561      |
| Benefit paid                     | (63,957)                               | (60,883)    |
| Business combinations            | 104,251                                |             |
| Others(*)                        | (5,148)                                | 12,781      |
| Ending balance                   | 926,302                                | 679,625     |

(\*) Others include changes of liabilities due to employee s transfers among affiliates for the years ended December 31, 2018 and 2017.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(4) Changes in plan assets for the years ended December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|                       | <b>For the year ended December 31,</b> |             |
|-----------------------|--|-------------|
|                       | <b>2018</b>                            | <b>2017</b> |
| Beginning balance     | 663,617                                | 555,175     |
| Interest income       | 19,134                                 | 13,821      |
| Remeasurement         | (7,659)                                | (5,540)     |
| Contributions         | 166,624                                | 155,834     |
| Benefit paid          | (43,549)                               | (60,006)    |
| Business combinations | 21,417                                 |             |
| Others                | (2,885)                                | 4,333       |
| Ending balance        | 816,699                                | 663,617     |

The Group expects to make a contribution of 185,121 million to the defined benefit plans in 2019.

(5) Total cost of benefit plan, which is recognized in profit and loss (included in labor in the statement of income) and capitalized into construction-in-progress, for the years ended December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|                      | <b>For the year ended December 31,</b> |             |             |
|----------------------|--|-------------|-------------|
|                      | <b>2018</b>                            | <b>2017</b> | <b>2016</b> |
| Current service cost | 143,725                                | 125,526     | 114,528     |
| Net interest cost    | 3,997                                  | 2,170       | 3,615       |
|                      | 147,722                                | 127,696     | 118,143     |

Costs related to the defined benefit expect for the amounts transferred to construction in progress are included labor expenses and Research and development expenses.

(6) Details of plan assets as of December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|  | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|--|--------------------------|--------------------------|
| Equity instruments                     | 60,828                   | 15,567                   |
| Debt instruments                       | 144,272                  | 134,710                  |
| Short-term financial instruments, etc. | 611,599                  | 513,340                  |
|  | 816,699                  | 663,617                  |

(7) As of December 31, 2018, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

*(In millions of won)*

|                               | <b>0.5% Increase</b> | <b>0.5% Decrease</b> |
|-------------------------------|----------------------|----------------------|
| Discount rate                 | (40,495)             | 43,918               |
| Expected salary increase rate | 43,905               | (41,110)             |

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

A weighted average duration of defined benefit obligations as of December 31, 2018 is 8.36 years.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****22. Derivative Instruments**

(1) Currency and interest rate swap contracts under cash flow hedge accounting as of December 31, 2018 are as follows:

*(In millions of won and thousands of U.S. dollars)*

| <b>Borrowing date</b> | <b>Hedging Instrument (Hedged item)</b>   | <b>Hedged risk</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 USD 400,000)                  | Foreign currency risk                        | Morgan Stanley and four other banks                   | Jul. 20, 2007 ~ Jul. 20, 2027 |
| Mar. 7, 2013          | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000) | Foreign currency risk and interest rate risk | DBS bank  | Mar. 7, 2013 ~ Mar. 7, 2020   |
| Dec. 16, 2013         | Fixed-to-fixed cross currency (U.S. dollar borrowing amounting to USD 40,253)                                 | Foreign currency risk                        | Deutsche bank   | Dec. 16, 2013 ~ Apr. 29, 2022 |
| Apr. 16, 2018         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 500,000)                  | Foreign currency risk                        | The Export-Import Bank of Korea and three other banks | Apr. 16, 2018 ~ Apr. 16, 2023 |
| Aug. 13, 2018         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)                  | Foreign currency risk                        | Citibank  | Aug. 13, 2018 ~ Aug. 13, 2023 |
| Dec. 20, 2016         | Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 36,750)                           | Interest rate risk                           | Korea Development Bank                                | Dec. 20, 2016 ~ Dec. 20, 2021 |
| Jan. 30, 2017         | Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 12,250)                           | Interest rate risk                           | Korea Development Bank                                | Nov. 10, 2016 ~ Jul. 30, 2019 |
| Dec. 21, 2017         | Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 50,000)                           | Interest rate risk                           | Korea Development                                     | Dec. 21, 2017 ~               |

- (2) SK Broadband Co., Ltd., a subsidiary of the Parent Company, entered into a leasing contract with GL Gasan Metro Co., Ltd., which develops and leases real estate, for the building and operations of Internet Data Center in 2017. With respect to financing the development of the property, GL Gasan Metro Co., Ltd. has issued subordinated bonds to IGIS Professional Investment Type Private Real Estate Investment Trust No. 156, which financed the purchase of bonds by issuing beneficiary certificates to Sbsen Co., Ltd. and Msgadi Co., Ltd. In connection with these arrangements, SK Broadband Co., Ltd., Sbsen Co., Ltd. and Msgadi Co., Ltd. entered into a Total Return Swap (TRS) contract amounting to 70,000 million with beneficiary certificates as underlying assets during the previous year and an additional 200,000 million Total Return Swap (TRS) contract during the year ended December 31, 2018. These two contracts expire in November 2022. SK Broadband Co., Ltd. has an obligation to guarantee fixed rate of returns to Sbsen Co., Ltd. and Msgadi Co., Ltd.

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(3) As of December 31, 2018, details of fair values of the above derivatives recorded in assets or liabilities are as follows:

*(In millions of won and thousands of U.S. dollars)*

| Hedging instrument (Hedged item)  | Cash flow<br>hedge | Held for<br>trading | Fair<br>value |
|---|--------------------|---------------------|---------------|
| <b>Current assets:</b>  |                    |                     |               |
| Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 12,250)                           | 13                 |                     | 13            |
| <b>Non-current assets:</b>  |                    |                     |               |
| Structured bond (face value of KRW 50,000)  |                    | 10,947              | 10,947        |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)                  | 9,335              |                     | 9,335         |
| Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000) | 6,499              |                     | 6,499         |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 500,000)                  | 24,024             |                     | 24,024        |
| <b>Settlement contract:</b>   |                    |                     |               |
| Others  |                    | 4,639               | 4,639         |
|   |                    |                     | 55,457        |
| <b>Non-current liabilities:</b>   |                    |                     |               |
| Fixed-to-fixed long-term borrowings (U.S. dollar borrowing amounting to USD 40,253)                           | (1,107)            |                     | (1,107)       |
| Fixed-to-fixed long-term bonds (U.S. dollar borrowing amounting to USD 300,000)                               | (2,874)            |                     | (2,874)       |
| Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 86,750) to KRW 30,000)            | (203)              |                     | (203)         |
|   |                    |                     | (4,184)       |

**23. Share Capital and Capital Surplus (deficit) and Others**

The Parent Company's outstanding share capital consists entirely of common shares with a par value of 500. The number of authorized, issued and outstanding common shares and the details of capital surplus (deficit) and others as of December 31, 2018 and 2017 are as follows:

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

|                             | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|-----------------------------|--------------------------|--------------------------|
| Number of authorized shares | 220,000,000              | 220,000,000              |
| Number of issued shares(*1) | 80,745,711               | 80,745,711               |
| Share capital:              |                          |                          |
| Common share                | 44,639                   | 44,639                   |
| Capital surplus and others: |                          |                          |
| Paid-in surplus             | 2,915,887                | 2,915,887                |
| Treasury shares (note 24)   | (1,979,475)              | (2,260,626)              |
| Share option (note 26)      | 1,007                    | 414                      |
| Others(*2)                  | (681,094)                | (857,912)                |
|                             | 256,325                  | (202,237)                |

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(\*1) In 2002 and 2003, the Parent Company retired treasury shares with reduction of retained earnings before appropriation. As a result, the Parent Company's outstanding shares have decreased without change in share capital.

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

There were no changes in share capital during the years ended December 31, 2018 and 2017 and details of shares outstanding as of December 31, 2018 and 2017 are as follows:

| <i>(In shares)</i> | 2018          |                 |                    | 2017          |                 |                    |
|--------------------|---------------|-----------------|--------------------|---------------|-----------------|--------------------|
|                    | Issued shares | Treasury shares | Outstanding shares | Issued shares | Treasury shares | Outstanding shares |
| Shares outstanding | 80,745,711    | 8,875,883       | 71,869,828         | 80,745,711    | 10,136,551      | 70,609,160         |

**24. Treasury Shares**

The Parent Company acquired treasury shares to provide share dividends, merge with Shinsegi Telecom, Inc. and SK IMT Co, Ltd., increase shareholder value and stabilize its share prices.

Treasury shares as of December 31, 2018 and 2017 are as follows:

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

|                     | December 31, 2018 | December 31, 2017 |
|---------------------|-------------------|-------------------|
| Number of shares(*) | 8,875,883         | 10,136,551        |
| Acquisition cost    | 1,979,475         | 2,260,626         |

(\*) The number of treasury shares have decreased by 1,260,668 due to the comprehensive stock exchange transaction with SK Holdings Co., Ltd. (See note 12)

**25. Hybrid Bonds**

The Parent Company repaid Series 1 hybrid bonds during the year ended December 31, 2018 and issued the Series 2 hybrid bonds. Hybrid bonds classified as equity as of December 31, 2018 are as follows:

*(In millions of won)*

|                         | <b>Type</b>                        | <b>Issuance date</b> | <b>Maturity(*1)</b> | <b>Annual interest rate(%)(*2)</b> | <b>Amount</b> |
|-------------------------|------------------------------------|----------------------|---------------------|------------------------------------|---------------|
| Series 2-1 hybrid bonds | Unsecured subordinated bearer bond | June 7, 2018         | June 7, 2078        | 3.70                               | 300,000       |
| Series 2-2 hybrid bonds | Unsecured subordinated bearer bond | June 7, 2018         | June 7, 2078        | 3.65                               | 100,000       |
| Issuance costs          |                                    |                      |                     |                                    | (1,241)       |
|                         |                                    |                      |                     |                                    | 398,759       |

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

(\*1) The Parent Company has a right to extend the maturity without any notice or announcement.



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(\*2) Annual interest rate is determined as yield rate of 5 year national bond plus premium. According to the step-up clause, additional premium of 0.25% and 0.75%, respectively, after 10 years and 25 years from the issuance date are applied.

**26. Share option**

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

|                              | <b>Parent Company Series</b>              |   |   |   |
|------------------------------|---|---|---|---|
|                              | <b>1-1</b>                                | <b>1-2</b>                                | <b>1-3</b>                                | <b>2(*)</b>                               |
| Grant date                   |   | March 24, 2017                            |   | February 20, 2018                         |
| Types of shares to be issued |   | Registered common shares                  |   |   |
| Grant method                 |   | Reissue of treasury shares                |   |   |
| Number of shares (in shares) | 22,168                                    | 22,168                                    | 22,168                                    | 1,358                                     |
| Exercise price (in won)      | 246,750                                   | 266,490                                   | 287,810                                   | 254,120                                   |
| Exercise period              |   |   |   | Feb. 21, 2020~                            |
|                              | Mar. 25, 2019 ~<br>Mar. 24, 2022          | Mar. 25, 2020 ~<br>Mar. 24, 2023          | Mar. 25, 2021 ~<br>Mar. 24, 2024          | Feb. 20, 2023                             |
| 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 years service<br>from the grant<br>date |

(\* ) Parts of the grant that have not met the vesting conditions have been forfeited during the year ended December 31, 2018.

|                              | <b>One Store Co., Ltd.</b>           |
|------------------------------|--------------------------------------|
| Grant date                   | April 27, 2018                       |
| Types of shares to be issued | Common shares of One Store Co., Ltd. |
| Grant method                 | Issuance of new shares               |
| Number of shares (in shares) | 1,032,000                            |
| Exercise price (in won)      | 5,390                                |

|                    |   |
|--------------------|---|
| Exercise period    | Apr. 28, 2020~  |
| Vesting conditions | Apr. 27, 2024<br>2 years service from<br>the grant date |

(2) Share compensation expense recognized during the year ended December 31, 2018 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

*(In millions of won)*

|   | <b>Share<br/>compensation expense</b> |
|---|---------------------------------------|
| During the year ended December 31, 2017 | 414                                   |
| During the year ended December 31, 2018 | 789                                   |
| In subsequent periods                   | 804                                   |
|   | 2,007                                 |

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

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

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

**27. Retained Earnings**

(1) Retained earnings as of December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|                                    | December 31, 2018 | December 31, 2017 |
|------------------------------------|-------------------|-------------------|
| Appropriated:                      |                   |                   |
| Legal reserve                      | 22,320            | 22,320            |
| Reserve for business expansion     | 10,531,138        | 10,171,138        |
| Reserve for technology development | 3,321,300         | 3,071,300         |
|                                    | 13,874,758        | 13,264,758        |
| Unappropriated                     | 8,269,783         | 4,571,188         |
|                                    | 22,144,541        | 17,835,946        |

## (2) Legal reserve

The Korean Commercial Act requires the Parent Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to share capital.

**28. Reserves**

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

*(In millions of won)*

|   | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|---|--------------------------|--------------------------|
| Valuation gain on FVOCI   | (124)                    |                          |
| Valuation gain on available-for-sale financial assets           |                          | 168,211                  |
| Other comprehensive loss of investments in associates           | (334,637)                | (320,060)                |
| Valuation loss on derivatives                                   | (41,601)                 | (73,828)                 |
| Foreign currency translation differences for foreign operations | 2,920                    | (9,050)                  |
|   | (373,442)                | (234,727)                |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(2) Changes in reserves for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

|                              | <b>2018</b>   |   |  |  |  |              |
|------------------------------|---|---|--|--|--|--------------|
|                              | <b>Valuation gain<br/>(loss)<br/>on<br/>financial assets<br/>at<br/>FVOCI</b> | <b>Valuation<br/>gain<br/>(loss) on<br/>available-for-sale<br/>financial<br/>assets</b> | <b>Other compre-<br/>hensive<br/>loss of<br/>investments<br/>in<br/>associates</b> | <b>Valuation<br/>loss on<br/>derivatives</b> | <b>Foreign currency<br/>translation<br/>differences<br/>for<br/>foreign operations</b> | <b>Total</b> |
| Balance at December 31, 2017 |   | 168,211   | (320,060)  | (73,828)                                     | (9,050)  | (234,727)    |
| Impact of adopting IFRS 9    | 99,407  | (168,211)   |  |  |  | (68,804)     |
| Balance at January 1, 2018   | 99,407  |   | (320,060)  | (73,828)                                     | (9,050)  | (303,531)    |
| Changes, net of taxes        | (99,531)  |   | (14,577)   | 32,227                                       | 11,970   | (69,911)     |
| Balance at December 31, 2018 | (124)   |   | (334,637)  | (41,601)                                     | 2,920  | (373,442)    |

(In millions of won)

|                              | <b>2017</b>   |  |  |  |              |  |
|------------------------------|---|--|--|--|--------------|--|
|                              | <b>Valuation<br/>gain<br/>(loss) on<br/>available-for-sale<br/>financial<br/>assets</b> | <b>Other compre-<br/>hensive loss<br/>of<br/>investments<br/>in<br/>associates</b> | <b>Valuation<br/>loss on<br/>derivatives</b> | <b>Foreign currency<br/>translation<br/>differences<br/>for<br/>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        | 155,677   | (140,893)  | 22,590                                       | (45,918)   | (8,544)      |  |
| Balance at December 31, 2017 | 168,211   | (320,060)  | (73,828)                                     | (9,050)  | (234,727)    |  |

(3) Changes in valuation gain on financial assets at FVOCI and available-for-sale financial assets for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

**2018**                      **2017**

|   |           |         |
|---|-----------|---------|
| Balance at January 1  | 99,407    | 12,534  |
| Amount recognized as other comprehensive income during the year, net of taxes | (117,514) | 132,586 |
| Amount reclassified to profit or loss, net of taxes                           |           | 23,091  |
| Amount reclassified to retained earnings, net of taxes                        | 17,983    |         |
| Balance at December 31  | (124)     | 168,211 |

(4) Changes in valuation loss on derivatives for the years ended December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|   | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|
| Balance at January 1  | (73,828)    | (96,418)    |
| Amount recognized as other comprehensive loss during the year, net of taxes | (11,301)    | 17,965      |
| Amount reclassified to profit or loss, net of taxes                         | 43,528      | 4,625       |
| Balance at December 31  | (41,601)    | (73,828)    |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****29. Redeemable convertible preferred stocks**

Eleven street Co., Ltd., a subsidiary of the Parent Company, issued redeemable convertible preferred stocks on September 7, 2018 according to the board of directors' resolution. The details of the issuance are as follows:

**Information of redeemable convertible preferred stocks**

|                         |   |
|-------------------------|---|
| Issuer                  | Eleven Street Co., Ltd.   |
| Number of shares issued | 1,863,093   |
| Issue price             | 268,371 per share   |
| Voting rights           | 1 voting right per 1 share  |
| Dividend rate(*)        | 6% of the issue price per annum (cumulative, non-participating)   |
| Conversion period       | The obligatory dividend rate of the Parent Company is 1% of the issue price per annum<br>From 6 months after the date of issue to 1 business day before the expiration date of the redemption period  |
| Conversion ratio        | [Issue price ÷ Conversion price at the date of conversion] per share  |
| Conversion price        | 268,371 per share   |
| Refixing clauses        | In the case when spin-off, merger, split merger of the company, comprehensive stock exchange or transfer and decrease in capital, ( merger and others ), conversion price is subject to refixing to guarantee the value that the holder could earn the day right before the circumstances arise.<br><br>In the case when this preferred share is split or merged, the conversion prices is subject to refixing to correspond with the split or merge ratio. |
| Redemption period       | Two months from September 30, 2023 to December 31, 2047 at the choice of the issuer.  |
| Redemption party        | Eleven Street Co., Ltd.   |
| Redemption price        | Amounts realizing the internal rate of return to be 3.5% at the date of actual redemption   |
| Claim to the residue    | Preferential to the common shares   |

(\* ) The present value of obligatory dividends amounting to 23,191 million payable to non-controlling interests based on the shareholders agreement are recognized as financial liabilities as of December 31, 2018.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****30. Other Operating Income and Expenses**

Details of other operating income and expenses for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|  | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|-------------|
| <b>Other Operating Income:</b>                                   |             |             |             |
| Gain on disposal of property and equipment and intangible assets | 38,933      | 13,991      | 6,908       |
| Others(*)  | 33,017      | 18,006      | 59,640      |
|  | 71,950      | 31,997      | 66,548      |
| <b>Other Operating Expenses:</b>                                 |             |             |             |
| Communication  | 35,507      | 27,973      | 31,196      |
| Utilities  | 297,049     | 299,825     | 277,497     |
| Taxes and dues   | 37,290      | 27,819      | 35,020      |
| Repair   | 353,321     | 333,101     | 326,076     |
| Research and development   | 387,675     | 395,276     | 344,787     |
| Training   | 35,574      | 32,853      | 33,303      |
| Bad debt for accounts receivable trade                           | 38,211      | 34,584      | 37,820      |
| Travel   | 27,910      | 24,095      | 25,263      |
| Supplies and other   | 130,008     | 111,170     | 113,930     |
| Loss on disposal of property and equipment and intangible assets | 87,257      | 60,086      | 63,797      |
| Impairment loss on other investment securities                   | 3,157       | 9,003       | 24,033      |
| Impairment loss on property and equipment and intangible assets  | 255,839     | 54,946      | 24,506      |
| Donations  | 59,012      | 112,634     | 96,633      |
| Bad debt for accounts receivable other                           | 7,718       | 5,793       | 40,312      |
| Others(*)  | 26,876      | 101,589     | 49,593      |
|  | 1,782,404   | 1,630,747   | 1,523,766   |

(\*) See note 5 (2).

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****31. Finance Income and Costs**

(1) Details of finance income and costs for the years ended December 31, 2018, 2017 and 2016 are as follows:

(In millions of won)

|   | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|-------------|
| <b>Finance Income:</b>  |             |             |             |
| Interest income   | 69,936      | 76,045      | 54,353      |
| Gain on sale of accounts receivable other                                 | 20,023      | 18,548      | 18,638      |
| Dividends   | 35,143      | 12,416      | 19,161      |
| Gain on foreign currency transactions                                     | 17,990      | 13,676      | 14,186      |
| Gain on foreign currency translations                                     | 2,776       | 7,110       | 5,085       |
| Gain on disposal of long-term investment securities                       |             | 4,890       | 459,349     |
| Gain on valuation of derivatives  | 6,532       | 223,943     | 4,132       |
| Gain on settlement of derivatives   | 20,399      |             |             |
| Gain relating to financial assets at FVTPL(*)                             | 83,636      | 33          | 25          |
| Reversal of impairment loss on available-for-sale financial assets        |             | 9,900       |             |
| Gain relating to financial liability at fair value through profit or loss |             |             | 121         |
|   | 256,435     | 366,561     | 575,050     |
| <b>Finance Costs:</b>   |             |             |             |
| Interest expense  | 307,319     | 299,100     | 290,454     |
| Loss on sale of accounts receivable trade                                 |             | 9,682       |             |
| Loss on foreign currency transactions                                     | 38,920      | 19,263      | 16,765      |
| Loss on foreign currency translations                                     | 2,397       | 8,419       | 3,991       |
| Loss on disposal of long-term investment securities                       |             | 36,024      | 2,919       |
| Loss on settlement of derivatives   | 12,554      | 10,031      | 3,428       |
| Loss relating to financial liability at FVTPL                             | 1,535       | 678         | 4,018       |
| Loss relating to financial assets at FVTPL                                | 22,507      |             |             |
| Impairment loss on long-term investment securities                        |             | 14,519      | 5,255       |
| Other finance costs   |             | 35,900      |             |
|   | 385,232     | 433,616     | 326,830     |

(\* Includes gains on disposal of 200,000 shares of convertible redeemable bonds issued by KRAFTON Co., Ltd. (formerly, Bluehole Inc.) amounting to 58,000 million.

(2) Details of interest income included in finance income for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|  | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|-------------|
| Interest income on cash equivalents and short-term financial instruments | 33,808      | 28,130      | 20,203      |
| Interest income on installment receivables and others                    | 36,128      | 47,915      | 34,150      |
|  | 69,936      | 76,045      | 54,353      |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(3) Details of interest expenses included in finance costs for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|                                | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--------------------------------|-------------|-------------|-------------|
| Interest expense on borrowings | 10,796      | 11,774      | 7,962       |
| Interest expense on debentures | 222,195     | 228,568     | 239,560     |
| Others                         | 74,328      | 58,758      | 42,932      |
|                                | 307,319     | 299,100     | 290,454     |

(4) Finance income and costs by category of financial instruments for the years ended December 31, 2018, 2017 and 2016 are as follows. Bad debt expense (reversal of loss allowance) for accounts receivable trade, loans and receivables are presented and explained separately in note 7 and 36.

**1) Finance income and costs**

*(In millions of won)*

|  | <b>2018</b>           |                      |
|--|-----------------------|----------------------|
|  | <b>Finance income</b> | <b>Finance costs</b> |
| <b>Financial Assets:</b>                         |                       |                      |
| Financial assets at FVTPL                        | 134,841               | 22,507               |
| Financial assets at FVOCI                        | 35,143                |                      |
| Financial assets at amortized cost               | 86,032                | 20,018               |
|  | 256,016               | 42,525               |
| <b>Financial Liabilities:</b>                    |                       |                      |
| Financial liabilities at FVTPL                   |                       | 1,535                |
| Financial liabilities measured at amortized cost | 419                   | 328,618              |
| Derivatives designated as hedging instruments    |                       | 12,554               |
|  | 419                   | 342,707              |
|  | 256,435               | 385,232              |

*(In millions of won)*

|  | <b>2017</b>           |                      |
|--|-----------------------|----------------------|
|  | <b>Finance income</b> | <b>Finance costs</b> |
| <b>Financial Assets:</b>                                   |                       |                      |
| Financial assets at fair value through profit or loss      | 223,976               |                      |
| Available-for-sale financial assets                        | 30,598                | 86,445               |
| Loans and receivables                                      | 111,677               | 37,040               |
|  | 366,251               | 123,485              |
| <b>Financial Liabilities:</b>                              |                       |                      |
| Financial liabilities at fair value through profit or loss |                       | 678                  |
| Financial liabilities measured at amortized cost           | 310                   | 299,422              |
| Derivatives designated as hedging instruments              |                       | 10,031               |
|  | 310                   | 310,131              |
|  | 366,561               | 433,616              |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

|  | <b>2016</b>           |                      |
|--|-----------------------|----------------------|
|  | <b>Finance income</b> | <b>Finance costs</b> |
| <b>Financial Assets:</b>                                   |                       |                      |
| Financial assets at fair value through profit or loss      | 4,157                 | 2,791                |
| Available-for-sale financial assets                        | 484,300               | 8,174                |
| Loans and receivables                                      | 86,256                | 15,810               |
| Derivatives designated as hedging instruments              |                       | 637                  |
|  | 574,713               | 27,412               |
| <b>Financial Liabilities:</b>                              |                       |                      |
| Financial liabilities at fair value through profit or loss | 121                   | 4,018                |
| Financial liabilities measured at amortized cost           | 216                   | 295,400              |
|  | 337                   | 299,418              |
|  | 575,050               | 326,830              |

**2) Other comprehensive income (loss)***(In millions of won)*

|   | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|-------------|
| <b>Financial Assets:</b>                      |             |             |             |
| Financial assets at FVOCI                     | (130,035)   |             |             |
| Available-for-sale financial assets           |             | 158,440     | (223,981)   |
| Derivatives designated as hedging instruments | 17,180      | 1,554       | (172)       |
|   | (112,855)   | 159,994     | (224,153)   |
| <b>Financial Liabilities:</b>                 |             |             |             |
| Derivatives designated as hedging instruments | 15,047      | 21,032      | (13,046)    |
|   | (97,808)    | 181,026     | (237,199)   |

(5)

Details of impairment losses for financial assets for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|  | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|-------------|
| Available-for-sale financial assets(*) |             | 14,519      | 5,255       |
| Accounts receivable trade              | 38,211      | 34,584      | 37,820      |
| Other receivables                      | 7,718       | 5,793       | 40,312      |
|  | 45,929      | 54,896      | 83,387      |

(\*) This is included in other finance costs (See note 31 (1)).

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****32. Income Tax Expense**

(1) Income tax expenses for the years ended December 31, 2018, 2017 and 2016 consist of the following:

*(In millions of won)*

|                                    | <b>2018</b>    | <b>2017</b>    | <b>2016</b>    |
|------------------------------------|----------------|----------------|----------------|
| <b>Current tax expense</b>         |                |                |                |
| Current year                       | 362,265        | 424,773        | 473,543        |
| Current tax of prior years(*)      | (22,575)       | (105,158)      | (11,925)       |
|                                    | 339,690        | 319,615        | 461,618        |
| <b>Deferred tax expense</b>        |                |                |                |
| Changes in net deferred tax assets | 504,288        | 426,039        | (25,580)       |
| <b>Income tax expense</b>          | <b>843,978</b> | <b>745,654</b> | <b>436,038</b> |

(\*) Current tax of prior years are mainly composed of the income tax refund due to a change in the interpretation of the tax authority in relation to the income tax previously recognized by the Group.

(2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2018, 2017 and 2016 is attributable to the following:

*(In millions of won)*

|   | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|-------------|
| Income taxes at statutory income tax rate | 1,083,029   | 823,124     | 506,804     |
| Non-taxable income                        | (19,450)    | (40,080)    | (38,989)    |
| Non-deductible expenses                   | 26,724      | 31,285      | 52,648      |
| Tax credit and tax reduction              | (17,580)    | (34,300)    | (29,484)    |
| Changes in unrecognized deferred taxes    | (177,902)   | 31,857      | (84,276)    |
| Changes in tax rate                       | (3,983)     | 43,977      | 1,736       |
| Income tax refund etc.                    | (46,860)    | (110,209)   | 27,599      |



|                    |         |         |         |
|--------------------|---------|---------|---------|
| Income tax expense | 843,978 | 745,654 | 436,038 |
|--------------------|---------|---------|---------|

(3) Deferred taxes directly charged to (credited from) equity for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|  | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|-------------|
| Valuation gain on financial assets measured at fair value    | 41,461      |             |             |
| Valuation gain (loss) on available-for-sale financial assets |             | (55,883)    | 82,993      |
| Share of other comprehensive income (loss) of associates     | 278         | (260)       | 2           |
| Valuation gain (loss) on derivatives                         | (9,223)     | (3,019)     | 4,454       |
| Remeasurement of defined benefit liabilities                 | 10,843      | 1,618       | 3,174       |
|  | 43,359      | (57,544)    | 90,623      |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(4) Details of the changes in deferred tax assets (liabilities) for the years ended December 31, 2018 and 2017 are as follows:

(In millions of won)

|  | <b>Beginning</b> | <b>Changes<br/>in<br/>Accounting<br/>Policies</b> | <b>Deferred tax<br/>expense<br/>(income)</b> | <b>2018<br/>Directly charged<br/>to (credited<br/>from)<br/>equity</b> | <b>Business<br/>combinations</b> | <b>Ending</b> |
|--|------------------|---|--|--|----------------------------------|---------------|
| Deferred tax assets (liabilities) related to temporary differences:                        |                  |   |  |  |                                  |               |
| Loss allowance   | 67,002           | 3,501   | 26,547                                       |  | 5,226                            | 102,276       |
| Accrued interest income  | (2,467)          |   | (218)  |  | (28)                             | (2,713)       |
| Financial assets measured at fair value  | 53,781           | (282)   | (15,203)                                     | 41,461   |                                  | 79,757        |
| Investments in subsidiaries, associates and joint ventures                                 | (937,629)        |   | (642,736)                                    | 278  |                                  | (1,580,087)   |
| Property and equipment and intangible assets   | (235,343)        |   | 71,912                                       |  | (256,630)                        | (420,061)     |
| Provisions   | 2,312            |   | (6)  |  | 188                              | 2,494         |
| Retirement benefit obligation  | 38,360           |   | 12,888                                       | 10,843   | 21,943                           | 84,034        |
| Valuation gain on derivatives  | 25,956           |   | 14,682                                       | (9,223)  |                                  | 31,415        |
| Gain or loss on foreign currency translation   | 21,931           |   | 17   |  |                                  | 21,948        |
| Reserve for research and manpower development  | (2,387)          |   | 2,387  |  |                                  |               |
| Incremental costs to acquire a contract  |                  | (566,633)   | (74,207)                                     |  |                                  | (640,840)     |
| Contract assets and liabilities  |                  | (37,540)  | 11,082                                       |  |                                  | (26,458)      |
| Others   | 5,506            |   | 22,627                                       |  | 4,418                            | 32,551        |
|  | (962,978)        | (600,954)   | (570,228)                                    | 43,359   | (224,883)                        | (2,315,684)   |
| Deferred tax assets related to unused tax loss carryforwards and tax credit carryforwards: |                  |   |  |  |                                  |               |
| Tax loss carryforwards   | 72,417           |   | 50,482                                       |  |                                  | 122,899       |
| Tax credit   |                  |   | 15,458                                       |  |                                  | 15,458        |

|           |           |           |        |           |             |
|-----------|-----------|-----------|--------|-----------|-------------|
| 72,417    |           | 65,940    |        | 138,357   |             |
| (890,561) | (600,954) | (504,288) | 43,359 | (224,883) | (2,177,327) |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

|  | <b>Beginning</b> | <b>2017<br/>Deferred tax expense<br/>(income)</b> | <b>Directly charged<br/>to (credited<br/>from) equity</b> | <b>Others</b> | <b>Ending</b> |
|--|------------------|---|---|---------------|---------------|
| Deferred tax assets (liabilities) related to temporary differences:                        |                  |   |   |               |               |
| Loss allowance   | 61,911           | 5,091   |   |               | 67,002        |
| Accrued interest income  | (616)            | (1,851)   |   |               | (2,467)       |
| Available-for-sale financial assets  | 101,472          | 8,192   | (55,883)  |               | 53,781        |
| Investments in subsidiaries, associates and joint ventures                                 | (476,098)        | (461,271)   | (260)   |               | (937,629)     |
| Property and equipment and intangible assets   | (253,323)        | 17,980  |   |               | (235,343)     |
| Provisions   | 7,448            | (5,136)   |   |               | 2,312         |
| Retirement benefit obligation  | 35,505           | 1,237   | 1,618   |               | 38,360        |
| Valuation gain on derivatives  | 28,975           |   | (3,019)   |               | 25,956        |
| Gain or loss on foreign currency translation   | 19,369           | 2,562   |   |               | 21,931        |
| Reserve for research and manpower development  | (4,775)          | 2,388   |   |               | (2,387)       |
| Others   | 38,016           | (30,186)  |   | (2,324)       | 5,506         |
|  | (442,116)        | (460,994)   | (57,544)  | (2,324)       | (962,978)     |
| Deferred tax assets related to unused tax loss carryforwards and tax credit carryforwards: |                  |   |   |               |               |
| Tax loss carryforwards   | 37,462           | 34,955  |   |               | 72,417        |
|  | (404,654)        | (426,039)   | (57,544)  | (2,324)       | (890,561)     |

(5) Details of temporary differences, unused tax loss carryforwards and unused tax credits carryforwards which are not recognized as deferred tax assets, in the consolidated statements of financial position as of December 31, 2018 and 2017 are as follows:

*(In millions of won)*

|  | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|--|--------------------------|--------------------------|
| Loss allowance   | 98,205                   | 88,521                   |
| Investments in subsidiaries, associates and joint ventures | (233,234)                | 168,268                  |

|                                 |         |         |
|---------------------------------|---------|---------|
| Other temporary differences     | 189,604 | 425,653 |
| Unused tax loss carryforwards   | 849,850 | 921,309 |
| Unused tax credit carryforwards | 3,705   | 4,092   |

(6) The amount of unused tax loss carryforwards and unused tax credit carryforwards which are not recognized as deferred tax assets as of December 31, 2018 are expiring within:

*(In millions of won)*

|                   | <b>Unused tax loss carryforwards</b> | <b>Unused tax credit carryforwards</b> |
|-------------------|--------------------------------------|--|
| Less than 1 year  | 83,287                               | 1,529                                  |
| 1 ~ 2 years       | 129,905                              | 828                                    |
| 2 ~ 3 years       | 66,624                               | 977                                    |
| More than 3 years | 570,034                              | 371                                    |
|                   | 849,850                              | 3,705                                  |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****33. Earnings per Share****(1) Basic earnings per share**

1) Basic earnings per share for the years ended December 31, 2018, 2017 and 2016 are calculated as follows:

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

|   | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|-------------|
| <b>Basic earnings per share attributable to owners of the Parent Company:</b> |             |             |             |
| Profit attributable to owners of the Parent Company                           | 3,127,887   | 2,599,829   | 1,675,967   |
| Interest on hybrid bonds  | (15,803)    | (16,840)    | (16,840)    |
| Profit attributable to owners of the Parent Company on common shares          | 3,112,084   | 2,582,989   | 1,659,127   |
| Weighted average number of common shares outstanding                          | 70,622,976  | 70,609,160  | 70,609,160  |
| Basic earnings per share (in won)   | 44,066      | 36,582      | 23,497      |

2) The weighted average number of common shares outstanding for the years ended December 31, 2018, 2017 and 2016 are calculated as follows:

*(In shares)*

|                             | <b>Issued shares</b> | <b>Treasury shares</b> | <b>2018<br/>Number of common<br/>shares outstanding at<br/>December 31</b> | <b>Weights</b> | <b>Weighted average<br/>number of common<br/>shares</b> |
|-----------------------------|----------------------|------------------------|--|----------------|---|
| Issued shares at January 1  | 80,745,711           | (10,136,551)           | 70,609,160   | 365/365        | 70,609,160  |
| Disposal of treasury shares |                      | 1,260,668              | 1,260,668  | 4/365          | 13,816  |
|                             |                      |                        |  |                | 70,622,976  |

*(In shares)*

|                              | <b>2017</b>                        | <b>2016</b>   |
|------------------------------|------------------------------------|---|
|                              | <b>Number of common<br/>shares</b> | <b>Weighted average<br/>number of common<br/>shares</b> |
| Issued shares at January 1   | 80,745,711                         | 80,745,711  |
| Treasury shares at January 1 | (10,136,551)                       | (10,136,551)  |
|                              | 70,609,160                         | 70,609,160  |

**(2) Diluted earnings per share**

For the years ended December 31, 2018, 2017 and 2016, diluted earnings per share for the years ended December 31, 2018, 2017 and 2016 are the same as basic earnings per share as there are no dilutive potential common shares.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****34. Dividends****(1) Details of dividends declared**

Details of dividend declared for the years ended December 31, 2018, 2017 and 2016 are as follows:

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

| <b>Year</b> | <b>Dividend type</b>      | <b>Number of<br/>shares<br/>outstanding</b> | <b>Face value<br/>(In won)</b> | <b>Dividend<br/>ratio</b> | <b>Dividends</b> |
|-------------|---------------------------|---|--------------------------------|---------------------------|------------------|
| 2018        | Cash dividends (Interim)  | 70,609,160                                  | 500                            | 200%                      | 70,609           |
|             | Cash dividends (Year-end) | 71,869,828                                  | 500                            | 1,800%                    | 646,828          |
|             |                           |   |                                |                           | 717,437          |
| 2017        | Cash dividends (Interim)  | 70,609,160                                  | 500                            | 200%                      | 70,609           |
|             | Cash dividends (Year-end) | 70,609,160                                  | 500                            | 1,800%                    | 635,482          |
|             |                           |   |                                |                           | 706,091          |
| 2016        | Cash dividends (Interim)  | 70,609,160                                  | 500                            | 200%                      | 70,609           |
|             | Cash dividends (Year-end) | 70,609,160                                  | 500                            | 1,800%                    | 635,482          |
|             |                           |   |                                |                           | 706,091          |

**(2) Dividends yield ratio**

Dividends yield ratios for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In won)*

| <b>Year</b> | <b>Dividend type</b> | <b>Dividend per share</b> | <b>Closing price at<br/>year-end</b> | <b>Dividend yield ratio</b> |
|-------------|----------------------|---------------------------|--------------------------------------|-----------------------------|
| 2018        | Cash dividends       | 10,000                    | 269,500                              | 3.71%                       |
| 2017        | Cash dividends       | 10,000                    | 267,000                              | 3.75%                       |
| 2016        | Cash dividends       | 10,000                    | 224,000                              | 4.46%                       |



**35. Categories of Financial Instruments**

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

*(In millions of won)*

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

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

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|                                  | <b>December 31, 2017</b>   |   |                                  |   |              |
|----------------------------------|--|---|----------------------------------|---|--------------|
|                                  | <b>Financial assets<br/>at fair<br/>value<br/>through<br/>profit<br/>or loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivatives<br/>hedging<br/>instrument</b> | <b>Total</b> |
| Cash and cash equivalents        |  |   | 1,457,735                        |   | 1,457,735    |
| Financial instruments            |  |   | 618,002                          |   | 618,002      |
| Short-term investment securities | 97,003   | 47,383  |                                  |   | 144,386      |
| Long-term investment securities  |  | 887,007   |                                  |   | 887,007      |
| Accounts receivable trade        |  |   | 2,138,755                        |   | 2,138,755    |
| Loans and other receivables      |  |   | 1,962,083                        |   | 1,962,083    |
| Derivative financial assets      | 231,311  |   |                                  | 21,902  | 253,213      |
|                                  | 328,314  | 934,390   | 6,176,575                        | 21,902  | 7,461,181    |

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

*(In millions of won)*

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

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

(In millions of won)

|                                  |                  | <b>December 31, 2017</b>  |   |                                       |              |
|----------------------------------|------------------|---|---|---------------------------------------|--------------|
|                                  |                  | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities measured at amortized cost</b> | <b>Derivatives hedging instrument</b> | <b>Total</b> |
| Accounts payable                 | trade            |   | 351,711   |                                       | 351,711      |
| Derivative financial liabilities |                  |   |   | 39,470                                | 39,470       |
| Borrowings                       |                  |   | 382,817   |                                       | 382,817      |
| Debentures(*)                    |                  | 60,278  | 7,025,909   |                                       | 7,086,187    |
| Accounts payable                 | other and others |   | 4,865,519   |                                       | 4,865,519    |
|                                  |                  | 60,278  | 12,625,956  | 39,470                                | 12,725,704   |

(\*) Debentures classified as financial liabilities at fair value through profit or loss as of December 31, 2017 are structured bonds and they were designated as financial liabilities at fair value through profit or loss in order to eliminate a measurement inconsistency with the related derivatives.

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

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

**1) Market risk****(i) Currency risk**

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

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2018 are as follows:

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

|        | Assets             |                | Liabilities        |                |
|--------|--------------------|----------------|--------------------|----------------|
|        | Foreign currencies | Won equivalent | Foreign currencies | Won equivalent |
| USD    | 173,560            | 194,058        | 1,588,522          | 1,776,126      |
| EUR    | 14,575             | 18,645         | 69                 | 89             |
| JPY    | 813,676            | 8,244          | 315,756            | 3,200          |
| Others |                    | 3,484          |                    | 18             |
|        |                    | 224,431        |                    | 1,779,433      |

In addition, the Group has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures. (See note 22)

As of December 31, 2018, a hypothetical change in exchange rates by 10% would have increase (reduce) the Group's income before income tax as follows:

*(In millions of won)*

|        | <b>If increased by 10%</b> | <b>If decreased by 10%</b> |
|--------|----------------------------|----------------------------|
| USD    | 12,593                     | (12,593)                   |
| EUR    | 1,856                      | (1,856)                    |
| JPY    | 504                        | (504)                      |
| Others | 347                        | (347)                      |
|        | 15,300                     | (15,300)                   |

**(ii) Interest rate risk**

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

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

As of December 31, 2018, the floating-rate borrowings and bonds of the Group are 239,000 million and 335,430 million, respectively, and the Group has entered into interest rate swap agreements, as described in note 22, for all 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 next year, would change by 1,400 million in relation to floating-rate borrowings that are exposed to interest rate risk.

As of December 31, 2018, the floating-rate long-term payables other are 2,476,738 million. If the interest rate increases (decreases) 1% with all other variables held constant, income before income taxes for the year ended December 31, 2018, would change by 24,767 million in relation to floating-rate long-term payables other that are exposed to interest rate risk.

## 2) Credit risk

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

*(In millions of won)*

|                             | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|-----------------------------|--------------------------|--------------------------|
| Cash and cash equivalents   | 1,506,432                | 1,457,416                |
| Financial instruments       | 1,046,897                | 618,002                  |
| Investment securities       | 11,672                   | 19,928                   |
| Accounts receivable trade   | 2,019,933                | 2,138,755                |
| Loans and other receivables | 1,621,938                | 1,962,083                |
| Derivative financial assets | 55,457                   | 30,956                   |
|                             | <b>6,262,329</b>         | <b>6,227,140</b>         |

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

*(i) Account receivable trade and contract assets*

The Group establishes loss allowance in respect of account receivable trade and contract assets. 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 are expected to occur. The collective loss allowance is determined based on historical data of collection statistics for similar financial assets. Details of changes in loss allowance during the year ended December 31, 2018 are included in note 7.

**(ii) Debt investments**

The credit risk arises from debt investments included in 1,046,897 million of financial instruments, 11,672 million of investment securities and 1,621,938 million of loans and other receivables. To limit the exposure to this risk, the Group transacts only with financial institutions with credit ratings that are considered to be low credit risk.

Most of the Group's debt investments are considered to have a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term. Thus the Group measured the loss allowance for the debt investments at an amount equal to 12-month expected credit losses.

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Meanwhile, the Group monitors changes in credit risk at each reporting date. The Group recognized the loss allowance at an amount equal to lifetime expected credit losses when the credit risk on the debt investments is assumed to have increased significantly if it is more than 30 days past due.

The Group's maximum exposure to credit risk is equal to each financial asset's carrying amount. The gross carrying amounts of each financial asset except for the accounts receivable, trade and derivative financial assets as of December 31, 2018 are as follows.

(In millions of won)

|                 | Financial assets at<br>FVTPL | Financial<br>assets<br>at<br>FVOCI | 12-month ECL | At amortized cost<br>Lifetime ECL<br>credit<br>impaired | not Lifetime ECL<br>credit<br>impaired |
|-----------------|------------------------------|------------------------------------|--------------|---|--|
| Gross amount    | 500,154                      | 1,135                              | 2,153,513    | 36,687  | 104,906                                |
| Loss allowance  |                              |                                    | (3,305)      | (10,760)  | (101,823)                              |
| Carrying amount | 500,154                      | 1,135                              | 2,150,208    | 25,927  | 3,083                                  |

Changes in the loss allowance for the debt investments during the year ended December 31, 2018 are as follows.

(In millions of won)

|   | 12-month ECL | Lifetime ECL<br>credit<br>impaired | not<br>Lifetime ECL<br>credit<br>impaired | Total    |
|---|--------------|------------------------------------|---|----------|
| December 31, 2017                                 |              |                                    |   | 122,723  |
| Changes in accounting policy                      |              |                                    |   | 99       |
| January 1, 2018                                   | 2,997        | 16,551                             | 103,274                                   | 122,822  |
| Remeasurement of loss allowance,<br>net           | 716          | 2,961                              | 3,163                                     | 6,840    |
| Transfer to lifetime ECL - not credit<br>impaired | (408)        | 408                                |   |          |
| Transfer to lifetime ECL - credit<br>impaired     |              | (6,137)                            | 6,137                                     |          |
| Amounts written off                               |              | (3,746)                            | (15,400)                                  | (19,146) |
| Recovery of amounts written off                   |              | 145                                | 4,649                                     | 4,794    |
| Business combinations                             |              | 578                                |   | 578      |



|                   |       |        |         |         |
|-------------------|-------|--------|---------|---------|
| December 31, 2018 | 3,305 | 10,760 | 101,823 | 115,888 |
|-------------------|-------|--------|---------|---------|

**(iii) Cash and cash equivalents**

The Group has 1,506,432 million as of December 31, 2018 ( 1,457,416 million as of December 31, 2017) cash and cash equivalents with banks and financial institutions above specific credit ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considered that its cash and cash equivalents have low credit risk based on the credit ratings of the counterparties assigned by external credit rating agencies.

**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.

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Contractual maturities of financial liabilities as of December 31, 2018 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> |
|--------------------------------------|----------------------------|-----------------------------------|-----------------------------|--------------------|----------------------------------|
| Accounts payable trade               | 381,302                    | 381,302                           | 381,302                     |                    |                                  |
| Borrowings(*)                        | 2,184,996                  | 2,599,377                         | 259,631                     | 2,339,746          |                                  |
| Debentures(*)                        | 7,466,852                  | 8,762,045                         | 1,113,075                   | 4,638,381          | 3,010,589                        |
| Accounts payable other and others(*) | 6,762,782                  | 6,991,641                         | 4,792,370                   | 1,416,725          | 782,546                          |
|                                      | <b>16,795,932</b>          | <b>18,734,365</b>                 | <b>6,546,378</b>            | <b>8,394,852</b>   | <b>3,793,135</b>                 |

(\*) Includes interest payables.

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

As of December 31, 2018, 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      | 39,871                     | 36,978                            | 19,787                      | 50,223             | (33,032)                     |
| Liabilities | (4,184)                    | (4,227)                           | (132)                       | (4,095)            |                              |
|             | <b>35,687</b>              | <b>32,751</b>                     | <b>19,655</b>               | <b>46,128</b>      | <b>(33,032)</b>              |

(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, 2017.

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

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

*(In millions of won)*

|                    | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--------------------|------------------------------|------------------------------|
| Total liabilities  | 20,019,861                   | 15,399,474                   |
| Total equity       | 22,349,250                   | 18,029,195                   |
| Debt-equity ratios | 89.58%                       | 85.41%                       |

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## (3) Fair value

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

(In millions of won)

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

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

(In millions of won)

|  | <b>December 31, 2017</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>          |                            |                |                |                |              |
| FVTPL  | 328,314                    |                | 106,057        | 222,257        | 328,314      |
| Derivatives hedging instruments                                  | 21,902                     |                | 21,902         |                | 21,902       |
| Available-for-sale financial assets                              | 734,487                    | 589,202        | 47,383         | 97,902         | 734,487      |
|  | 1,084,703                  | 589,202        | 175,342        | 320,159        | 1,084,703    |
| <b>Financial liabilities that are measured at fair value</b>     |                            |                |                |                |              |
| FVTPL  | 60,278                     |                | 60,278         |                | 60,278       |
| Derivative financial liabilities                                 | 39,470                     |                | 39,470         |                | 39,470       |
|  | 99,748                     |                | 99,748         |                | 99,748       |
| <b>Financial liabilities that are not measured at fair value</b> |                            |                |                |                |              |
| Borrowings   | 382,817                    |                | 383,748        |                | 383,748      |
| Debentures   | 7,025,909                  |                | 7,325,370      |                | 7,325,370    |
| Long-term payables other   | 1,649,466                  |                | 1,766,451      |                | 1,766,451    |
|  | 9,058,192                  |                | 9,475,569      |                | 9,475,569    |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

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

Available-for-sale financial assets amounting to 199,903 million as of December 31, 2017 is measured at cost in accordance with IAS 39 since they are equity instruments which do not have quoted price in an active market for the identical instruments and for which fair value cannot be reliably measured using other valuation methods.

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

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

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

|                           | <b>Interest rate</b> |
|---------------------------|----------------------|
| Derivative instruments    | 1.63% ~ 3.12%        |
| Borrowings and debentures | 2.17% ~ 2.28%        |
| Long-term payables other  | 2.07% ~ 2.28%        |

3) There have been no transfers between Level 2 and Level 1 for year ended December 31, 2018. The changes of financial assets classified as Level 3 for the year ended December 31, 2018 are as follows:

*(In millions of won)*

|   | <b>Balance at<br/>January 1,<br/>2018</b> | <b>Impact<br/>of<br/>adopting<br/>IFRS 9<br/>Gain for the<br/>period</b> | <b>OCI</b> | <b>Acquisition</b> | <b>Disposal</b> | <b>Reclassification</b> | <b>Balance<br/>at<br/>December 31,<br/>2018</b> |
|---|---|--|------------|--------------------|-----------------|-------------------------|---|
| Financial assets at fair value through profit or loss | 222,257                                   | (222,257)  |            |                    |                 |                         |   |
| Available-for-sale financial assets                   | 97,902                                    | (97,902)   |            |                    |                 |                         |   |

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|          |         |         |          |          |           |           |         |
|----------|---------|---------|----------|----------|-----------|-----------|---------|
| FVTPL(*) | 391,515 | 7,708   | 732      | 18,732   | (128,713) | (165,600) | 124,374 |
| FVOCI(*) | 129,455 |         | (52,475) | 15,310   | (7,172)   | 165,600   | 250,718 |
|          | 320,159 | 200,811 | 7,708    | (51,743) | 34,042    | (135,885) | 375,092 |

(\*) During the year ended December 31, 2018, the Group acquired 460,000 of common shares of KRAFTON Co., Ltd. (formerly, Bluehole Inc.) by exercising the conversion right. The fair value of the common share is 300,000 per share based on the income approach from IFRS 13 *Fair Value Measurement*. The Group reclassified existing financial assets at FVTPL amounting to 165,600 million to financial assets at FVOCI and recognized 27,600 million of valuation losses on financial assets at FVOCI. Significant inputs for the fair value measurement and the inter-relationship between the inputs and the fair value measured are as follows.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

| <b>Valuation Techniques</b> | <b>Significant non-observable inputs</b>                             | <b>Correlations between inputs and fair value measurement</b>                                 |
|-----------------------------|--|---|
| Discounted cash flows       | Expected cash flows  | If the expected cash flows increase (decrease), Fair value will increase (decrease)           |
|                             | Perpetual growth rate (-1%~1%)                                       | If the perpetual growth rate is higher (lower), Fair value will increase (decrease)           |
|                             | Weighted average cost of capital: 11.5%                              | If the weighted average cost of capital is higher (lower) Fair value will decrease (increase) |
|                             | (Risk free rate: 2.4%, Market risk premium: 10.4%, Proxy beta: 0.88) |   |

(4) Enforceable master netting agreement or similar agreement

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

*(In millions of won)*

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



*(In millions of won)*

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

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

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****37. Transactions with Related Parties***(1) List of related parties*

| <b>Relationship</b>         | <b>Company</b>  |
|-----------------------------|---|
| Ultimate Controlling Entity | SK Holdings Co., Ltd.   |
| Joint ventures              | Dogus Planet, Inc. and 2 others                                     |
| Associates                  | SK hynix Inc. and 41 others   |
| Others                      | The Ultimate Controlling Entity's subsidiaries and associates, etc. |

*(2) Compensation for the key management*

The Parent Company considers registered directors (3 executive and 5 non-executive directors) who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|                                | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--------------------------------|-------------|-------------|-------------|
| Salaries                       | 4,488       | 2,169       | 1,645       |
| Defined benefits plan expenses | 920         | 258         | 424         |
| Share option                   | 548         | 414         |             |
|                                | 5,956       | 2,841       | 2,069       |

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

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(3) Transactions with related parties for the years ended December 31, 2018, 2017 and 2016 are as follows:

(In millions of won)

| Scope                       | Company                                 | 2018                         |                              |                                       |                     |
|-----------------------------|---|------------------------------|------------------------------|---------------------------------------|---------------------|
|                             |   | Operating revenue and others | Operating expense and others | Acquisition of property and equipment | Collection of loans |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1)               | 20,050                       | 601,176                      | 151,502                               |                     |
| Associates                  | F&U Credit information Co., Ltd.        | 2,777                        | 54,857                       |                                       |                     |
|                             | HappyNarae Co., Ltd.(*2)                | 1,002                        | 20,286                       | 88,327                                |                     |
|                             | SK hynix Inc(*3)                        | 179,708                      | 313                          |                                       |                     |
|                             | KEB HanaCard Co., Ltd.                  | 15,046                       | 15,387                       |                                       |                     |
|                             | Others(*4)                              | 5,924                        | 35,296                       | 1,202                                 | 204                 |
|                             |   | 204,457                      | 126,139                      | 89,529                                | 204                 |
| Others                      | SK Engineering & Construction Co., Ltd. | 4,662                        | 1,122                        | 8,700                                 |                     |
|                             | SK Innovation Co., Ltd.(*5)             | 44,010                       | 996                          |                                       |                     |
|                             | SK Networks Co., Ltd.(*6)               | 23,078                       | 1,189,404                    | 460                                   |                     |
|                             | SK Networks Services Co., Ltd.          | 774                          | 90,723                       | 5,478                                 |                     |
|                             | SK Telesys Co., Ltd.                    | 362                          | 10,945                       | 127,840                               |                     |
|                             | SK TNS Co., Ltd.                        | 140                          | 31,220                       | 493,793                               |                     |
|                             | SK Energy Co., Ltd.(*5)                 | 15,134                       | 897                          |                                       |                     |
|                             | SK Gas Co., Ltd.                        | 7,653                        | 2                            |                                       |                     |
|                             | SKC Infra Service Co., Ltd.             | 57                           | 50,829                       | 24,761                                |                     |
|                             | Others(*5)                              | 55,224                       | 19,323                       |                                       |                     |
|                             |   | 151,094                      | 1,395,461                    | 661,032                               |                     |
|                             |   | 375,601                      | 2,122,776                    | 902,063                               | 204                 |

- (\*1) Operating expense and others include 203,636 million of dividends paid by the Parent Company.
- (\*2) Transactions with HappyNarae Co., Ltd. occurred before disposal.
- (\*3) Operating revenue and others include 146,100 million of dividends received from SK hynix Inc. which was deducted from the investment in associates.
- (\*4) Operating revenue and others include 4,587 million of dividends received from Korea IT Fund, KIF-Stonebridge IT Investment Fund and UniSK which were deducted from the investment in associates.
- (\*5) Operating revenue and others include 68,500 million received from disposal of the real estate investment fund to SK Innovation Co., Ltd., SK Energy Co., Ltd., SK Lubricants Co., Ltd., SK Trading International Co., Ltd. and SK Global Chemical Co., Ltd
- (\*6) Operating expenses and others include costs for handset purchases amounting to 1,100,370 million.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

| Scope                       | Company                                    | Operating<br>revenue<br>and<br>others | Operating<br>expense<br>and<br>others | 2017   | Collection<br>of loans |
|-----------------------------|--|---------------------------------------|---------------------------------------|--|------------------------|
|                             |  |                                       |                                       | Acquisition of<br>property<br>and<br>equipment |                        |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1)                  | 25,049                                | 600,600                               | 283,556  |                        |
| Associates                  | F&U Credit information<br>Co., Ltd.        | 3,431                                 | 52,150                                | 153  |                        |
|                             | HappyNarae Co., Ltd.                       | 3,025                                 | 29,276                                | 68,472   |                        |
|                             | SK hynix Inc(*2)                           | 123,873                               | 251                                   |  |                        |
|                             | KEB HanaCard Co., Ltd.                     | 17,873                                | 15,045                                |  |                        |
|                             | Others(*3)                                 | 10,720                                | 33,389                                | 940  | 204                    |
|                             |  | 158,922                               | 130,111                               | 69,565   | 204                    |
| Others                      | SK Engineering &<br>Construction Co., Ltd. | 5,865                                 | 1,077                                 |  |                        |
|                             | SK Networks Co., Ltd.                      | 21,694                                | 1,220,251                             | 671  |                        |
|                             | SK Networks Services Co.,<br>Ltd.          | 510                                   | 96,949                                | 6,346  |                        |
|                             | SK Telesys Co., Ltd.                       | 417                                   | 51,394                                | 152,659  |                        |
|                             | SK TNS Co., Ltd.                           | 137                                   | 37,051                                | 494,621  |                        |
|                             | SK Energy Co., Ltd.                        | 8,505                                 | 779                                   |  |                        |
|                             | SK Gas Co., Ltd.                           | 2,727                                 | 4                                     |  |                        |
|                             | SK Innovation Co., Ltd.                    | 7,639                                 | 950                                   |  |                        |
|                             | SK Shipping Co., Ltd.                      | 3,183                                 | 35                                    |  |                        |
|                             | Ko-one energy service Co.,<br>Ltd          | 5,164                                 | 44                                    |  |                        |
|                             | SK Infosec Co., Ltd.                       | 1,185                                 | 52,634                                | 15,648   |                        |
|                             | SKC Infra Service Co., Ltd.                | 19                                    | 46,900                                | 47,163   |                        |
|                             | Others                                     | 18,233                                | 28,209                                | 17   |                        |
|                             |  | 75,278                                | 1,536,277                             | 717,125  |                        |
|                             |  | 259,249                               | 2,266,988                             | 1,070,246                                      | 204                    |

- (\*1) Operating expense and others include 203,635 million of dividends paid by the Parent Company.
- (\*2) Operating revenue and others include 87,660 million of dividends declared by SK hynix Inc. which was deducted from the investment in associates.
- (\*3) Operating revenue and others include 6,597 million of dividends received from the Korea IT Fund and others.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

| <b>Scope</b>                | <b>Company</b>                          | <b>Operating<br/>revenue<br/>and<br/>others</b> | <b>Operating<br/>expense and<br/>others</b> | <b>2016<br/>Acquisition of<br/>property<br/>and<br/>equipment</b> | <b>Loans</b> | <b>Collection<br/>of loans</b> |
|-----------------------------|---|---|---|---|--------------|--------------------------------|
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1)               | 23,104  | 652,855                                     | 235,502   |              |                                |
| Associates                  | F&U Credit information Co., Ltd.        | 2,865   | 47,905                                      |   |              |                                |
|                             | HappyNarae Co., Ltd.                    | 304   | 15,506                                      | 38,984  |              |                                |
|                             | SK hynix Inc.(*2)                       | 100,861   | 306   |   |              |                                |
|                             | KEB HanaCard Co., Ltd.                  | 19,730  | 14,804                                      |   |              |                                |
|                             | Others(*3)                              | 8,018   | 21,853                                      | 1,573   | 1,100        | 3,194                          |
|                             |   | 131,778   | 100,374                                     | 40,557  | 1,100        | 3,194                          |
| Others                      | SK Engineering & Construction Co., Ltd. | 5,916   | 1,739                                       | 10,694  |              |                                |
|                             | SK Networks Co., Ltd.                   | 13,756  | 1,131,567                                   |   |              |                                |
|                             | SK Networks Services Co., Ltd.          | 1,248   | 94,906                                      | 6,793   |              |                                |
|                             | SK Telesys Co., Ltd.                    | 419   | 52,488                                      | 142,605   |              |                                |
|                             | SK TNS Co., Ltd.                        | 109   | 48,192                                      | 387,496   |              |                                |
|                             | SK Energy Co., Ltd.                     | 7,670   | 834   |   |              |                                |
|                             | SK Gas Co., Ltd.                        | 2,500   | 4   |   |              |                                |
|                             | SK Innovation Co., Ltd.                 | 9,757   | 915   | 1,080   |              |                                |
|                             | SK Shipping Co., Ltd.                   | 5,435   |   |   |              |                                |
|                             | Ko-one energy service Co., Ltd.         | 6,005   | 46  |   |              |                                |
|                             | SK Infosec Co., Ltd.                    | 230   | 53,068                                      | 19,882  |              |                                |
|                             | SKC INFRA SERVICE Co., Ltd.             | 43  | 30,663                                      | 32,141  |              |                                |
|                             | Others                                  | 13,437  | 17,626                                      | 246   |              |                                |
|                             |   | 66,525  | 1,432,048                                   | 600,937   |              |                                |
|                             |   | 221,407   | 2,185,277                                   | 876,996   | 1,100        | 3,194                          |

- (\*1) Operating expense and others include 203,635 million of dividends paid by the Parent Company.
- (\*2) Operating revenue and others include 73,050 million of dividends paid by the associate 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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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

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

(In millions of won)

| Scope                       | Company                                    | Loans  | December 31, 2018                             |   |
|-----------------------------|--|--------|---|---|
|                             |  |        | Receivables<br>Accounts<br>receivable<br>etc. | Payables<br>Accounts<br>payable<br>other,<br>etc. |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.                      |        | 5,987   | 139,260   |
|                             | F&U Credit information<br>Co., Ltd.        |        | 98  | 5,801   |
|                             | SK hynix Inc.                              |        | 14,766  | 89  |
|                             | Wave City Development<br>Co., Ltd.         |        | 37,263  |   |
|                             | Daehan Kanggun BcN<br>Co., Ltd.(*)         | 22,147 |   |   |
|                             | KEB HanaCard Co., Ltd.                     |        | 541   | 11,311  |
|                             | Others                                     | 407    | 130   | 1,764   |
|                             |  | 22,554 | 52,798  | 18,965  |
| Others                      | SK Engineering &<br>Construction Co., Ltd. |        | 1,561   | 760   |
|                             | SK Networks. Co., Ltd.                     |        | 2,647   | 167,433   |
|                             | SK Networks Services<br>Co., Ltd.          |        | 54  | 8,946   |
|                             | SK Telesys Co., Ltd.                       |        | 154   | 39,188  |
|                             | SK TNS Co., Ltd.                           |        |   | 89,017  |
|                             | SK Innovation Co., Ltd.                    |        | 4,696   | 1,019   |
|                             | SK Energy Co., Ltd.                        |        | 5,511   | 887   |
|                             | SK Gas Co., Ltd.                           |        | 2,225   | 60  |
|                             | SK hystec Co., Ltd.                        |        | 2,661   | 75  |
|                             | Others                                     |        | 8,958   | 8,066   |
|                             |  | 28,467 | 315,451                                       |   |
|                             | 22,554                                     | 87,252 | 473,676                                       |   |

(\* ) As of December 31, 2018, the Parent Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as loss allowances.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

| Scope                       | Company   | Loans  | December 31, 2017                             |   |
|-----------------------------|---|--------|---|---|
|                             |   |        | Receivables<br>Accounts<br>receivable<br>etc. | Payables<br>Accounts<br>payable<br>other,<br>etc. |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.                             |        | 2,068   | 148,066   |
| Associates                  | HappyNarae Co., Ltd.                              |        | 15  | 6,865   |
|                             | F&U Credit information<br>Co., Ltd.               |        | 21  | 1,612   |
|                             | SK hynix Inc.                                     |        | 2,803   | 94  |
|                             | Wave City Development<br>Co., Ltd.                |        | 38,412  |   |
|                             | Daehan Kanggun BcN<br>Co., Ltd.(*).               | 22,147 |   |   |
|                             | KEB HanaCard Co., Ltd.                            |        | 1,427   | 11,099  |
|                             | S.M. Culture & Contents<br>Co., Ltd.              |        | 448   | 8,963   |
|                             | Xian Tianlong Science<br>and Technology Co., Ltd. | 7,032  |   |   |
|                             | Others  | 611    | 2,272   | 1,164   |
|                             |   | 29,790 |   | 45,398  |
| Others                      | SK Engineering &<br>Construction Co., Ltd.        |        | 2,033   | 69  |
|                             | SK Networks. Co., Ltd.                            |        | 3,050   | 267,297   |
|                             | SK Networks Services<br>Co., Ltd.                 |        | 15  | 9,522   |
|                             | SK Telesys Co., Ltd.                              |        | 36  | 58,346  |
|                             | SK TNS Co., Ltd.                                  |        | 3   | 140,311   |
|                             | SK Innovation Co., Ltd.                           |        | 4,112   | 599   |
|                             | SK Energy Co., Ltd.                               |        | 2,965   | 582   |
|                             | SK Gas Co., Ltd.                                  |        | 1,941   | 9   |
|                             | Others  |        | 2,998   | 27,318  |
|                             |   |        |   | 17,153  |
|                             | 29,790  |        | 64,619  | 681,916   |

- (\*) As of December 31, 2017, the Parent Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as loss allowances.
- (5) SK m&service Co., Ltd., a subsidiary of the Parent Company, has entered into a performance agreement with SK Energy Co., Ltd. and provided a blank note to SK Energy Co., Ltd., with regard to this transaction. In addition, SK Infosec Co., Ltd., a subsidiary of the Parent Company, also provided a blank note to SK Holdings Co., Ltd. with regard to performance guarantee.
- (6) There were additional investments and disposal transactions in associates and joint ventures during the years ended December 31, 2018 and 2017 as presented in note 13.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2018, 2017 and 2016**

**38. Commitments and Contingencies**

***(1) Collateral assets and commitments***

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases on buildings in the amount of 3,868 million as of December 31, 2018.

SK Broadband Co., Ltd., has guaranteed for employees borrowings relating to employee stock ownership program and provided short-term financial instruments amounting to 11 million as collateral as of December 31, 2018.

In addition, Life & Security Holdings Co., Ltd., a subsidiary of the Parent Company, has pledged its shares of ADT CAPS Co., Ltd., CAPSTEC Co., Ltd., and ADT SECURITY Co., Ltd. for the long-term borrowings with a face value of 1,900,000 million as of December 31, 2018.

***(2) Legal claims and litigations***

As of December 31, 2018 the Group is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. In connection with those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

Meanwhile, the pending litigation over the validity of partnership contract that the Group was involved as the defendant (Plaintiff: Nonghyup Bank) was settled by the agreement between the parties during the year ended December 31, 2018. As a result of the settlement, the credit card business partnership between the Group and Nonghyup Bank will be maintained until April 2021, and the Group is obligated to pay the commission fees based on the customers' credit card usage until September 2021, the expiration date of the credit cards. The Group determined that the contract and the subsidiary agreements meet the definition of an onerous contract according to IAS 37, for which the Group recognized provisions with the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. In this regard, 36,844 million and 57,310 million are recognized as current provisions and non-current provisions, respectively as of December 31, 2018.

***(3) Accounts receivables from sale of handsets***

The sales agents of the Parent Company sell handsets to the Parent Company's subscribers on an installment basis. During the year ended December 31, 2018, the Parent Company entered into comprehensive agreements to purchase accounts receivables from handset sales with retail stores and authorized dealers and to transfer the accounts receivables from handset sales to special purpose companies which were established with the purpose of liquidating receivables, respectively.

The accounts receivables from sale of handsets amounting to 612,779 million as of December 31, 2018 which the Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable other and long-term accounts receivable other.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016****39. Statements of Cash Flows**

- (1) Adjustments for income and expenses from operating activities for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|   | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|-------------|
| Interest income   | (69,936)    | (76,045)    | (54,353)    |
| Dividend  | (35,143)    | (12,416)    | (19,161)    |
| Gain on foreign currency translation                                  | (2,776)     | (7,110)     | (5,085)     |
| Gain on disposal of long-term investment securities                   |             | (4,890)     | (459,349)   |
| Gain on valuation of derivatives                                      | (6,532)     | (223,943)   | (4,132)     |
| Gain on settlement of derivatives                                     | (20,399)    |             |             |
| Gain relating to investments in associates and joint ventures, net    | (3,270,912) | (2,245,732) | (544,501)   |
| Gain on sale of accounts receivable other                             | (20,023)    | (18,548)    | (18,638)    |
| Gain on disposal of property and equipment and intangible assets      | (38,933)    | (13,991)    | (6,908)     |
| Gain relating to financial assets at FVTPL                            | (83,636)    | (33)        | (25)        |
| Gain related to financial liabilities at FVTPL                        |             |             | (121)       |
| Reversal of loss on impairment of available-for-sale financial assets |             | (9,900)     |             |
| Other income  | (952)       | (1,129)     | (2,123)     |
| Interest expenses   | 307,319     | 299,100     | 290,454     |
| Loss on foreign currency translation                                  | 2,397       | 8,419       | 3,991       |
| Loss on disposal of long-term investment securities                   |             | 36,024      | 2,919       |
| Other finance costs   |             | 14,519      | 5,255       |
| Loss on sale of accounts receivable other                             |             | 9,682       |             |
| Loss on settlement of derivatives                                     | 12,554      | 10,031      | 3,428       |
| Income tax expense  | 843,978     | 745,654     | 436,038     |
| Expense related to defined benefit plan                               | 147,722     | 127,696     | 118,143     |
| Share option  | 789         | 414         |             |
| Depreciation and amortization   | 3,284,339   | 3,247,519   | 3,068,558   |
| Bad debt expense  | 38,211      | 34,584      | 37,820      |
| Loss on disposal of property and equipment and intangible assets      | 87,257      | 60,086      | 63,797      |
| Loss on impairment of property and equipment and intangible assets    | 255,839     | 54,946      | 24,506      |
| Loss relating to financial liabilities at FVTPL                       | 1,535       | 678         | 4,018       |
| Loss relating to financial assets at FVTPL                            | 22,507      |             |             |
| Bad debt for accounts receivable other                                | 7,718       | 5,793       | 40,312      |
| Loss on disposal of investment assets                                 | 3           |             |             |
| Loss on impairment of investment assets                               | 3,157       | 9,003       | 24,033      |

|                |           |           |           |
|----------------|-----------|-----------|-----------|
| Other expenses | 102,836   | 46,353    | 30,685    |
|                | 1,568,919 | 2,096,764 | 3,039,561 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(2) Changes in assets and liabilities from operating activities for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|                                     | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|-------------------------------------|-------------|-------------|-------------|
| Accounts receivable trade           | 175,841     | 46,144      | 88,549      |
| Accounts receivable other           | 319,913     | (159,960)   | (446,286)   |
| Accrued income                      |             | 14          | 445         |
| Advance payments                    | 13,393      | (1,269)     | 47,615      |
| Prepaid expenses                    | (3,597)     | (28,362)    | (30,311)    |
| Value-Added Tax refundable          | (3,318)     | (3,080)     | (4,587)     |
| Inventories                         | (13,429)    | (17,958)    | 798         |
| Long-term accounts receivable other | 11,064      | (137,979)   | (147,117)   |
| Guarantee deposits                  | (258)       | 14,696      | 4,844       |
| Contract assets                     | 9,161       |             |             |
| Accounts payable trade              | (58,487)    | (26,151)    | 75,585      |
| Accounts payable other              | (271,128)   | 134,542     | 316,464     |
| Advanced receipts                   |             | (13,470)    | 37,429      |
| Contract liabilities                | 11,328      |             |             |
| Withholdings                        | 129,492     | (13,041)    | 107,516     |
| Deposits received                   | (333)       | (4,916)     | (2,153)     |
| Accrued expenses                    | (102,246)   | 116,065     | 173,072     |
| Value-Added Tax payable             | 3,102       | 7,505       | (4,072)     |
| Unearned revenue                    |             | (339)       | (36,209)    |
| Provisions                          | (4,298)     | (20,488)    | 20,235      |
| Long-term provisions                | 1,193       | (2,449)     | 4,115       |
| Plan assets                         | (123,075)   | (95,828)    | (125,440)   |
| Retirement benefit payment          | (63,957)    | (60,883)    | (55,350)    |
| Others                              | (4,412)     | 5,739       | (11,378)    |
|                                     | 25,949      | (261,468)   | 13,764      |

(3) Significant non-cash transactions for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

| <b>2018</b> | <b>2017</b> | <b>2016</b> |
|-------------|-------------|-------------|
|-------------|-------------|-------------|

|  |           |        |           |
|--|-----------|--------|-----------|
| Increase in accounts payable other relating to acquisition of property and equipment and intangible assets | 1,162,301 | 44,214 | 1,511,913 |
| Investment in subsidiary from comprehensive stock exchange   | 129,595   |        |           |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016**

(4) Reconciliation of liabilities arising from financing activities for the years ended December 31, 2018 and 2017 is as follows:

(In millions of won)

|  | January<br>1,<br>2018 | Cash<br>flows | Exchange<br>rate<br>changes | Non-cash transactions<br>Fair value<br>changes | Business<br>Combinations | Other<br>changes | December 31,<br>2018 |
|--|-----------------------|---------------|-----------------------------|--|--------------------------|------------------|----------------------|
| Total liabilities from financing activities        |                       |               |                             |  |                          |                  |                      |
| Short-term borrowings                              | 130,000               | (87,701)      |                             |  | 36,201                   | 1,500            | 80,000               |
| Long-term borrowings                               | 252,817               | 139,406       | 2,281                       |  | 1,708,638                | 1,854            | 2,104,996            |
| Debentures   | 7,086,187             | 321,671       | 55,523                      | 1,911  |                          | 1,560            | 7,466,852            |
| Long-term payables other                           | 1,641,081             | (305,644)     |                             |  |                          | 1,057,590        | 2,393,027            |
| Derivative financial liabilities                   | 39,470                | (4,031)       | 13,595                      | (7,163)  |                          | (37,687)         | 4,184                |
| Derivative financial assets                        | (253,213)             | (2,000)       | 2,000                       | (19,849)                                       |                          | 217,605          | (55,457)             |
|  | 8,896,342             | 61,701        | 73,399                      | (25,101)                                       | 1,744,839                | 1,242,422        | 11,993,602           |
| Other cash flows from financing activities         |                       |               |                             |  |                          |                  |                      |
| Payments of cash dividends                         |                       | (706,091)     |                             |  |                          |                  |                      |
| Issuance of hybrid bonds                           |                       | 398,759       |                             |  |                          |                  |                      |
| Repayment of hybrid bonds                          |                       | (400,000)     |                             |  |                          |                  |                      |
| Payments of interest on hybrid bonds               |                       | (15,803)      |                             |  |                          |                  |                      |
| Capital increase by subsidiaries and others        |                       | 499,926       |                             |  |                          |                  |                      |
| Transactions with the non-controlling shareholders |                       | (76,805)      |                             |  |                          |                  |                      |
|  |                       | (300,014)     |                             |  |                          |                  |                      |
|  |                       | (238,313)     |                             |  |                          |                  |                      |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2018, 2017 and 2016***(In millions of won)*

|  | January 1,<br>2017 | Cash<br>flows | Non-cash transactions       |                       |                  | December 31,<br>2017 |
|--|--------------------|---------------|-----------------------------|-----------------------|------------------|----------------------|
|  |                    |               | Exchange<br>rate<br>changes | Fair value<br>changes | Other<br>changes |                      |
| Total liabilities from financing activities    |                    |               |                             |                       |                  |                      |
| Short-term borrowings                          | 2,614              | 127,386       |                             |                       |                  | 130,000              |
| Long-term borrowings                           | 172,906            | 87,299        | (7,898)                     |                       | 510              | 252,817              |
| Debentures                                     | 7,194,207          | 130,558       | (245,456)                   |                       | 6,878            | 7,086,187            |
| Long-term payables-other                       | 1,918,024          | (305,476)     |                             |                       | 28,533           | 1,641,081            |
| Derivative financial liabilities               | 87,153             | (105,269)     | 13,281                      | 39,267                | 5,038            | 39,470               |
| Derivative financial assets                    | (214,770)          | 188           | 922                         | (40,235)              | 682              | (253,213)            |
|  | 9,160,134          | (65,314)      | (239,151)                   | (968)                 | 41,641           | 8,896,342            |
| Other cash flows from financing activities     |                    |               |                             |                       |                  |                      |
| Payments of cash dividends                     |                    | (706,091)     |                             |                       |                  |                      |
| Payments of interest on hybrid bond            |                    | (16,840)      |                             |                       |                  |                      |
| Transactions with non-controlling shareholders |                    | (38,373)      |                             |                       |                  |                      |
|  |                    | (761,304)     |                             |                       |                  |                      |
|  |                    | (826,618)     |                             |                       |                  |                      |

**40. Cash Dividends paid to the Parent Company**

Cash dividends paid to the Parent Company for the years ended December 31, 2018, 2017 and 2016 are as follows:

*(In millions of won)*

|  | 2018    | 2017   | 2016   |
|--|---------|--------|--------|
| Cash dividends received from consolidated subsidiaries | 61,985  |        | 15,693 |
| Cash dividends received from associates                | 149,815 | 89,063 | 79,132 |

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders

SK hynix, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of financial position of SK hynix, Inc. and subsidiaries (the Group) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Samjong Accounting Corp.

We have served as the Group's auditor since 2012.

Seoul, Korea

April 26, 2019

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2018 and 2017**

|  | <i>Note</i> | <b>2018</b>                 | <b>2017</b>       |
|--|-------------|-----------------------------|-------------------|
|  |             | <b>(In millions of won)</b> |                   |
| <b>Assets</b>                                |             |                             |                   |
| <b>Current assets</b>                        |             |                             |                   |
| Cash and cash equivalents                    | 5,6         | 2,349,319                   | 2,949,991         |
| Short-term financial instruments             | 5,6,7       | 523,579                     | 4,674,862         |
| Short-term investment assets                 | 5,6         | 5,496,452                   | 929,801           |
| Trade receivables, net                       | 5,6,8,33    | 6,319,994                   | 5,552,795         |
| Loans and other receivables, net             | 5,6,8,33    | 18,392                      | 37,613            |
| Inventories, net                             | 9           | 4,422,733                   | 2,640,439         |
| Current tax assets                           | 31          | 22,252                      | 1,305             |
| Other current assets                         | 10          | 741,425                     | 523,638           |
|  |             | 19,894,146                  | 17,310,444        |
| <b>Non-current assets</b>                    |             |                             |                   |
| Investments in associates and joint ventures | 11          | 562,194                     | 359,864           |
| Long-term investment assets                  | 5,6,12      | 4,325,550                   | 43,226            |
| Loans and other receivables, net             | 5,6,8,33    | 68,514                      | 42,410            |
| Other financial assets                       | 5,6,7       | 310                         | 273               |
| Property, plant and equipment, net           | 13,15,34    | 34,952,617                  | 24,062,601        |
| Intangible assets, net                       | 14,30       | 2,678,770                   | 2,247,290         |
| Investment property, net                     | 13,15       | 1,400                       | 2,468             |
| Deferred tax assets                          | 21,31       | 544,016                     | 599,783           |
| Employee benefit assets                      | 20          | 5,164                       | 13,385            |
| Other non-current assets                     | 10,34       | 625,654                     | 736,720           |
|  |             | 43,764,189                  | 28,108,020        |
| <b>Total assets</b>                          |             | <b>63,658,335</b>           | <b>45,418,464</b> |

*See accompanying notes to the consolidated financial statements.*



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Financial Position, continued****As of December 31, 2018 and 2017**

|  | <i>Note</i> | <b>2018</b>          | <b>2017</b> |
|--|-------------|----------------------|-------------|
|  |             | (In millions of won) |             |
| <b>Liabilities</b>   |             |                      |             |
| <b>Current liabilities</b>                                       |             |                      |             |
| Trade payables   | 5,6,33      | 1,096,380            | 758,578     |
| Other payables   | 5,6,33      | 3,681,933            | 2,724,547   |
| Other non-trade payables   | 5,6,16,33   | 1,879,520            | 1,340,225   |
| Borrowings   | 5,6,17,34   | 1,614,303            | 773,780     |
| Provisions   | 19          | 56,208               | 81,351      |
| Current tax liabilities  | 31          | 4,555,670            | 2,385,876   |
| Other current liabilities  | 18          | 147,838              | 51,776      |
|  |             | 13,031,852           | 8,116,133   |
| <b>Non-current liabilities</b>                                   |             |                      |             |
| Other non-trade payables   | 5,6,16      | 15,231               | 3,412       |
| Borrowings   | 5,6,17,34   | 3,667,634            | 3,397,490   |
| Defined benefit liabilities, net                                 | 20          | 5,387                | 6,096       |
| Deferred tax liabilities   | 21          | 6,597                | 5,554       |
| Other non-current liabilities                                    | 18          | 79,303               | 68,860      |
|  |             | 3,774,152            | 3,481,412   |
| <b>Total liabilities</b>   |             | 16,806,004           | 11,597,545  |
| <b>Equity</b>  |             |                      |             |
| <b>Equity attributable to owners of the Parent Company</b>       |             |                      |             |
| Capital stock  | 1,23        | 3,657,652            | 3,657,652   |
| Capital surplus  | 23          | 4,143,736            | 4,143,736   |
| Other equity   | 23          | (2,506,451)          | (771,100)   |
| Accumulated other comprehensive loss                             | 24          | (482,819)            | (502,264)   |
| Retained earnings  | 25          | 42,033,601           | 27,287,256  |
| <b>Total equity attributable to owners of the Parent Company</b> |             | 46,845,719           | 33,815,280  |
| <b>Non-controlling interests</b>                                 |             | 6,612                | 5,639       |
| <b>Total equity</b>  |             | 46,852,331           | 33,820,919  |
| <b>Total liabilities and equity</b>                              |             | 63,658,335           | 45,418,464  |

*See accompanying notes to the consolidated financial statements.*

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## SK HYNIX, INC. and Subsidiaries

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018, 2017 and 2016

|   | <i>Note</i> | <b>2018</b>   | <b>2017</b> | <b>2016</b> |
|---|-------------|---|-------------|-------------|
|   |             | <b>(In millions of won, except per share information)</b> |             |             |
| <b>Revenue</b>  | 4,26,33     | 40,445,066  | 30,109,434  | 17,197,975  |
| Cost of sales   | 28,33       | 15,180,838  | 12,701,843  | 10,787,139  |
| <b>Gross profit</b>   |             | 25,264,228  | 17,407,591  | 6,410,836   |
| Selling and administrative expense  | 27,28       | (4,420,478)   | (3,686,265) | (3,134,090) |
| Finance income  | 29          | 1,691,955   | 996,468     | 814,892     |
| Finance expenses  | 29          | (1,142,134)   | (1,249,617) | (846,328)   |
| Share of profit of equity-accounted investees                                     | 11          | 13,007  | 12,367      | 22,752      |
| Other income  | 30          | 112,810   | 77,882      | 52,371      |
| Other expenses  | 30          | (178,358)   | (118,860)   | (103,979)   |
| <b>Profit before income tax</b>   |             | 21,341,030  | 13,439,566  | 3,216,454   |
| Income tax expense  | 31          | 5,801,046   | 2,797,347   | 255,971     |
| <b>Profit for the year</b>  |             | 15,539,984  | 10,642,219  | 2,960,483   |
| <b>Other comprehensive income (loss)</b>  |             |   |             |             |
| <b>Item that will never be reclassified to profit or loss:</b>                    |             |   |             |             |
| Remeasurements of defined benefit liability, net of tax                           | 20          | (77,029)  | 2,762       | 106,822     |
| <b>Items that are or may be reclassified to profit or loss:</b>                   |             |   |             |             |
| Foreign operations foreign currency translation differences, net of tax           | 24          | 7,534   | (387,683)   | (82,066)    |
| Loss on valuation of long-term investment asset, net of tax                       |             |   | (10,735)    |             |
| Equity-accounted investees share of other comprehensive income (loss), net of tax | 11,24       | 2,276   | (26,386)    | 4,088       |
| <b>Other comprehensive income (loss) for the year, net of tax</b>                 |             | (67,219)  | (422,042)   | 28,844      |
| <b>Total comprehensive income for the year</b>                                    |             | 15,472,765  | 10,220,177  | 2,989,327   |
| <b>Profit or loss attributable to:</b>  |             |   |             |             |
| Owners of the Parent Company  |             | 15,540,111  | 10,641,512  | 2,953,774   |
| Non-controlling interests   |             | (127)   | 707         | 6,709       |
| <b>Total comprehensive income (loss) attributable to:</b>                         |             |   |             |             |
| Owners of the Parent Company  |             | 15,471,792  | 10,221,113  | 2,982,703   |
| Non-controlling interests   |             | 973   | (936)       | 6,624       |

**Earnings per share**

|                                     |    |        |        |       |
|-------------------------------------|----|--------|--------|-------|
| Basic earnings per share (in won)   | 32 | 22,255 | 15,073 | 4,184 |
| Diluted earnings per share (in won) | 32 | 22,252 | 15,072 | 4,184 |

*See accompanying notes to the consolidated financial statements*

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## SK HYNIX, INC. and Subsidiaries

## Consolidated Statements of Changes in Equity

For the year ended December 31, 2018, 2017 and 2016

|   | Attributable to owners of the Parent Company |                 |              |   |                   | Non-controlling interests |       | Total equity |
|---|--|-----------------|--------------|---|-------------------|---------------------------|-------|--------------|
|   | Capital stock                                | Capital surplus | Other equity | Accumulated other comprehensive income (loss)<br>(In millions of won) | Retained earnings | Total                     |       |              |
| <b>Balance at January 1, 2016</b>                           | 3,657,652                                    | 4,143,736       | (771,913)    | (1,600)   | 14,358,988        | 21,386,863                | 840   | 21,387,703   |
| <b>Total comprehensive income</b>                           |  |                 |              |   |                   |                           |       |              |
| Profit for the year   |  |                 |              |   | 2,953,774         | 2,953,774                 | 6,709 | 2,960,483    |
| Other comprehensive income (loss)                           |  |                 |              | (77,893)  | 106,822           | 28,929                    | (85)  | 28,844       |
| <b>Total comprehensive income</b>                           |  |                 |              | (77,893)  | 3,060,596         | 2,982,703                 | 6,624 | 2,989,327    |
| <b>Transactions with owners of the Parent Company</b>       |  |                 |              |   |                   |                           |       |              |
| Dividends paid  |  |                 |              |   | (353,001)         | (353,001)                 |       | (353,001)    |
| Disposal of a subsidiary                                    |  |                 |              | 390   |                   | 390                       | (889) | (499)        |
| <b>Total transactions with owners of the Parent Company</b> |  |                 |              | 390   | (353,001)         | (352,611)                 | (889) | (353,500)    |
| <b>Balance at December 31, 2016</b>                         | 3,657,652                                    | 4,143,736       | (771,913)    | (79,103)  | 17,066,583        | 24,016,955                | 6,575 | 24,023,530   |

|   |           |           |           |            |            |            |       |            |
|---|-----------|-----------|-----------|------------|------------|------------|-------|------------|
| <b>Balance at January 1, 2017</b>                           | 3,657,652 | 4,143,736 | (771,913) | (79,103)   | 17,066,583 | 24,016,955 | 6,575 | 24,023,530 |
| <b>Total comprehensive income</b>                           |           |           |           |            |            |            |       |            |
| Profit for the year   |           |           |           |            | 10,641,512 | 10,641,512 | 707   | 10,642,219 |
| Other comprehensive income (loss)                           |           |           | (423,161) | 2,762      | (420,399)  | (1,643)    |       | (422,042)  |
| <b>Total comprehensive income</b>                           |           |           | (423,161) | 10,644,274 | 10,221,113 | (936)      |       | 10,220,177 |
| <b>Transactions with owners of the Parent Company</b>       |           |           |           |            |            |            |       |            |
| Dividends paid  |           |           |           |            | (423,601)  | (423,601)  |       | (423,601)  |
| Share-based payment transactions                            |           |           | 813       |            |            | 813        |       | 813        |
| <b>Total transactions with owners of the Parent Company</b> |           |           | 813       |            | (423,601)  | (422,788)  |       | (422,788)  |
| <b>Balance at December 31, 2017</b>                         | 3,657,652 | 4,143,736 | (771,100) | (502,264)  | 27,287,256 | 33,815,280 | 5,639 | 33,820,919 |

See accompanying notes to the consolidated financial statements.

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## SK HYNIX, INC. and Subsidiaries

## Consolidated Statements of Changes in Equity, continued

For the years ended December 31, 2018, 2017 and 2016

|  | Attributable to owners of the Parent Company |           |             |                      |            |             | Non-        | Total       |
|--|--|-----------|-------------|----------------------|------------|-------------|-------------|-------------|
|  | Capital                                      | Capital   | Other       | Accumulated          | Retained   | Total       | controlling | equity      |
|  | stock  | surplus   | equity      | other                | earnings   |             | interests   |             |
|  |  |           |             | comprehensive        |            |             |             |             |
|  |  |           |             | income               |            |             |             |             |
|  |  |           |             | (loss)               |            |             |             |             |
|  |  |           |             | (In millions of won) |            |             |             |             |
| <b>Balance at December 31, 2017</b>                      | 3,657,652                                    | 4,143,736 | (771,100)   | (502,264)            | 27,287,256 | 33,815,280  | 5,639       | 33,820,919  |
| Adjustments on initial application of IFRS 9, net of tax |  |           |             | 10,735               | (10,735)   |             |             |             |
| <b>Restated balance at January 1, 2018</b>               | 3,657,652                                    | 4,143,736 | (771,100)   | (491,529)            | 27,276,521 | 33,815,280  | 5,639       | 33,820,919  |
| <b>Total comprehensive income</b>                        |  |           |             |                      |            |             |             |             |
| Profit for the year                                      |  |           |             |                      | 15,540,111 | 15,540,111  | (127)       | 15,539,984  |
| Other comprehensive income (loss)                        |  |           |             | 8,710                | (77,029)   | (68,319)    | 1,100       | (67,219)    |
| <b>Total comprehensive income</b>                        |  |           |             | 8,710                | 15,463,082 | 15,471,792  | 973         | 15,472,765  |
| <b>Transactions with owners of the Parent Company</b>    |  |           |             |                      |            |             |             |             |
| Acquisition of treasury shares                           |  |           | (1,736,514) |                      |            | (1,736,514) |             | (1,736,514) |

|   |           |           |             |           |            |             |       |             |
|---|-----------|-----------|-------------|-----------|------------|-------------|-------|-------------|
| Dividends paid  |           |           |             |           | (706,002)  | (706,002)   |       | (706,002)   |
| Share-based payment transactions                            |           |           | 1,163       |           |            |             | 1,163 | 1,163       |
| <b>Total transactions with owners of the Parent Company</b> |           |           | (1,735,351) |           | (706,002)  | (2,441,353) |       | (2,441,353) |
| <b>Balance at December 31, 2018</b>                         | 3,657,652 | 4,143,736 | (2,506,451) | (482,819) | 42,033,601 | 46,845,719  | 6,612 | 46,852,331  |

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2018, 2017 and 2016**

|  | <i>Note</i> | <b>2018</b>                 | <b>2017</b>         | <b>2016</b>        |
|--|-------------|-----------------------------|---------------------|--------------------|
|  |             | <b>(In millions of won)</b> |                     |                    |
| <b>Cash flows from operating activities</b>                |             |                             |                     |                    |
| Cash generated from operating activities                   | 35          | 25,825,017                  | 15,373,261          | 6,486,781          |
| Interest received  |             | 81,323                      | 41,680              | 42,895             |
| Interest paid  |             | (126,029)                   | (120,332)           | (125,818)          |
| Dividends received   |             | 15,258                      | 14,841              | 20,744             |
| Income tax paid  |             | (3,568,370)                 | (618,836)           | (875,680)          |
| <b>Net cash provided by operating activities</b>           |             | <b>22,227,199</b>           | <b>14,690,614</b>   | <b>5,548,922</b>   |
| <b>Cash flows from investing activities</b>                |             |                             |                     |                    |
| Net change in short-term financial instruments             |             | 4,174,667                   | (2,776,527)         | 485,989            |
| Net change in short-term investment assets                 |             | (4,519,395)                 | 657,523             | (376,186)          |
| Decrease in other financial assets                         |             | 116                         | 308                 | 5                  |
| Increase in other financial assets                         |             | (100)                       | (167)               | (2)                |
| Collection of loans and other receivables                  |             | 21,824                      | 18,437              | 15,422             |
| Increase in loans and other receivables                    |             | (48,424)                    | (22,009)            | (13,613)           |
| Proceeds from disposal of long-term investment assets      |             | 7,118                       | 3,431               | 2,651              |
| Acquisition of long-term investment assets                 |             | (4,012,799)                 | (26,204)            | (19,085)           |
| Cash inflows from derivative transactions                  |             |                             | 902                 | 1,077              |
| Cash outflows from derivative transactions                 |             |                             | (1,201)             | (1,525)            |
| Proceeds from disposal of property, plant and equipment    |             | 131,754                     | 244,897             | 162,120            |
| Acquisition of property, plant and equipment               |             | (16,036,146)                | (9,128,303)         | (5,956,354)        |
| Proceeds from disposal of intangible assets                |             | 2,532                       | 3,249               | 1,585              |
| Acquisition of intangible assets                           |             | (933,139)                   | (784,911)           | (530,375)          |
| Receipt of government grants                               |             | 17,081                      | 5,900               | 133                |
| Acquisition of investments in associates                   |             | (200,508)                   | (114,487)           | (2,293)            |
| Acquisition of subsidiary, net of cash acquired            |             | (33,330)                    |                     |                    |
| <b>Net cash used in investing activities</b>               |             | <b>(21,428,749)</b>         | <b>(11,919,162)</b> | <b>(6,230,451)</b> |
| <b>Cash flows from financing activities</b>                |             |                             |                     |                    |
| Proceeds from borrowings                                   | 35          | 3,125,721                   | 782,330             | 2,080,343          |
| Repayments of borrowings                                   | 35          | (2,078,522)                 | (710,635)           | (1,610,466)        |
| Acquisition of treasury shares                             |             | (1,736,514)                 |                     |                    |
| Dividends paid   |             | (706,002)                   | (423,601)           | (353,001)          |
| <b>Net cash provided by (used in) financing activities</b> |             | <b>(1,395,317)</b>          | <b>(351,906)</b>    | <b>116,876</b>     |

|   |           |           |           |
|---|-----------|-----------|-----------|
| <b>Effect of movements in exchange rates on cash and cash equivalents</b> | (3,805)   | (83,341)  | 2,720     |
| <b>Net increase (decrease) in cash and cash equivalents</b>               | (600,672) | 2,336,205 | (561,933) |
| <b>Cash and cash equivalents at beginning of the year</b>                 | 2,949,991 | 613,786   | 1,175,719 |
| <b>Cash and cash equivalents at end of the year</b>                       | 2,349,319 | 2,949,991 | 613,786   |

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****1. Reporting Entity**

(1) General information about SK hynix, Inc. (the Parent Company or the Company ) and its subsidiaries (collectively the Group ) is as follows:

The Parent Company manufactures, distributes and sells semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Parent Company's headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Group has manufacturing facilities in Icheon-si and Cheongju-si, South Korea, and Wuxi and Chongqing, China.

As of December 31, 2018, the shareholders of the Parent Company are as follows:

| <b>Shareholder</b>       | <b>Number of shares</b> | <b>Percentage of ownership (%)</b> |
|--------------------------|-------------------------|------------------------------------|
| SK Telecom Co., Ltd.     | 146,100,000             | 20.07                              |
| National Pension Service | 65,890,385              | 9.05                               |
| Other investors          | 472,011,410             | 64.84                              |
| Treasury shares          | 44,000,570              | 6.04                               |
|                          | <b>728,002,365</b>      | <b>100.00</b>                      |

The Parent Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange and the Luxembourg Stock Exchange.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****1. Reporting Entity, continued**

(2) Details of the Group's consolidated subsidiaries as of December 31, 2018 and 2017 are as follows:

| Company  | Location  | Business  | Ownership<br>(%) |       |
|--|-----------|---|------------------|-------|
|  |           |   | 2018             | 2017  |
| SK hyeng Inc.  | Korea     | Construction service  | 100              | 100   |
| SK hystec Inc.   | Korea     | Business support service                                    | 100              | 100   |
| Siliconfile Technologies Inc. <sup>1</sup>             | Korea     | Development and<br>manufacturing of electronic<br>component |                  | 100   |
| Happymore Inc.   | Korea     | Manufacturing and<br>cleaning cleanroom suits               | 100              | 100   |
| SK hynix system ic Inc. <sup>1</sup>                   | Korea     | Semiconductor<br>manufacturing and sales                    | 100              | 100   |
| Happynarae Co., Ltd. <sup>2</sup>                      | Korea     | Industrial material logistics                               | 100              |       |
| SK hynix America Inc.                                  | U.S.A.    | Semiconductor sales   | 97.74            | 97.74 |
| SK hynix Deutschland GmbH                              | Germany   | Semiconductor sales   | 100              | 100   |
| SK hynix Asia Pte. Ltd.                                | Singapore | Semiconductor sales   | 100              | 100   |
| SK hynix Semiconductor Hong Kong Ltd.                  | Hong Kong | Semiconductor sales   | 100              | 100   |
| SK hynix U.K. Ltd.                                     | U.K.      | Semiconductor sales   | 100              | 100   |
| SK hynix Semiconductor Taiwan Inc.                     | Taiwan    | Semiconductor sales   | 100              | 100   |
| SK hynix Japan Inc.                                    | Japan     | Semiconductor sales   | 100              | 100   |
| SK hynix Semiconductor (Shanghai) Co., Ltd.            | China     | Semiconductor sales   | 100              | 100   |
| SK hynix Semiconductor India Private Ltd. <sup>3</sup> | India     | Semiconductor sales   | 100              | 100   |
| SK hynix (Wuxi) Semiconductor Sales Ltd.               | China     | Semiconductor sales   | 100              | 100   |
| SK hynix Semiconductor (China) Ltd. <sup>4</sup>       | China     | Semiconductor<br>manufacturing                              | 100              | 100   |
| SK hynix Semiconductor (Wuxi) Ltd. <sup>4</sup>        | China     | Semiconductor<br>manufacturing                              |                  | 100   |
| SK hynix Semiconductor (Chongqing) Ltd. <sup>5</sup>   | China     | Semiconductor<br>manufacturing                              | 100              | 100   |
| SK hynix Italy S.r.l.                                  | Italy     | Semiconductor research and<br>development                   | 100              | 100   |
| SK hynix memory solutions America Inc. <sup>6</sup>    | U.S.A.    | Semiconductor research and<br>development                   | 100              | 100   |
| SK hynix memory solutions Taiwan Ltd. <sup>7</sup>     | Taiwan    |   | 100              | 100   |

|  |           | Semiconductor research and development         |     |     |
|--|-----------|--|-----|-----|
| SK hynix memory solutions Eastern Europe LLC. <sup>8</sup>       | Belarus   | Semiconductor research and development         | 100 | 100 |
| SK APTECH Ltd.   | Hong Kong | Overseas investment                            | 100 | 100 |
| SK hynix Venture Hong Kong Ltd.                                  | Hong Kong | Overseas investment                            | 100 | 100 |
| SK hynix (Wuxi) Investment Ltd. <sup>9</sup>                     | China     | Overseas investment                            | 100 |     |
| SK hynix (Wuxi) Industry Development Ltd. <sup>10</sup>          | China     | Foreign hospital construction                  | 100 |     |
| SK hynix Happiness (Wuxi) Hospital Management Ltd. <sup>10</sup> | China     | Foreign hospital operation                     | 100 |     |
| SK hynix system ic (Wuxi) Co., Ltd. <sup>11</sup>                | China     | Overseas Semiconductor manufacturing and sales | 100 |     |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****1. Reporting Entity, continued**

| Company   | Location | Business                               | Ownership (%) |      |
|---|----------|--|---------------|------|
|   |          |  | 2018          | 2017 |
| SK hynix happy (Wuxi) cleaning Ltd. <sup>10</sup> | China    | Building management                    | 100           |      |
| SUZHOU HAPPYNARAE Co., Ltd. <sup>12</sup>         | China    | Overseas industrial material logistics | 100           |      |
| CHONGQING HAPPYNARAE Co., Ltd. <sup>12</sup>      | China    | Overseas industrial material logistics | 100           |      |
| MMT (Money Market Trust)                          | Korea    | Money Market Trust                     | 100           | 100  |

<sup>1</sup> SK hynix system ic Inc. merged with Siliconfile Technologies Inc. during the year ended December 31, 2018.

<sup>2</sup> The Group obtained control over Happynarae Co., Ltd. as of December 28, 2018 by acquisition of 100% its shares from SK telecom Co., Ltd and others.

<sup>3</sup> Subsidiary of SK hynix Asia Pte. Ltd.

<sup>4</sup> SK hynix Semiconductor (China) Ltd. merged SK hynix Semiconductor (Wuxi) Ltd. during the year ended December 31, 2018.

<sup>5</sup> Subsidiary of SK APTECH Ltd.

<sup>6</sup> Name of the subsidiary is changed from SK hynix memory solutions Inc. to SK hynix memory solutions America Inc. during the year ended December 31, 2018.

- <sup>7</sup> Name of the subsidiary is changed from SK hynix Flash Solution Taiwan to SK hynix memory solutions Taiwan Ltd. during the year ended December 31, 2018.
- <sup>8</sup> Name of the subsidiary is changed from Softeq Flash Solutions LLC. to SK hynix memory solutions Eastern Europe LLC. during the year ended December 31, 2018.
- <sup>9</sup> SK hynix (Wuxi) Investment Ltd. was established during the year ended December 31, 2018 and is a subsidiary of SK hynix Semiconductor (China) Ltd.
- <sup>10</sup> SK hynix (Wuxi) Industry Development Ltd., SK hynix Happiness (Wuxi) Hospital Management Ltd., and SK hynix happy (wuxi) cleaning Ltd. were established during the year ended December 31, 2018 and are subsidiaries of SK Hynix (Wuxi) Investment Ltd.
- <sup>11</sup> SK hynix system ic (Wuxi) Co., Ltd. was established during the year ended December 31, 2018 and is a subsidiary of SK hynix system ic Inc.
- <sup>12</sup> Subsidiary of Happynarae Co., Ltd.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****1. Reporting Entity, continued**

(3) Changes in the consolidated subsidiaries for the year ended December 31, 2018 are as follows:

|                             | <b>Company</b>                                     | <b>Reason</b>                     |
|-----------------------------|--|-----------------------------------|
| Excluded from consolidation | Siliconfile Technologies Inc.                      | Excluded due to merger            |
| Excluded from consolidation | SK hynix Semiconductor (Wuxi) Ltd.                 | Excluded due to merger            |
| Included in consolidation   | SK hynix (Wuxi) Investment Ltd.                    | Included due to new establishment |
| Included in consolidation   | SK hynix (Wuxi) Industry Development Ltd.          | Included due to new establishment |
| Included in consolidation   | SK hynix Happiness (Wuxi) Hospital Management Ltd. | Included due to new establishment |
| Included in consolidation   | SK hynix system ic (Wuxi) Co., Ltd.                | Included due to new establishment |
| Included in consolidation   | Happynarae Co., Ltd.                               | Included due to acquisition       |
| Included in consolidation   | SUZHOU HAPPYNARAE Co., Ltd.                        | Included due to acquisition       |
| Included in consolidation   | CHONGQING HAPPYNARAE Co., Ltd.                     | Included due to acquisition       |
| Included in consolidation   | SK hynix happy (Wuxi) cleaning Ltd.                | Included due to new establishment |

(4) Major subsidiaries summarized separate statements of financial position as of December 31, 2018 and 2017 are as follows:

|                                       | <b>2018</b>                 |                    |               | <b>2017</b>   |                    |               |
|---------------------------------------|-----------------------------|--------------------|---------------|---------------|--------------------|---------------|
|                                       | <b>Assets</b>               | <b>Liabilities</b> | <b>Equity</b> | <b>Assets</b> | <b>Liabilities</b> | <b>Equity</b> |
|                                       | <b>(In millions of won)</b> |                    |               |               |                    |               |
| SK hynix system ic Inc.               | 550,323                     | 92,989             | 457,334       | 360,254       | 77,958             | 282,296       |
| SK hynix America Inc.                 | 3,013,637                   | 2,707,732          | 305,905       | 2,522,348     | 2,259,210          | 263,138       |
| SK hynix Deutschland GmbH             | 99,641                      | 60,244             | 39,397        | 108,470       | 70,430             | 38,040        |
| SK hynix Asia Pte. Ltd.               | 933,268                     | 848,990            | 84,278        | 636,286       | 559,400            | 76,886        |
| SK hynix Semiconductor Hong Kong Ltd. | 347,109                     | 204,622            | 142,487       | 1,043,889     | 918,305            | 125,584       |
| SK hynix U.K. Ltd.                    | 536,208                     | 518,036            | 18,172        | 325,434       | 308,999            | 16,435        |
| SK hynix Semiconductor Taiwan Inc.    | 449,054                     | 427,498            | 21,556        | 566,155       | 536,592            | 29,563        |
| SK hynix Japan Inc.                   | 837,362                     | 770,819            | 66,543        | 632,590       | 569,810            | 62,780        |
|                                       | 1,199,602                   | 1,116,282          | 83,320        | 414,850       | 379,888            | 34,962        |



|  |           |           |           |           |         |           |
|--|-----------|-----------|-----------|-----------|---------|-----------|
| SK hynix Semiconductor (Shanghai)<br>Co., Ltd. |           |           |           |           |         |           |
| SK hynix (Wuxi) Semiconductor Sales<br>Ltd.    | 535,819   | 492,934   | 42,885    | 13,347    | 12,677  | 670       |
| SK hynix Semiconductor (China) Ltd.            | 6,390,490 | 2,158,715 | 4,231,775 | 4,043,100 | 322,545 | 3,720,555 |
| SK hynix Semiconductor (Chongqing)<br>Ltd.     | 540,284   | 124,451   | 415,833   | 388,033   | 195,849 | 192,184   |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****1. Reporting Entity, continued**

(5) Major subsidiaries summarized separate statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>                 |                      | <b>Total<br/>comprehensive<br/>income (loss)</b> |
|---|-----------------------------|----------------------|--|
|   | <b>Revenue</b>              | <b>Profit (Loss)</b> |  |
|   | <b>(In millions of won)</b> |                      |  |
| SK hynix system ic Inc.                     | 554,264                     | 60,649               | 60,360   |
| SK hynix America Inc.                       | 14,296,762                  | 30,800               | 30,800   |
| SK hynix Deutschland GmbH                   | 503,375                     | 1,380                | 1,380  |
| SK hynix Asia Pte. Ltd.                     | 3,531,313                   | 3,999                | 3,999  |
| SK hynix Semiconductor Hong Kong Ltd.       | 3,710,359                   | 11,486               | 11,486   |
| SK hynix U.K. Ltd.                          | 1,517,706                   | 1,005                | 1,005  |
| SK hynix Semiconductor Taiwan Inc.          | 2,955,717                   | 2,475                | 2,475  |
| SK hynix Japan Inc.                         | 1,084,079                   | (410)                | (467)  |
| SK hynix Semiconductor (Shanghai) Co., Ltd. | 7,291,257                   | 49,634               | 49,634   |
| SK hynix (Wuxi) Semiconductor Sales Ltd.    | 4,832,879                   | 43,163               | 43,163   |
| SK hynix Semiconductor (China) Ltd.         | 2,518,849                   | 84,089               | 84,089   |
| SK hynix Semiconductor (Chongqing) Ltd.     | 406,839                     | 27,125               | 27,125   |
|   |                             |                      |  |
|   | <b>2017</b>                 |                      | <b>Total<br/>comprehensive<br/>income (loss)</b> |
|   | <b>Revenue</b>              | <b>Profit (Loss)</b> |  |
|   | <b>(In millions of won)</b> |                      |  |
| SK hynix system ic Inc.                     | 231,537                     | (7,716)              | (7,876)  |
| SK hynix America Inc.                       | 11,096,526                  | (7,243)              | (7,243)  |
| SK hynix Deutschland GmbH                   | 476,709                     | (120)                | (120)  |
| SK hynix Asia Pte. Ltd.                     | 2,645,084                   | 2,872                | 2,872  |
| SK hynix Semiconductor Hong Kong Ltd.       | 8,717,022                   | 19,456               | 19,456   |
| SK hynix U.K. Ltd.                          | 1,088,697                   | 953                  | 953  |
| SK hynix Semiconductor Taiwan Inc.          | 2,629,453                   | 12,446               | 12,446   |
| SK hynix Japan Inc.                         | 940,254                     | 1,761                | 1,761  |
| SK hynix Semiconductor (Shanghai) Co., Ltd. | 1,332,939                   | 8,230                | 8,230  |

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|  |           |         |         |
|--|-----------|---------|---------|
| SK hynix (Wuxi) Semiconductor Sales Ltd. | 30,342    | 92      | 92      |
| SK hynix Semiconductor (China) Ltd.      | 2,185,341 | 338,969 | 338,969 |
| SK hynix Semiconductor (Chongqing) Ltd.  | 355,982   | 23,441  | 23,441  |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****1. Reporting Entity, continued**

|   | <b>2016</b>                 |                      | <b>Total<br/>comprehensive<br/>income (loss)</b> |
|---|-----------------------------|----------------------|--|
|   | <b>Revenue</b>              | <b>Profit (Loss)</b> |  |
|   | <b>(In millions of won)</b> |                      |  |
| SK hynix America Inc.                       | 5,398,193                   | 117,848              | 117,848  |
| SK hynix Deutschland GmbH                   | 321,309                     | 1,747                | 1,747  |
| SK hynix Asia Pte. Ltd.                     | 1,497,869                   | 1,929                | 1,929  |
| SK hynix Semiconductor Hong Kong Ltd.       | 5,655,093                   | 20,019               | 20,019   |
| SK hynix U.K. Ltd.                          | 532,661                     | 374                  | 374  |
| SK hynix Semiconductor Taiwan Inc.          | 1,742,632                   | 2,676                | 2,676  |
| SK hynix Japan Inc.                         | 673,127                     | 867                  | 804  |
| SK hynix Semiconductor (Shanghai) Co., Ltd. | 345,863                     | 6,073                | 6,073  |
| SK hynix (Wuxi) Semiconductor Sales Ltd.    |                             | (78)                 | (78)   |
| SK hynix Semiconductor (China) Ltd.         | 2,137,576                   | 123,753              | 123,753  |
| SK hynix Semiconductor (Chongqing) Ltd.     | 296,121                     | 2,674                | 2,674  |

(6) There are no significant non-controlling interests to the Group as of December 31, 2018, 2017 and 2016.

**2. Basis of Preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issuance by the board of directors on January 23, 2019.

This is the first set of the Group's annual financial statements in which IFRS 15 *Revenue from Contracts from Customers* and IFRS 9 *Financial Instrument* have been applied. Changes to significant accounting policies are described in note 3-(26).

**(1) Basis of measurement**

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

derivative financial instruments are measured at fair value

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

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

**(2) *Functional and presentation currency***

Financial statements of entities within the Group are presented in functional currency and the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

**(3) *Use of estimates and judgments***

The preparation of the consolidated financial statements in conformity with 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.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2018, 2017 and 2016**

**2. Basis of Preparation, continued**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

*(a) Critical judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes for classification of leases.

*(b) Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year is included in the following notes for net realizable value of inventories, impairment of development costs and goodwill, recognition and measurement of provisions, measurement of defined benefit obligations, recognition of deferred tax assets, valuation of short and long-term investment assets.

*(c) Fair value measurement*

The Group establishes fair value measurement policies and procedures as its accounting policies and disclosures require fair value measurements for various financial and non-financial assets and liabilities. Such policies and procedures are executed by the valuation department, which is responsible for the review of significant fair value measurements including fair values classified as level 3 in the fair value hierarchy.

The valuation department 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 department assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

The Group reports significant valuation issues to the audit committee.

When measuring the fair value of an asset or a liability, the Group uses observable market 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 within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

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

If various inputs used to measure fair value of assets or liabilities fall into different levels of the fair value hierarchy, the Group classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy, which is significant to the entire measured value. The Group recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

Information about assumptions used for fair value measurements is included in financial risk management, note 6.

### **3. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are explained below. Except for the new accounting standards that are effective for annual periods beginning on or

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**3. Significant Accounting Policies, continued**

after January 1, 2018, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

**(1) Operating Segments**

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ( CODM ) in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. The Group's CODM is the board of directors, who do not receive and therefore do not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic, product and customer information are provided in note 4 and 26.

**(2) Consolidation**

**(a) Business combination**

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred and during period of service, except if related to the issue of debt or equity securities according to IAS 32 and IFRS 9.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent



to which the replacement awards relate to pre-combination service.

*(b) Non-controlling interests*

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

*(c) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

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**3. Significant Accounting Policies, continued**

*(d) Loss of control*

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

*(e) Interests in equity-accounted investees*

The Group's interest in equity-accounted investees comprise interests in an associate and a joint venture. An associate are these entities in which the Group has significant influence, but not control or joint control, over the entity's financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are initially recognized at cost including transaction costs. Subsequent to initial recognition, their carrying amounts are increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture. Distributions from equity-accounted investees are accounted for as deduction from the carrying amounts.

*(f) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with equity-accounted investees are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

*(g) Business combinations under common control*

The assets and liabilities acquired in the combination of entities or business under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is added to or deducted from other capital adjustments.

**(3) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

**(4) Inventories**

The cost of inventories is based on the weighted average method (except for goods in-transit that is based on the specific identification method), and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing inventories to their existing location and condition. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The

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**3. Significant Accounting Policies, continued**

amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

**(5) *Non-derivative financial assets***

**(a) *Initial recognition and measurement***

Trade and other receivables, and debt investment are initially recognized when they are originated. Other financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

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

**(b) *Classification and subsequent measurements***

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) debt investment; FVOCI equity investment; or FVTPL. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. In case of changing its business model, all affected financial asset are reclassified on the first day of the first reporting period after the change in the business model.

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

it is held within a business model whose objective is to hold assets to collect contractual cash flow; and

its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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**3. Significant Accounting Policies, continued**

The Group makes an assessment of the objective of the business model in which, financial assets is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

The stated policies and objectives for the portfolio and the operation of those policies in practice;

how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;

how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and

the frequency, volume and timing of sales of financial assets in prior periods, the reason for those sales and expectation about future sales activity for financial asset.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

For the purposes of this assessment, principal is defined as the fair value of the financial assets on initial recognition.

Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

contingent events that would change the amount or timing of cash flows;

terms that may adjust the contractual coupon rate, including variable-rate features;

prepayment and extension features; and

terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

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The following accounting policies apply to subsequent measurements of financial assets.

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

*(c) De-recognition*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retain either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

*(d) Offsetting between financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and



there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

**(6) *Derivative financial instruments***

The Group enters into a derivative financial instruments to manage its exposure to interest rate. Embedded derivatives are separated from the host contract and accounted for separately only if the host contract is not a financial assets and certain criteria are met.

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and the changes therein are generally recognized in profit or loss.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in interest rates.

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**3. Significant Accounting Policies, continued**

At inception of designated hedging relationships, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

**(7) Impairment of financial assets**

**(a) Recognition of impairment on financial assets**

The Group recognizes loss allowances for expected credit losses (ECLs) on:

financial assets measured at amortized costs; and

contract assets.

The Group's impairment losses are likely to be recognized a lifetime ECL based on the extent of increase in credit risk since inception except for below asset to be recognized loss allowances measured on 12-month.

credit risk of debt instruments is low at the end of reporting date

credit risk has not increased significantly since the initial recognition of debt investment (lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument)

The Group adopted an accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses for trade receivables and contract assets.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition and estimating expected credit loss, The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Lifetime expected credit loss that resulted from all possible default events over the expected life of a financial instrument. And 12-month ECLs that resulted from possible default events within the 12 months (or a shorter period if the expected life of the instrument is less than 12 months) after the reporting date.

The longest period to consider when measuring expected credit losses is the longest term for which the Group is exposed to credit risk.

*(b) Measurement of expected credit loss*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of financial instrument.

*(c) Credit-impaired financial instrument*

A debt instrument carried at amortized cost and fair value through other comprehensive income(FVOCI) is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that a financial asset is impaired includes:

significant financial difficulty of the issuer or borrower;

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**3. Significant Accounting Policies, continued**

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

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

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

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

*(d) Presentation of credit loss allowance on financial position*

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

*(e) De-recognition*

The Group derecognizes a financial asset when it has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Group assess whether there are reasonable expectations of recovering the contractual cash flows from customers and individually assess the timing and amount of write-off. The Group does not expect that such write-off will be recovered but they may be subject to collection activity according to the Groups past due collection process.

***(8) Property, plant and equipment***

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

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

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Group and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and

maintenance are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other income or expenses.

The estimated useful lives of the Group's property, plant and equipment are as follows:

|            | <b>Useful lives (years)</b> |
|------------|-----------------------------|
| Buildings  | 10 - 50                     |
| Structures | 10 - 30                     |
| Machinery  | 4 - 15                      |
| Vehicles   | 4 - 10                      |
| Others     | 3 - 15                      |

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**3. Significant Accounting Policies, continued**

Depreciation methods, useful lives, and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

**(9) *Borrowing costs***

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

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

**(10) *Intangible assets***

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

Goodwill arising from business combinations is recognized as the excess of the consideration transferred in the acquisition over the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, certain intangible assets are determined as having indefinite useful lives and not amortized as there is no foreseeable limit to the period over which the assets are expected to be available for use.

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

|                         | <b>Useful lives (years)</b> |
|-------------------------|-----------------------------|
| Industrial rights       | 5 - 10                      |
| Development costs       | 2                           |
| Other intangible assets | 4 - 50                      |

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

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

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**3. Significant Accounting Policies, continued**

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

**(11) Government grants**

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

**(a) Grants related to assets**

Government grants whose primary condition is that the Group purchases, constructs or otherwise acquires non-current assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the useful lives of depreciable assets.

**(b) Grants related to income**

Government grants which are intended to compensate the Group for expenses incurred are recognized in profit or loss by as deduction of the related expenses.

**(12) Investment property**

Property held for the purpose of earning rental income or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at cost less accumulated depreciation and impairment losses.

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

Investment property except for land, are depreciated on a straight-line basis over 10 to 50 years depending on the useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.



**(13) Impairment of non-financial assets**

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

The Group estimates the recoverable amount of an individual asset; however if it is impossible to measure the individual recoverable amount of an asset, the Group estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent

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**3. Significant Accounting Policies, continued**

of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from business combination. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

Except for impairment losses in respect of goodwill, which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

***(14) Leases***

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

***(a) Finance leases***

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

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

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully

depreciated over the shorter of the lease term and its useful life. The Group reviews whether the leased asset is impaired.

*(b) Operating leases*

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

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**3. Significant Accounting Policies, continued**

*(c) Determining whether an arrangement contains a lease*

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

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

*(15) Non-derivative financial liabilities*

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

*(a) Financial liabilities at fair value through profit or loss*

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

*(b) Other financial liabilities*

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

*(c) Derecognition of financial liability*

The Group derecognizes financial liability when its contractual obligations are discharged, cancelled or expired. The Group also derecognizes a financial liability, when its terms are modified and the cash flows of the modified liability

are substantially different, in which case a new financial liability based on the modified terms is recognized a fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred of liabilities assumed) is recognized in profit or loss.

**(16) *Employee benefits***

**(a) *Short-term employee benefits***

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

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**3. Significant Accounting Policies, continued**

*(b) Other long-term employee benefits*

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the reporting period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Remeasurements are recognized in profit or loss in the period in which they arise.

*(c) Retirement benefits: defined benefit plans*

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

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

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

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains or losses on a settlement of defined benefit plan when the settlement occurs.

*(d) Retirement benefits: defined contribution plans*

When an employee has provided service for a certain period of time in relation to the defined contribution plan, the contribution to the defined contribution plan is recognized in profit or loss except to be included in the cost of the asset. The contributions to be paid are recognized as liabilities (accrued expenses) less the contributions that have been already paid.

*(e) Termination benefits*

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring. If benefits are not payable within 12 months after the end of the reporting period, then they are discounted to their present value.

**(17) Provisions**

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

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

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**3. Significant Accounting Policies, continued**

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

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

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

**(18) Emissions Rights**

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the *Act on Allocation and Trading of Greenhouse Gas Emission*.

**(a) Greenhouse Gases Emission Right**

Greenhouse Gases Emission Right consists of emission allowances, which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation is classified as intangible asset and is initially measured at cost and after initial recognition are carried at cost less accumulated impairment losses. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period.

The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

**(b) Emission liability**

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.



**(19) Foreign currencies**

*(a) Foreign currency transactions*

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

Foreign currency differences arising on the settlement or retranslation of monetary items are recognized in profit or loss, except for differences arising on the retranslation of the net investment in a foreign operation, which

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**3. Significant Accounting Policies, continued**

are recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

*(b) Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the end of reporting period. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and translated at the exchange rates at the end of reporting date.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

*(20) Equity capital*

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

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

*(21) Share-based payment*

The Group has granted shares or share options to its employees. For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot reliably estimate the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Group measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

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**3. Significant Accounting Policies, continued**

**(22) Revenue from contracts with customers**

The Group has initially applied IFRS 15, *Revenue from contracts with customers* from January 1, 2018. The Group's accounting policies relating to revenue from contracts with customers are described in note 26 and the effect of the initial applying of IFRS 15 is described in note 3-(26).

**(23) Finance income and finance expenses**

The Group's finance income and finance expenses include:

Interest income;

Interest expense;

Dividend income;

The net gain or loss on financial assets at fair value through profit or loss;

Gain or loss on foreign exchange(currency) translation for financial asset and liabilities;

Impairment losses and reversals on investment debt securities carried at amortized cost method; and

The remeasurement gain on the previously held equity interest at the point of business combination  
The Group uses effective interest rate method for recognizing interest income and expense. Dividend income is recognized in profit or loss on the date that the Group's right to receive dividend is established.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

The gross carrying amount of the financial asset; or

The amortized cost of the financial liability

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

**(24) Income taxes**

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

**(a) Current tax**

Current tax is the expected tax payable or refundable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

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**3. Significant Accounting Policies, continued**

*(b) Deferred tax*

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes deferred tax assets for all deductible temporary differences including unused tax loss and tax credit to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

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

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If there are any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.

*(25) Earnings per share*

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

**(26) Changes in accounting policies**

The Group has initially adopted IFRS 15 *Revenue from Contracts from Customers* and IFRS 9 *Financial Instruments* from January 1, 2018. A number of other new standards are effective from January 1, 2018 and they do not have significant impact on the Group's consolidated financial statements.

*(a) IFRS 15, Revenue from Contracts with Customers*

IFRS 15 is a comprehensive framework for determining when and how much revenue is recognized. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contract*, SIC 31 *Revenue: Barter Transactions Involving Advertising Services*, IFRIC 13 *Customer Loyalty Program*, IFRIC 15 *Agreements for the construction of real estate* and IFRIC 18 *Transfers of assets from customers*.

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**3. Significant Accounting Policies, continued**

The Group has adopted IFRS 15, *Revenue from contracts with customers* as of January 1, 2018 as the initial application date. The following summarizes the impact on the Group of adopting the standard.

*(i) Sales with right of return*

In general, the Group's contract with customers allows a customer to return the products. Under IFRS 15, the Group initially recognizes revenue, which is measured at the gross transaction price, less the expected level of returns using the guidance on estimating variable considerations and the constraint. The expected level of returns is estimated by using the method the Group expects to better predict the amount of consideration to which it will be entitled. Also, the Group includes an amount of variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the return period expires. The Group recognizes the amounts received or receivable for which the Group does not expect to be entitled as a refund liability.

*(ii) Delivery of product ( C-terms )*

When applying IFRS 15, sales of products and delivery of products (i.e. shipping service) are identified as separate performance obligations in the contracts with customers. However, for transactions for which the customer obtains control over the products upon delivery, which is the Group's most common transaction term, those two performance obligations are not separately identified as the control over the products is transferred upon the completion of delivery. However, for the export transactions for which the shipping terms are on shipment basis ( C-terms ), the two performance obligations are separately accounted for because delivery of products is performed after the control over the products is transferred to the customer. The transaction price allocated to the performance obligation of delivery service is recognized when the obligation of delivery of the product is satisfied with the related shipping costs recognized as cost of sales.



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The following tables summarize the impacts of adopting IFRS 15 on the consolidated statement of financial position as of January 1, 2018.

|  | <b>December 31,<br/>2017</b> | <b>Adjustments<br/>- Sales with<br/>right of return<br/>(In millions of won)</b> | <b>January 1,<br/>2018</b> |
|--|------------------------------|--|----------------------------|
| <b>Assets</b>  |                              |  |                            |
| <b>Current assets</b>  |                              |  |                            |
| Other current assets   | 523,638                      | 17,884   | 541,522                    |
| Others   | 16,786,806                   |  | 16,786,806                 |
|  | 17,310,444                   | 17,884   | 17,328,328                 |
| <b>Non-current assets</b>  | <b>28,108,020</b>            |  | <b>28,108,020</b>          |
| <b>Total assets</b>  | <b>45,418,464</b>            | <b>17,884</b>  | <b>45,436,348</b>          |
| <b>Liabilities</b>   |                              |  |                            |
| <b>Current liabilities</b>                                       |                              |  |                            |
| Provisions   | 81,351                       | (30,672)   | 50,679                     |
| Other current liabilities  | 51,776                       | 48,556   | 100,332                    |
| Others   | 7,983,006                    |  | 7,983,006                  |
|  | 8,116,133                    | 17,884   | 8,134,017                  |
| <b>Non-current liabilities</b>                                   | <b>3,481,412</b>             |  | <b>3,481,412</b>           |
| <b>Total liabilities</b>   | <b>11,597,545</b>            | <b>17,884</b>  | <b>11,615,429</b>          |
| <b>Equity</b>  |                              |  |                            |
| <b>Total equity attributable to owners of the Parent Company</b> | <b>33,815,280</b>            |  | <b>33,815,280</b>          |
| <b>Non-controlling interests</b>                                 | <b>5,639</b>                 |  | <b>5,639</b>               |
| <b>Total equity</b>  | <b>33,820,919</b>            |  | <b>33,820,919</b>          |
| <b>Total liabilities and equity</b>                              | <b>45,418,464</b>            | <b>17,884</b>  | <b>45,436,348</b>          |



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The following tables summarize the impacts of adopting IFRS 15 on the consolidated statement of financial position as of December 31, 2018, and the consolidated statement of comprehensive income for the year then ended. There was no material impact on the statement of cash flows for year ended December 31, 2018.

Details of the impact on the consolidated statement of financial position as of December 31, 2018 are as follows:

|  | As<br>reported | Adjustments<br>- Sales with<br>right of return<br>(In millions of won) | Amounts<br>without<br>adoption of<br>IFRS 15 |
|--|----------------|--|--|
| <b>Assets</b>  |                |  |  |
| <b>Current assets</b>  |                |  |  |
| Other current assets   | 741,425        | (24,261)   | 717,164                                      |
| Others   | 19,152,721     |  | 19,152,721                                   |
|  | 19,894,146     | (24,261)   | 19,869,885                                   |
| <b>Non-current assets</b>  | 43,764,189     |  | 43,764,189                                   |
| <b>Total assets</b>  | 63,658,335     | (24,261)   | 63,634,074                                   |
| <b>Liabilities</b>   |                |  |  |
| <b>Current liabilities</b>                                       |                |  |  |
| Provisions   | 56,208         | 55,986   | 112,194                                      |
| Other current liabilities  | 147,838        | (80,247)   | 67,591                                       |
| Others   | 12,827,806     |  | 12,827,806                                   |
|  | 13,031,852     | (24,261)   | 13,007,591                                   |
| <b>Non-current liabilities</b>                                   | 3,774,152      |  | 3,774,152                                    |
| <b>Total liabilities</b>   | 16,806,004     | (24,261)   | 16,781,743                                   |
| <b>Equity</b>  |                |  |  |
| <b>Total equity attributable to owners of the Parent Company</b> | 46,845,719     |  | 46,845,719                                   |
| <b>Non-controlling interests</b>                                 | 6,612          |  | 6,612  |

|                                     |            |          |            |
|-------------------------------------|------------|----------|------------|
| <b>Total equity</b>                 | 46,852,331 |          | 46,852,331 |
| <b>Total liabilities and equity</b> | 63,658,335 | (24,261) | 63,634,074 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****3. Significant Accounting Policies, continued**

Details of the impact on the consolidated statement of comprehensive income for the year ended December 31, 2018, are as follows:

|  | As<br>reported | Adjustments<br>- Delivery<br>of<br>product<br>(In millions of won) | Amounts<br>without<br>adoption of<br>IFRS 15 |
|--|----------------|--|--|
| <b>Revenue</b>                                   | 40,445,066     |  | 40,445,066                                   |
| Cost of sales                                    | 15,180,838     | (23,424)   | 15,157,414                                   |
| <b>Gross profit</b>                              | 25,264,228     | 23,424   | 25,287,652                                   |
| Selling and administrative expense               | 4,420,478      | 23,424   | 4,443,902                                    |
| Finance income                                   | 1,691,955      |  | 1,691,955                                    |
| Finance expenses                                 | 1,142,134      |  | 1,142,134                                    |
| Share of profit of equity-accounted investees    | 13,007         |  | 13,007                                       |
| Other income                                     | 112,810        |  | 112,810                                      |
| Other expenses                                   | 178,358        |  | 178,358                                      |
| <b>Profit before income tax</b>                  | 21,341,030     |  | 21,341,030                                   |
| Income tax expense                               | 5,801,046      |  | 5,801,046                                    |
| <b>Profit for the period</b>                     | 15,539,984     |  | 15,539,984                                   |
| <b>Other comprehensive loss</b>                  | (67,219)       |  | (67,219)                                     |
| <b>Total comprehensive income for the period</b> | 15,472,765     |  | 15,472,765                                   |

*(b) IFRS 9, Financial Instruments*

IFRS 9, *Financial Instruments* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instrument: Recognition and Measurement*. The Group has taken advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement (including impairment) changes.

The following table summarizes the impact of transition to IFRS 9 on the opening balance of equity as of January 1, 2018.

|   | <b>Accumulated other<br/>comprehensive income<br/>(loss)</b> | <b>Retained earnings</b> |
|---|--|--------------------------|
|   | <b>(In millions of won)</b>                                  |                          |
| <b>Beginning equity under IAS 39</b>              | (502,264)  | 27,287,256               |
| Reclassification from available-for-sale to FVTPL | 10,735   | (10,735)                 |
| <b>Beginning equity under IFRS 9</b>              | (491,529)  | 27,276,521               |

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Details of reclassification of the financial asset categories upon adoption of IFRS 9, which was initially adopted as of January 1, 2018, are as follows:

|  | <b>Original<br/>classification<br/>according to<br/><br/>IAS 39</b> | <b>New<br/>classification<br/>according to<br/><br/>IFRS 9</b> | <b>Original carrying<br/>amount in<br/>accordance<br/>with<br/>IAS 39</b> | <b>New Carrying amount<br/>in accordance<br/>with<br/>IFRS 9</b> |
|--|---|--|---|--|
| <b>(In millions of won)</b>              |   |  |   |  |
| Cash and cash equivalents                | Loans and receivables   | Amortized cost   | 2,949,991   | 2,949,991  |
| Short-term financial instruments         | Loans and receivables   | Amortized cost   | 4,674,862   | 4,674,862  |
| Short-term investment assets             | Financial assets at fair value through profit or loss               | FVTPL  | 929,801   | 929,801  |
| Trade receivables                        | Loans and receivables   | Amortized cost   | 5,552,795   | 5,552,795  |
| Other receivables                        | Loans and receivables   | Amortized cost   | 80,023  | 80,023   |
| Other financial assets                   | Loans and receivables   | Amortized cost   | 273   | 273  |
| Long-term investment assets <sup>1</sup> | Available-for-sale financial assets                                 | FVTPL  | 43,226  | 43,226   |
|  |   |  | 14,230,971  | 14,230,971   |

<sup>1</sup> As of January 1, 2018, available-for-sale financial assets for equity investments amounting to 43,226 million were reclassified to financial assets measured at FVTPL. As the contractual terms of these assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, these assets were not designated as financial assets measured at amortized cost. As a result of this reclassification, as at January 1, 2018, other comprehensive loss of 10,735 million was reclassified to retained earnings. There was no change in fair value of these financial assets for the year ended December 31, 2018.

The following new standards, amendments to standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

*(c) IFRS 16, Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accountings treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. The Group plans to apply IFRS 16 initially on January 1, 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019 with no restatement of comparative information.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease



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**3. Significant Accounting Policies, continued**

liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As of December 31, 2018, the Group has non-cancellable operating lease commitments. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and the Group is currently assessing its potential impact.

As of the date of the authorization of these consolidated financial statements, the Group is unable to reliably estimate the amount of impact of the application of IFRS 16 on the Group's consolidated financial statements regarding leases where the Group is the lessee and the leases for which the determination of finance lease versus operating lease is different under IFRS 16 and IAS 17.

*(d) Other amendments*

Management does not expect the following standards and interpretation will have a material impact on the Group's consolidated financial statement.

IFRIC 23 *Uncertainty Over Income Tax Treatments*

IFRS 9 *Financial Instruments*      Prepayment features with negative compensation

IFRS 28 *Investment in Associates*      Long-term Interests in Associates and Joint Ventures

IFRS 19 *Employee Benefit* Plan Amendment, Curtailment or Settlement

Annual Improvements to IFRS 2015-2017 Cycle

Amendment of *Conceptual Framework for Financial Reporting*

IFRS 17 *Insurance Contract*

#### **4. Geographic and Customer Information**

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products. The management of the Group reviews the operating results of the semiconductor business for reporting information used and reviewed when establishing the Group's business strategy.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****4. Geographic and Customer Information, continued**

(1) The Group's non-current assets (excluding financial assets, loans and other receivables, equity-accounted investees and deferred tax assets) information based on the locations of subsidiaries as of December 31, 2018 and 2017 are as follows:

|                                    | <b>2018</b>                 | <b>2017</b>       |
|------------------------------------|-----------------------------|-------------------|
|                                    | <b>(In millions of won)</b> |                   |
| Korea                              | 32,768,811                  | 23,959,991        |
| China                              | 5,100,869                   | 2,768,494         |
| Taiwan                             | 6,309                       | 5,752             |
| Asia (other than China and Taiwan) | 1,401                       | 1,100             |
| U.S.A.                             | 376,307                     | 318,567           |
| Europe                             | 9,908                       | 8,560             |
|                                    | <b>38,263,605</b>           | <b>27,062,464</b> |

(2) Revenue from customer A, B and C each constitutes more than 10% of the Group's consolidated revenue for the year ended December 31, 2018 and amounts to 5,407,782 million (2017: 3,690,504 million and 2016: 1,503,256 million), 5,265,807 million (2017: 2,598,482 million and 2016: 1,450,024 million) and 2,854,041 million (2017: 4,113,904 million and 2016: 2,195,935 million), respectively.

**5. Categories of Financial Instruments**

(1) Categories of financial assets as of December 31, 2018 and 2017 are as follows:

|                                  | <b>2018</b>  |   |              |
|----------------------------------|--|---|--------------|
|                                  | <b>Financial assets at fair value<br/>through<br/>profit or<br/>loss</b> | <b>Financial assets at<br/>amortized cost</b> | <b>Total</b> |
|                                  |  | <b>(In millions of won)</b>                   |              |
| Cash and cash equivalents        |  | 2,349,319                                     | 2,349,319    |
| Short-term financial instruments |  | 523,579                                       | 523,579      |
| Short-term investment assets     | 5,496,452  |   | 5,496,452    |
| Trade receivables                |  | 6,319,994                                     | 6,319,994    |

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|                             |           |           |            |
|-----------------------------|-----------|-----------|------------|
| Loans and other receivables |           | 86,906    | 86,906     |
| Other financial assets      |           | 310       | 310        |
| Long-term investment assets | 4,325,550 |           | 4,325,550  |
|                             | 9,822,002 | 9,280,108 | 19,102,110 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****5. Categories of Financial Instruments, continued**

|   | <b>2017</b>  |  |                                  |              |
|---|--|--|----------------------------------|--------------|
|   | <b>Financial assets at fair<br/>value<br/>through<br/>profit<br/>or loss</b> | <b>Available-for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Total</b> |
|   | <b>(In millions of won)</b>  |  |                                  |              |
| Cash and cash equivalents                     |  |  | 2,949,991                        | 2,949,991    |
| Short-term financial instruments <sup>1</sup> |  |  | 4,674,862                        | 4,674,862    |
| Short-term investment assets <sup>1</sup>     | 929,801  |  |                                  | 929,801      |
| Trade receivables                             |  |  | 5,552,795                        | 5,552,795    |
| Loans and other receivables                   |  |  | 80,023                           | 80,023       |
| Other financial assets                        |  |  | 273                              | 273          |
| Long-term investment assets <sup>1</sup>      |  | 43,226   |                                  | 43,226       |
|   | 929,801  | 43,226   | 13,257,944                       | 14,230,971   |

<sup>1</sup> Short-term financial instruments and available-for-sale financial assets as of December 31, 2017 were reclassified to conform with the classification as of December 31, 2018.

(2) Categories of financial liabilities as of December 31, 2018 and 2017 are as follows:

|                                       | <b>2018</b>  |
|---------------------------------------|--|
|                                       | <b>Financial liabilities measured<br/>at amortized cost<br/>(In millions of won)</b> |
| Trade payables                        | 1,096,380  |
| Other payables                        | 3,681,933  |
| Other non-trade payables <sup>1</sup> | 1,894,751  |
| Borrowings                            | 5,281,937  |
|                                       | 11,955,001   |

|                                       | <b>2017</b>  |
|---------------------------------------|--|
|                                       | <b>Financial liabilities measured<br/>at amortized cost<br/>(In millions of won)</b> |
| Trade payables                        | 758,578  |
| Other payables                        | 2,724,547  |
| Other non-trade payables <sup>1</sup> | 1,343,637  |
| Borrowings                            | 4,171,270  |
|                                       | <b>8,998,032</b>   |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****5. Categories of Financial Instruments, continued**

<sup>1</sup> Details of other non-trade payables as of December 31, 2018 and 2017 are as follows:

|                          | <b>2018</b>                 | <b>2017</b> |
|--------------------------|-----------------------------|-------------|
|                          | <b>(In millions of won)</b> |             |
| <b>Current</b>           |                             |             |
| Accrued expenses         | 1,879,520                   | 1,340,225   |
| <b>Non-current</b>       |                             |             |
| Rent deposits payable    | 14,135                      | 3,412       |
| Long-term other payables | 1,096                       |             |
|                          | 15,231                      | 3,412       |
|                          | 1,894,751                   | 1,343,637   |

(3) Details of gain and loss on financial assets and liabilities by category for the years ended December 31, 2018, 2017 and 2016 are as follows:

(a) Profit or loss

|  | <b>2018</b>                 |
|--|-----------------------------|
|  | <b>(In millions of won)</b> |
| <b>Financial assets at amortized cost</b>                    |                             |
| Interest income  | 62,478                      |
| Foreign exchange differences                                 | 573,349                     |
| Reversal of impairment                                       | 44                          |
|  | 635,871                     |
| <b>Financial assets at fair value through profit or loss</b> |                             |
| Dividend income  | 2,136                       |
| Gain on disposal   | 41,853                      |
| Gain on valuation  | 197,919                     |
| Foreign exchange differences                                 | 122,375                     |

|   |           |
|---|-----------|
|   | 364,283   |
| <b>Financial liabilities measured at amortized cost</b>           |           |
| Interest expenses   | (94,635)  |
| Foreign exchange differences                                      | (355,654) |
|   | (450,289) |
| <b>Financial liabilities at fair value through profit or loss</b> |           |
| Gain on valuation from derivative instruments                     |           |
| Loss on transaction from derivative instruments                   |           |
|   | 549,865   |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****5. Categories of Financial Instruments, continued**

|   | <b>2017</b>                 | <b>2016</b> |
|---|-----------------------------|-------------|
|   | <b>(In millions of won)</b> |             |
| <b>Loans and receivables</b>                                      |                             |             |
| Interest income   | 54,275                      | 34,174      |
| Foreign exchange differences                                      | (679,287)                   | 167,736     |
| Reversal of impairment  | 2,119                       | 5,617       |
|   | (622,893)                   | 207,527     |
| <b>Available-for-sale financial assets</b>                        |                             |             |
| Dividend income   | 13                          | 18          |
| Gain on disposal  | 30,920                      |             |
|   | 30,933                      | 18          |
| <b>Financial assets at fair value through profit or loss</b>      |                             |             |
| Gain on valuation   | 1,399                       | 1,133       |
| Gain on disposal  | 15,754                      | 15,348      |
|   | 17,153                      | 16,481      |
| <b>Financial liabilities measured at amortized cost</b>           |                             |             |
| Interest expenses   | (123,918)                   | (120,122)   |
| Foreign exchange differences                                      | 447,707                     | (129,670)   |
|   | 323,789                     | (249,792)   |
| <b>Financial liabilities at fair value through profit or loss</b> |                             |             |
| Gain on valuation from derivative instruments                     |                             | 395         |
| Loss on transaction from derivative instruments                   | (11)                        | (448)       |
|   | (11)                        | (53)        |
|   | (251,029)                   | (25,819)    |

(b) Other comprehensive income

|  | 2018                 | 2017 | 2016     |
|--|----------------------|------|----------|
|  | (In millions of won) |      |          |
| Loss on valuation of available-for-sale financial assets, net of tax |                      |      | (10,735) |

## 6. Financial Risk Management

### (1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the Parent Company's corporate finance division in accordance with policies approved by the board of directors. The Parent Company's corporate finance division identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****6. Financial Risk Management, continued**

exchange risk, interest rate risk, and credit risk; use of derivative financial instruments and non-derivative financial instruments; and the investment of excess liquidity.

*(a) Market risk**(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions; recognized assets and liabilities in foreign currencies; and net investments in foreign operations.

Monetary foreign currency assets and liabilities as of December 31, 2018 are as follows:

|     | Assets  |                       | Liabilities        |                       |
|-----|---|-----------------------|--------------------|-----------------------|
|     | Foreign currencies                                      | Korean won equivalent | Foreign currencies | Korean won equivalent |
|     | (In millions of won and millions of foreign currencies) |                       |                    |                       |
| USD | 9,987   | 11,166,566            | 6,002              | 6,710,666             |
| EUR | 19  | 24,693                | 443                | 566,635               |
| JPY | 892   | 9,041                 | 172,526            | 1,747,998             |

As of December 31, 2018, effects on profit before income tax as a result of change in exchange rate by 10% are as follows:

|     | If increased by 10%  | If decreased by 10% |
|-----|----------------------|---------------------|
|     | (In millions of won) |                     |
| USD | 445,590              | (445,590)           |
| EUR | (54,194)             | 54,194              |
| JPY | (173,896)            | 173,896             |

*(ii) Interest rate risk*

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings,

and is partially offset by interests received from floating rate financial assets.

As of December 31, 2018, the Group is partially exposed to a risk of increase in interest rates. If interest rates on borrowings were 100 basis points higher/lower with all other variables held constant, profit before income tax for the following year would be 19,418 million (2017: 20,571 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

*(iii) Price risk*

The Group invests in equity and debt securities resulted from its business needs and the purpose of liquidity management. The Group's equity and debt securities are exposed to price risk as of December 31, 2018.

*(b) Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from operating and investing activities. In order to manage credit risk, the Group periodically evaluates the credit worthiness of each customer or counterparty through the analysis of its financial information, historical transaction records and other factors, based on which the Group establishes credit limits for each customer or counterparty.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****6. Financial Risk Management, continued***(i) Trade and other receivables*

For each new customer, the Group individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Group is consistently managing trade and other receivables by reevaluating the overseas customer's credit worthiness and securing collaterals in order to limit its credit risk exposure.

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from overseas customers. The maximum exposure to credit risk as of December 31, 2018 is the carrying amount of trade and other receivables.

*(ii) Other financial assets*

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of December 31, 2018 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any significant losses from non-performance by these counterparties.

*(c) Liquidity risk*

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Group forecasts its cash flow and liquidity status and sets action plans on a regular basis to manage liquidity risk proactively.

The Group invests surplus cash in interest-bearing current accounts, time deposits, and demand deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

Contractual maturities of financial liabilities as of December 31, 2018 and 2017 are as follows:

|                      |             | 2018        |                   |  | Total |
|----------------------|-------------|-------------|-------------------|--|-------|
| Less than 1 year     | 1 - 2 years | 2 - 5 years | More than 5 years |  |       |
| (In millions of won) |             |             |                   |  |       |

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|                              |           |         |           |         |            |
|------------------------------|-----------|---------|-----------|---------|------------|
| Borrowings <sup>1</sup>      | 1,712,851 | 979,086 | 2,688,574 | 94,536  | 5,475,047  |
| Finance lease liabilities    | 10,773    | 10,773  | 31,860    | 24,369  | 77,775     |
| Trade payables               | 1,096,380 |         |           |         | 1,096,380  |
| Other payables               | 3,681,933 |         |           |         | 3,681,933  |
| Other non-trade payables     | 1,858,253 |         | 14,135    |         | 1,872,388  |
| Financial guarantee contract | 4         |         |           |         | 4          |
|                              | 8,360,194 | 989,859 | 2,734,569 | 118,905 | 12,203,527 |

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|                              | 2017                   |             |             |                      | Total     |
|------------------------------|------------------------|-------------|-------------|----------------------|-----------|
|                              | Less than<br>1<br>year | 1 - 2 years | 2 - 5 years | More than<br>5 years |           |
|                              | (In millions of won)   |             |             |                      |           |
| Borrowings <sup>1</sup>      | 732,902                | 1,155,876   | 2,248,059   | 81,038               | 4,217,875 |
| Finance lease liabilities    | 10,773                 | 10,773      | 32,254      | 34,748               | 88,548    |
| Trade payables               | 758,578                |             |             |                      | 758,578   |
| Other payables               | 2,724,885              |             |             |                      | 2,724,885 |
| Other non-trade payables     | 1,317,032              |             | 3,412       |                      | 1,320,444 |
| Financial guarantee contract | 8                      |             |             |                      | 8         |
|                              | 5,544,178              | 1,166,649   | 2,283,725   | 115,786              | 9,110,338 |

<sup>1</sup> The cash flow includes payment of interest under terms and conditions of borrowing contracts and excludes the amount of finance lease liabilities.

The table above analyzes the Group's non-derivative financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include estimated interest payments.

**(2) Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders, proceeds and repayments of borrowings, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio and net borrowing ratio as of December 31, 2018 and 2017 are as follows:

|                       | 2018                 | 2017       |
|-----------------------|----------------------|------------|
|                       | (In millions of won) |            |
| Total liabilities (A) | 16,806,004           | 11,597,545 |

|   |            |            |
|---|------------|------------|
| Total equity (B)  | 46,852,331 | 33,820,919 |
| Cash and cash equivalents; short-term financial instruments; and short-term investment assets (C) | 8,369,350  | 8,554,654  |
| Total borrowings (D)  | 5,281,937  | 4,171,270  |
| Debt-to-equity ratio (A/B)  | 35.87%     | 34.29%     |
| Net borrowing ratio (D-C)/B <sup>1</sup>  |            |            |

<sup>1</sup> Net borrowing ratio as of December 31, 2018 and 2017 is not presented as the ratio is negative.

**(3) Fair value**

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in valuation techniques as follows:

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

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

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

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of December 31, 2018 and 2017:

|   | Carrying<br>amounts | 2018    |           |           | Total     |
|---|---------------------|---------|-----------|-----------|-----------|
|   |                     | Level 1 | Level 2   | Level 3   |           |
| <b>(In millions of won)</b>                             |                     |         |           |           |           |
| <b>Financial assets measured at fair value</b>          |                     |         |           |           |           |
| Short-term investment assets                            | 5,496,452           |         | 5,496,452 |           | 5,496,452 |
| Long-term investment assets                             | 4,325,550           |         |           | 4,325,550 | 4,325,550 |
|   | 9,822,002           |         | 5,496,452 | 4,325,550 | 9,822,002 |
| <b>Financial assets not measured at fair value</b>      |                     |         |           |           |           |
| Cash and cash equivalents <sup>1</sup>                  | 2,349,319           |         |           |           |           |
| Short-term financial instruments <sup>1</sup>           | 523,579             |         |           |           |           |
| Trade receivables <sup>1</sup>                          | 6,319,994           |         |           |           |           |
| Loans and other receivables <sup>1</sup>                | 86,906              |         |           |           |           |
| Other financial assets <sup>1</sup>                     | 310                 |         |           |           |           |
|   | 9,280,108           |         |           |           |           |
| <b>Financial liabilities not measured at fair value</b> |                     |         |           |           |           |
| Trade payables <sup>1</sup>                             | 1,096,380           |         |           |           |           |
| Other payables <sup>1</sup>                             | 3,681,933           |         |           |           |           |
| Other non-trade payables <sup>1</sup>                   | 1,894,751           |         |           |           |           |
| Borrowings  | 5,281,937           |         | 5,300,120 |           | 5,300,120 |
|   | 11,955,001          |         | 5,300,120 |           | 5,300,120 |

- <sup>1</sup> 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.

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|   | Carrying amounts | 2017    |           |         | Total     |
|---|------------------|---------|-----------|---------|-----------|
|   |                  | Level 1 | Level 2   | Level 3 |           |
| <b>Financial assets measured at fair value</b>          |                  |         |           |         |           |
| Short-term investment assets                            | 929,801          |         | 929,801   |         | 929,801   |
| Long-term investment assets                             | 43,226           |         |           | 43,226  | 43,226    |
|   | 973,027          |         | 929,801   | 43,226  | 973,027   |
| <b>Financial assets not measured at fair value</b>      |                  |         |           |         |           |
| Cash and cash equivalents <sup>1</sup>                  | 2,949,991        |         |           |         |           |
| Short-term financial instruments <sup>1</sup>           | 4,674,862        |         |           |         |           |
| Trade receivables <sup>1</sup>                          | 5,552,795        |         |           |         |           |
| Loans and other receivables <sup>1</sup>                | 80,023           |         |           |         |           |
| Other financial assets <sup>1</sup>                     | 273              |         |           |         |           |
|   | 13,257,944       |         |           |         |           |
| <b>Financial liabilities not measured at fair value</b> |                  |         |           |         |           |
| Trade payables <sup>1</sup>                             | 758,578          |         |           |         |           |
| Other payables <sup>1</sup>                             | 2,724,547        |         |           |         |           |
| Other non-trade payables <sup>1</sup>                   | 1,343,637        |         |           |         |           |
| Borrowings  | 4,171,270        |         | 4,178,598 |         | 4,178,598 |
|   | 8,998,032        |         | 4,178,598 |         | 4,178,598 |

<sup>1</sup> 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.

**(b) Valuation Techniques**

The valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2 or level 3 are as follows:

| Fair value | Level | Valuation Techniques |
|------------|-------|----------------------|
|------------|-------|----------------------|

(In millions of won)

**Financial assets at fair value through profit or loss:**

|                              |           |   |                                    |
|------------------------------|-----------|---|------------------------------------|
| Short-term investment assets | 5,496,452 | 2 | Present value technique            |
| Long-term investment assets  | 4,325,550 | 3 | Present value technique and others |

Long-term investments measured at level 3 in the fair value hierarchy include investments in special purpose companies of BCPE Pangea Intermediate Holdings Cayman, L.P. ( SPC1 ) amounting to 2,721,554 million and BCPE Pangea Cayman2 Limited ( SPC2 ) amounting to 1,461,451 million in connection with the acquisition of Toshiba Corporation's semiconductor memory business, or Toshiba Memory Corporation ( TMC ) (see note 12). The fair value of the long-term investments is measured based on the equity value of the underlying asset, TMC, which is based on estimated future cash flows based on expected sales and cost structures, and discounted at weighted average capital costs, considering capital structures.

The fair value of equity investment in SPC1 is measured using probability-weighted expected return method that represents the probability-weighted average of possible future cash flows. The fair values of different scenarios (such as initial public offering, merger and acquisition, and liquidation) are determined using either market

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approach, option-pricing method or present value method based on the TMC's equity value. TMC's estimated equity value is allocated to shareholder's value of each class of shares depending the capital structure of the investment. For the allocation, a waterfall approach is used, which allocates value based on the distribution priority described in SPC1 investment agreement depending on the nature of liquidity transaction or an ultimate liquidation.

The fair value of debt investment in SPC2 convertible bonds is measured based on TMC's equity value, in combination of the value of debenture and the value of conversion right using binomial model.

The valuation techniques and key inputs used in valuation of the equity investment in SPC1 and investment in SPC2 convertible bonds are as follows:

|                              | Fair value<br>(In millions of won) | Valuation Techniques   | Level 3 inputs   | Input<br>Range                       |
|------------------------------|------------------------------------|--|--|--------------------------------------|
| Equity investment<br>in SPC1 | 2,721,554                          | Present value technique,<br>probability-weighted<br>expected return method,<br>market approach,<br><br>and option-pricing method | Terminal growth rate<br>Weighted-average capital cost<br>EV/EBITDA multiples<br>Cost of equity | 0%<br>8.7%<br>4.6 ~ 5.3<br><br>10.3% |
| SPC2 convertible<br>bonds    | 1,461,451                          | Present value technique<br>and binomial model  | Terminal growth rate<br>Weighted-average capital cost<br>Volatility<br>Risk free rate          | 0%<br>8.7%<br>18.4%<br>0.13%         |

In these level 3 significant unobservable inputs, an increase in terminal growth rate, EV/EBITDA multiples and control premium or a decrease in weighted-average capital cost, cost of equity and discount due to lack of marketability will result in higher fair value of the equity investment in SPC1. In addition, an increase in terminal growth rate and volatility and a decrease in weighted-average capital cost will result in higher fair value of the investment in SPC2 convertible bonds, while any change in risk free rate may have either positive or negative impact on the fair value of the investment in SPC2 convertible bonds.

Any positive or negative changes in the above inputs will have a direct impact on the fair value of investments in SPC1 and SPC2, respectively. They are significant, but unobservable. Accordingly, the investments are classified as fair value hierarchy level 3. The changes in these key inputs may have a significant impact on the fair value of investments in SPC1 and SPC2.

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2018 and the changes in financial assets classified as level 3 fair value measurements during the year ended December 31, 2018 are as follows:

|                             | <b>Beginning<br/>Balance<sup>1</sup></b> | <b>Acquisition</b> | <b>Disposals</b> | <b>Gain on<br/>Valuation</b> | <b>Foreign<br/>Exchange<br/>Difference</b> | <b>Business<br/>Combination</b> | <b>Ending<br/>Balance</b> |
|-----------------------------|--|--------------------|------------------|------------------------------|--|---------------------------------|---------------------------|
| <b>(In millions of won)</b> |  |                    |                  |                              |  |                                 |                           |
| Long-term investment assets | 43,226                                   | 4,012,799          | (1,614)          | 181,179                      | 87,246                                     | 2,714                           | 4,325,550                 |

<sup>1</sup> Beginning balance includes equity instruments amounting to 29,700 million which do not have quoted price in an active market for the identical instruments (inputs for level 1). Those are measured at cost in accordance

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with IAS 39, *Financial Instrument: Recognition and Measurement* as fair values of such equity instruments cannot be reliably measured using other valuation techniques as of December 31, 2018.

**7. Restricted Financial Instruments**

Details of restricted financial instruments as of December 31, 2018 and 2017 are as follows:

|                                  | <b>2018</b>                 | <b>2017</b> | <b>Description</b>                         |
|----------------------------------|-----------------------------|-------------|--|
|                                  | <b>(In millions of won)</b> |             |  |
| Short-term financial instruments | 227,500                     | 227,500     | Restricted for supporting small businesses |
|                                  | 6,079                       | 5,695       | Pledged for consumption tax                |
|                                  |                             | 1,287       | Others                                     |
|                                  | 233,579                     | 234,482     |  |
| Other financial assets           | 11                          | 11          | Bank overdraft guarantee deposit           |
|                                  | 265                         | 262         | Others                                     |
|                                  | 276                         | 273         |  |
|                                  | 233,855                     | 234,755     |  |

**8. Trade Receivables and Loans and Other Receivables**

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

|  | <b>2018</b>                 | <b>2017</b> |
|--|-----------------------------|-------------|
|  | <b>(In millions of won)</b> |             |
| Trade receivables                      | 6,209,165                   | 5,453,848   |
| Trade receivables from related parties | 110,829                     | 98,947      |
|  | 6,319,994                   | 5,552,795   |

(2) Details of loans and other receivables as of December 31, 2018 and 2017 are as follows:

|   | 2018                 | 2017   |
|---|----------------------|--------|
|   | (In millions of won) |        |
| <b>Current</b>                          |                      |        |
| Other receivables                       | 8,465                | 10,816 |
| Accrued income                          | 3,899                | 22,308 |
| Short-term loans                        | 4,807                | 2,886  |
| Short-term guarantee and other deposits | 1,221                | 1,603  |
|   | 18,392               | 37,613 |
| <b>Non-current</b>                      |                      |        |
| Long-term other receivables             | 54                   | 56     |
| Long-term loans                         | 28,125               | 11,098 |
| Guarantee deposits                      | 40,117               | 31,109 |
| Other                                   | 218                  | 147    |
|   | 68,514               | 42,410 |
|   | 86,906               | 80,023 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****8. Trade Receivables and Loans and Other Receivables, continued**

(3) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2018 and 2017 are as follows:

|   | <b>Gross<br/>amount</b> | <b>2018<br/>Provision for<br/>impairment<br/>(In millions of won)</b> | <b>Carrying<br/>amount</b> |
|---|-------------------------|---|----------------------------|
| Trade receivables                       | 6,320,042               | (48)  | 6,319,994                  |
| Current loans and other receivables     | 19,715                  | (1,323)   | 18,392                     |
| Non-current loans and other receivables | 69,631                  | (1,117)   | 68,514                     |
|   | 6,409,388               | (2,488)   | 6,406,900                  |

|   | <b>Gross<br/>amount</b> | <b>2017<br/>Provision for<br/>impairment<br/>(In millions of won)</b> | <b>Carrying<br/>amount</b> |
|---|-------------------------|---|----------------------------|
| Trade receivables                       | 5,552,841               | (46)  | 5,552,795                  |
| Current loans and other receivables     | 38,940                  | (1,327)   | 37,613                     |
| Non-current loans and other receivables | 43,497                  | (1,087)   | 42,410                     |
|   | 5,635,278               | (2,460)   | 5,632,818                  |

(4) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the years ended December 31, 2018 and 2017 are as follows:

|                          | <b>2018<br/>(In millions of<br/>won)</b> | <b>2017</b> |
|--------------------------|--|-------------|
| <b>Beginning balance</b> | 46                                       | 1,837       |

|                             |           |           |
|-----------------------------|-----------|-----------|
| Reversal                    | (3)       | (1,778)   |
| Foreign exchange difference |           | (13)      |
| Business combination        | 5         |           |
| <b>Ending balance</b>       | <b>48</b> | <b>46</b> |

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2018 and 2017 are as follows:

|                             | <b>2018</b>                     | <b>2017</b>  |
|-----------------------------|---------------------------------|--------------|
|                             | <b>(In millions of<br/>won)</b> |              |
| <b>Beginning balance</b>    | 1,327                           | 1,371        |
| Provision                   |                                 | 32           |
| Reversal                    | (4)                             | (85)         |
| Foreign exchange difference |                                 | 9            |
| <b>Ending balance</b>       | <b>1,323</b>                    | <b>1,327</b> |

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## SK HYNIX, INC. and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2018, 2017 and 2016

## 8. Trade Receivables and Loans and Other Receivables, continued

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2018 and 2017 are as follows:

|                             | 2018                 | 2017  |
|-----------------------------|----------------------|-------|
|                             | (In millions of won) |       |
| <b>Beginning balance</b>    | 1,087                | 1,476 |
| Reversal                    | (37)                 | (297) |
| Foreign exchange difference | 67                   | (92)  |
| <b>Ending balance</b>       | 1,117                | 1,087 |

(5) The aging analysis of trade receivables and loans and other receivables as of December 31, 2018 and 2017 are as follows:

|   | 2018                 |  |  |       |  |           |
|---|----------------------|--|--|-------|--|-----------|
|   | Not impaired         |  |  |       |  |           |
|   | Overdue              |  |  |       |  |           |
|   | Over 3               |  |  |       |  |           |
|   | Less                 |  |  |       |  |           |
|   | than                 |  |  |       |  |           |
|   | and less than        |  |  |       |  |           |
|   | 6 months             |  |  |       |  |           |
|   | Over                 |  |  |       |  |           |
|   | 6 months             |  |  |       |  |           |
|   | Impaired             |  |  |       |  |           |
|   | Total                |  |  |       |  |           |
|   | (In millions of won) |  |  |       |  |           |
| Trade receivables                       | 6,320,038            |  |  | 4     |  | 6,320,042 |
| Current loans and other receivables     | 18,392               |  |  | 1,323 |  | 19,715    |
| Non-current loans and other receivables | 68,514               |  |  | 1,117 |  | 69,631    |
|   | 6,406,944            |  |  | 2,444 |  | 6,409,388 |

2017  
Not impaired  
Overdue

|  | Not past<br>due | Less<br>than<br>3 months | Over 3<br>months<br>and less than<br>6<br>months<br>(In millions of won) | Over<br>6 months | Impaired | Total     |
|--|-----------------|--------------------------|--|------------------|----------|-----------|
| Trade receivables                          | 5,551,276       | 1,560                    |  | 1                | 4        | 5,552,841 |
| Current loans and other receivables        | 37,654          |                          |  |                  | 1,286    | 38,940    |
| Non-current loans and other<br>receivables | 42,410          |                          |  |                  | 1,087    | 43,497    |
|  | 5,631,340       | 1,560                    |  | 1                | 2,377    | 5,635,278 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****9. Inventories**

(1) Details of inventories as of December 31, 2018 and 2017 are as follows:

|                  | <b>2018</b>                 | <b>2017</b>      |
|------------------|-----------------------------|------------------|
|                  | <b>(In millions of won)</b> |                  |
| Merchandise      | 1,634                       |                  |
| Finished goods   | 1,404,439                   | 433,405          |
| Work-in-process  | 2,118,981                   | 1,616,889        |
| Raw materials    | 461,542                     | 296,252          |
| Supplies         | 415,879                     | 270,804          |
| Goods in transit | 20,258                      | 23,089           |
|                  | <b>4,422,733</b>            | <b>2,640,439</b> |

(2) The amount of the inventories recognized as cost of sales is as follows:

|   | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|---|-----------------------------|-------------|-------------|
|   | <b>(In millions of won)</b> |             |             |
| Inventories recognized as cost of sales | 15,178,673                  | 12,700,702  | 10,787,034  |

(3) The changes in inventory valuation allowance during the years ended December 31, 2018 and 2017 are as follows:

|                          | <b>2018</b>                 | <b>2017</b> |
|--------------------------|-----------------------------|-------------|
|                          | <b>(In millions of won)</b> |             |
| <b>Beginning balance</b> | 182,111                     | 64,200      |
| Charged to cost of sales | 240,155                     | 133,164     |
| Utilization upon sales   | (44,274)                    | (15,253)    |
| <b>Ending balance</b>    | 377,992                     | 182,111     |

There were no significant reversals of inventory write-downs recognized during 2018 and 2017.

**10. Other Current and Non-current Assets**

Details of other current and non-current assets as of December 31, 2018 and 2017 are as follows:

|                            | <b>2018</b>                 | <b>2017</b> |
|----------------------------|-----------------------------|-------------|
|                            | <b>(In millions of won)</b> |             |
| <b>Current</b>             |                             |             |
| Advance payments           | 113,030                     | 34,887      |
| Prepaid expenses           | 260,064                     | 222,411     |
| Value added tax refundable | 343,821                     | 263,287     |
| Contract asset             | 24,294                      |             |
| Others                     | 216                         | 3,053       |
|                            | 741,425                     | 523,638     |
| <b>Non-current</b>         |                             |             |
| Long-term advance payments | 96,817                      | 183,489     |
| Long-term prepaid expenses | 528,837                     | 553,231     |
|                            | 625,654                     | 736,720     |
|                            | 1,367,079                   | 1,260,358   |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****11. Investments in Associates and Joint Ventures**

(1) Details of investments in associates and joint ventures as of December 31, 2018 and 2017 are as follows:

| Type                 | Investee   | Location  | Business                                    | Owner-ship (%) | 2018            | 2017           |                 |         |
|----------------------|--|-----------|---|----------------|-----------------|----------------|-----------------|---------|
|                      |  |           |   |                | Net asset value | Owner-ship (%) | Carrying amount |         |
| (In millions of won) |  |           |   |                |                 |                |                 |         |
| Associate            | Stratio, Inc. <sup>1</sup>   | U.S.A.    | Development and manufacturing semiconductor | 9.12           | 79              | 2,079          | 9.12            | 2,105   |
|                      | SK China Company Limited <sup>1</sup>  | China     | Consulting and Investment                   | 11.87          | 193,701         | 246,052        | 11.87           | 244,912 |
|                      | Gemini Partners Pte. Ltd.  | Singapore | Consulting                                  | 20.00          | 2,601           | 2,601          | 20.00           | 4,003   |
|                      | TCL Fund <sup>1</sup>  | Hong Kong | Investment                                  | 11.06          | 3,464           | 3,464          | 11.06           | 2,634   |
|                      | SK South East Asia Investment Pte. Ltd. <sup>2</sup>                         | Singapore | Consulting and Investment                   | 20.00          | 111,810         | 111,810        |                 |         |
|                      | Hushan Xinju (Chengdu) Venture Investment Center (Smartsources) <sup>3</sup> | China     | Venture Capital                             | 46.30          | 3,241           | 3,241          |                 |         |
| Joint venture        | HITECH Semiconductor (Wuxi) Co., Ltd.  | China     | Manufacturing semiconductor parts           | 45.00          | 109,708         | 109,708        | 45.00           | 106,210 |
|                      | Hystars Semiconductor (Wuxi) Co., Ltd. <sup>4</sup>                          | China     | Foundry Factory Construction                | 50.10          | 81,820          | 83,239         |                 |         |
|                      |  |           |   |                | 506,424         | 562,194        |                 | 359,864 |

- <sup>1</sup> The Group is able to exercise significant influence through its right to appoint a director to the board of directors of each investee. Accordingly, the investments in these investees have been classified as associate.
  
- <sup>2</sup> The Group acquired 20.00% shares in SK South East Asia Investment Pte. Ltd. during the year ended December 31, 2018. The investments have been classified as associate as the Group is able to exercise significant influence.
  
- <sup>3</sup> The Group is able to exercise significant influence by SK hynix (Wuxi) Investment Ltd. acquiring 46.30% equity interest in Hushan Xinju (Chengdu) Venture Investment Center (Smartsources). Accordingly, the investments are classified as an associate.
  
- <sup>4</sup> SK hynix system ic Inc. acquired 50.10% shares in Hystars Semiconductor (Wuxi) Co., Ltd. during year ended December 31, 2018. The Group classified it as joint venture because it only has joint control over the investee based on investment agreement.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****11. Investments in Associates and Joint Ventures, continued**

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2018 and 2017 are as follows:

|  | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Disposal</b> | <b>2018<br/>Share of<br/>profit<br/>(loss)</b> | <b>Other<br/>equity<br/>movement</b> | <b>Dividend</b> | <b>Impairment</b> | <b>Ending<br/>balance</b> |
|--|------------------------------|--------------------|-----------------|--|--------------------------------------|-----------------|-------------------|---------------------------|
| <b>(In millions of won)</b>  |                              |                    |                 |  |                                      |                 |                   |                           |
| Stratio, Inc.  | 2,105                        |                    |                 | (30)   | 4                                    |                 |                   | 2,079                     |
| SK China Company<br>Limited  | 244,912                      |                    |                 | 2,394  | (1,254)                              |                 |                   | 246,052                   |
| Gemini Partners Pte. Ltd.  | 4,003                        |                    |                 | 256  | 37                                   |                 | (1,695)           | 2,601                     |
| TCL Fund   | 2,634                        | 1,123              | (254)           | 79   | (31)                                 | (87)            |                   | 3,464                     |
| SK South East Asia<br>Investment Pte. Ltd.<br>Hushan Xinju (Chengdu) |                              | 110,880            |                 |  | 930                                  |                 |                   | 111,810                   |
| Venture Investment<br>Center (Smartsources)                          |                              | 3,225              |                 | (14)   | 30                                   |                 |                   | 3,241                     |
| HITECH Semiconductor<br>(Wuxi) Co., Ltd.                             | 106,210                      |                    |                 | 12,347   | 4,271                                | (13,120)        |                   | 109,708                   |
| Hystars Semiconductor<br>(Wuxi) Co., Ltd.                            |                              | 85,280             |                 | (330)  | (1,711)                              |                 |                   | 83,239                    |
|  | 359,864                      | 200,508            | (254)           | 14,702   | 2,276                                | (13,207)        | (1,695)           | 562,194                   |

|                                      | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Share of<br/>profit<br/>(loss)</b> | <b>Other<br/>equity<br/>movement</b> | <b>Dividend</b> | <b>Ending<br/>balance</b> |
|--------------------------------------|------------------------------|--------------------|---------------------------------------|--------------------------------------|-----------------|---------------------------|
| <b>2017<br/>(In millions of won)</b> |                              |                    |                                       |                                      |                 |                           |
| Stratio, Inc.                        | 2,151                        |                    | (30)                                  | (16)                                 |                 | 2,105                     |
| SK China Company Limited             |                              | 257,169            |                                       | (12,257)                             |                 | 244,912                   |
| Gemini Partners Pte. Ltd.            | 5,199                        |                    | (1,084)                               | (112)                                |                 | 4,003                     |

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|  |         |         |        |          |          |         |
|--|---------|---------|--------|----------|----------|---------|
| TCL Fund                                 | 2,219   | 526     | 16     | (127)    |          | 2,634   |
| HITECH Semiconductor<br>(Wuxi) Co., Ltd. | 121,447 |         | 13,465 | (13,874) | (14,828) | 106,210 |
|  | 131,016 | 257,695 | 12,367 | (26,386) | (14,828) | 359,864 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****11. Investments in Associates and Joint Ventures, continued**

(3) Associate and joint venture s statements of financial position as of December 31, 2018 and 2017 are as follows:

|  | <b>2018</b>                 |                               |                                |                                    |
|--|-----------------------------|-------------------------------|--------------------------------|------------------------------------|
|  | <b>Current<br/>assets</b>   | <b>Non-current<br/>assets</b> | <b>Current<br/>liabilities</b> | <b>Non-current<br/>liabilities</b> |
|  | <b>(In millions of won)</b> |                               |                                |                                    |
| Stratio, Inc.  | 403                         | 617                           | 159                            |                                    |
| SK China Company Limited   | 646,779                     | 1,148,281                     | 65,037                         | 97,633                             |
| Gemini Partners Pte. Ltd.  | 5,357                       | 7,649                         |                                |                                    |
| TCL Fund   | 915                         | 33,596                        | 3,188                          |                                    |
| SK South East Asia Investment Pte. Ltd.                            | 559,050                     |                               |                                |                                    |
| Hushan Xinju (Chengdu) Venture Investment Center<br>(Smartsources) | 6,187                       | 814                           |                                |                                    |
| HITECH Semiconductor (Wuxi) Co., Ltd.                              | 211,273                     | 376,266                       | 114,756                        | 228,987                            |
| Hystars Semiconductor (Wuxi) Co., Ltd.                             | 145,509                     | 19,295                        | 1,490                          |                                    |

|                                       | <b>2017</b>                 |                               |                                |                                    |
|---------------------------------------|-----------------------------|-------------------------------|--------------------------------|------------------------------------|
|                                       | <b>Current<br/>assets</b>   | <b>Non-current<br/>assets</b> | <b>Current<br/>liabilities</b> | <b>Non-current<br/>liabilities</b> |
|                                       | <b>(In millions of won)</b> |                               |                                |                                    |
| Stratio, Inc.                         | 681                         | 577                           | 111                            |                                    |
| SK China Company Limited              | 812,882                     | 934,872                       | 54,752                         | 70,213                             |
| Gemini Partners Pte. Ltd.             | 6,227                       | 5,314                         | 2                              |                                    |
| TCL Fund                              | 7,863                       | 15,957                        |                                |                                    |
| HITECH Semiconductor (Wuxi) Co., Ltd. | 192,905                     | 334,678                       | 79,725                         | 211,835                            |

(4) Summary of associate and joint venture s statements of comprehensive income (loss) for the years ended December 31, 2018, 2017 and 2016 are as follows:

|               | <b>2018</b>                 |                                       | <b>2017</b>    |                                       | <b>2016</b>    |                                       |
|---------------|-----------------------------|---------------------------------------|----------------|---------------------------------------|----------------|---------------------------------------|
|               | <b>Revenue</b>              | <b>Profit (loss)<br/>for the year</b> | <b>Revenue</b> | <b>Profit (loss)<br/>for the year</b> | <b>Revenue</b> | <b>Profit (loss)<br/>for the year</b> |
|               | <b>(In millions of won)</b> |                                       |                |                                       |                |                                       |
| Stratio, Inc. | 88                          | (330)                                 | 33             | (339)                                 | 4              | (198)                                 |

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|   |         |        |         |         |         |         |
|---|---------|--------|---------|---------|---------|---------|
| SK China Company Limited  | 94,966  | 20,176 |         |         |         |         |
| Gemini Partners Pte. Ltd.   |         | 1,279  | 183     | (5,423) |         | (5,848) |
| TCL Fund  |         | 713    |         | 152     |         | (4)     |
| SK South East Asia Investment Pte. Ltd.                           |         |        |         |         |         |         |
| Hushan Xinju (Chengdu) Venture<br>Investment Center (Smartsource) |         | (31)   |         |         |         |         |
| HITECH Semiconductor (Wuxi) Co.,<br>Ltd.                          | 621,528 | 27,438 | 585,904 | 29,923  | 566,893 | 55,346  |
| Hystars Semiconductor (Wuxi) Co., Ltd.                            |         | (658)  |         |         |         |         |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****12. Long-term Investment Assets**

(1) Details of long-term investment assets as of December 31, 2018 and 2017 are as follows:

|   | <b>Ownership<br/>(%)/<br/>Type</b> | <b>2018<br/>Acquisition<br/>cost<br/><br/>(In millions of won)</b> | <b>Book<br/>value</b> | <b>2017<br/>Book<br/>value</b> |
|---|------------------------------------|--|-----------------------|--------------------------------|
| ProMOS Technologies Inc.                                    | 13.34                              | 21,847   |                       |                                |
| JNT Frontier Private Equity Unit                            | Certificate                        | 684  | 684                   | 684                            |
| Daishin Aju IB Investment Co., Ltd. Equity Unit             | Certificate                        | 453  | 453                   | 483                            |
| Seoul Investment Early & Green Venture Fund                 | Certificate                        | 1,180  | 1,180                 | 1,513                          |
| TS 2011-4 Technology Transfer & Business Equity Unit        | Certificate                        | 144  | 144                   | 318                            |
| L&S Venture Capital Equity Unit                             | Certificate                        | 1,121  | 1,121                 | 1,170                          |
| KTC-NP-Growth Equity Unit                                   | Certificate                        | 1,685  | 1,685                 | 2,155                          |
| Intellectual Discovery, Ltd.                                | 7.05                               | 4,000  | 1,376                 | 1,699                          |
| Semiconductor Growth Fund                                   | Certificate                        | 25,000   | 24,878                | 17,250                         |
| Exnodes Inc.  | Convertible<br>bond                | 716  | 716                   | 716                            |
| Keyssa, Inc.  | 2.26                               | 6,174  | 838                   | 832                            |
| MEMS DRIVE, INC.  | 2.86                               | 2,246  | 919                   | 844                            |
| CHINA WALDEN VENTURE INVESTMENTS II, L.P.                   | Certificate                        | 7,611  | 7,611                 | 6,116                          |
| AutoTech Fund I, L.P.                                       | Certificate                        | 2,871  | 2,789                 | 1,444                          |
| IMEC.XPAND COMM.VA  | Certificate                        | 1,607  | 1,607                 | 1,607                          |
| RENO SUB-SYSTEM, INC.                                       | 2.68                               | 2,246  | 226                   | 204                            |
| NetSpeed Systems, Inc. <sup>1</sup>                         |                                    |  |                       | 558                            |
| CHINA WALDEN VENTURE INVESTMENTS III, L.P.                  | Certificate                        | 3,470  | 3,487                 |                                |
| TransLink Capital Partners IV, L.P.                         | Certificate                        | 1,627  | 1,627                 |                                |
| Impact Venture Capital I, LP                                | Certificate                        | 2,199  | 2,707                 |                                |
| BCPE Pangea Intermediate Holdings Cayman, L.P. <sup>2</sup> | Certificate                        | 2,637,097  | 2,721,554             |                                |
| BCPE Pangea Cayman2 Limited <sup>2</sup>                    | Convertible<br>bond                | 1,278,893  | 1,461,451             |                                |
| FemtoMetrix, Inc.   | Convertible<br>bond                | 3,209  | 3,209                 |                                |

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|  |             |       |       |       |
|--|-------------|-------|-------|-------|
| TidalScale, Inc.   | 4.26        | 3,360 | 3,360 |       |
| GigaIO Networks, Inc.  | 6.00        | 1,678 | 1,678 |       |
| Aeye, Inc.   | 1.50        | 2,819 | 2,819 |       |
| AutoTech Fund II, L.P.                                       | Certificate | 281   | 281   |       |
| Nautilus Ventures Partners Fund II, L.P.                     | Certificate | 1,118 | 1,118 |       |
| Construction Guarantee                                       | 0.01        | 709   | 779   | 709   |
| Information & Communication Financial Cooperative            | 0.01        | 15    | 21    | 15    |
| Beijing Starblaze Technology Co., Ltd.                       | 5.43        | 3,273 | 3,255 | 3,273 |
| Shanghai Natlinear Electronics Co., Ltd.                     | 4.12        | 1,636 | 1,628 | 1,636 |
| Shanghai IoT Phase II Venture Capital Fund Partnership, L.P. | Certificate | 5,909 | 5,909 |       |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****12. Long-term Investment Assets, continued**

|  | <b>Ownership<br/>(%)/<br/>Type</b> | <b>2018<br/>Acquisition<br/>cost<br/>(In millions of won)</b> | <b>2017<br/>Book<br/>value</b> | <b>2017<br/>Book<br/>value</b> |
|--|------------------------------------|---|--------------------------------|--------------------------------|
| Beijing Zettastone Technology Co., Ltd.              | 5.13                               | 1,618   | 1,628                          |                                |
| Beijing Horizon Robotics Technology Co., Ltd.        | 2.69                               | 56,029  | 56,029                         |                                |
| Shanghi Sirtus Microelectronics Technology Co., Ltd. | 4.55                               | 4,069   | 4,069                          |                                |
| Mirae Asset Social Enterprise Fund II                | Certificate                        | 275   | 275                            |                                |
| Posco Social Enterprise Fund                         | Certificate                        | 367   | 367                            |                                |
| IBK Investment Securities, SE Fund I                 | Certificate                        | 1,480   | 1,487                          |                                |
| Shinhan AIM Social Enterprise Private Equity I       | Certificate                        | 600   | 585                            |                                |
|  |                                    | 4,091,016   | 4,325,550                      | 43,226                         |

<sup>1</sup> The Group sold whole amount of NetSpeed Systems, Inc.'s preferred stock (book value of 58 million) and recognized the gain on disposal of long-term investment assets with amount of 5,255 million during the year ended December 31, 2018.

<sup>2</sup> In 2017, pursuant to the approval from the Board of Directors, the Group participated in a consortium that includes Bain Capital (Bain Consortium) in connection with the acquisition of a stake in TMC. During the year ended December 31, 2018, the acquisition of TMC was completed and the Group made investment amounting to JPY 266,000 million in SPC1, which holds equity interests in TMC, as a limited partner and acquired convertible bonds of JPY 129,000 million issued by SPC2, which may be later convertible to 15% stake in TMC upon certain events. The Group does not control or have any significant influence on SPC1 or SPC2 as its management and decision-making rights for SPC1 and SPC2 are limited. Accordingly, the investments in both SPC1 and SPC2 are accounted for as debt instruments and classified as financial assets measured at fair value through profit or loss.

(2) Changes in the carrying amount of long-term investment assets for the years ended December 31, 2018 and 2017 are as follows:

|                          | <b>2018<br/>(In millions of won)</b> | <b>2017</b> |
|--------------------------|--------------------------------------|-------------|
| <b>Beginning balance</b> | 43,226                               | 147,779     |

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|                             |                  |               |
|-----------------------------|------------------|---------------|
| Acquisition                 | 4,012,799        | 26,204        |
| Disposal                    | (1,614)          | (115,720)     |
| Gain (loss) on valuation    | 181,179          | (14,807)      |
| Foreign exchange difference | 87,246           | (230)         |
| Business combination        | 2,714            |               |
| <b>Ending balance</b>       | <b>4,325,550</b> | <b>43,226</b> |

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## SK HYNIX, INC. and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2018, 2017 and 2016

**13. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the years ended December 31, 2018 and 2017 are as follows:

|                                  | 2018                 |           |            |              |          |           |                              |              |
|----------------------------------|----------------------|-----------|------------|--------------|----------|-----------|------------------------------|--------------|
|                                  | Land                 | Buildings | Structures | Machinery    | Vehicles | Others    | Construction<br>-in-progress | Total        |
|                                  | (In millions of won) |           |            |              |          |           |                              |              |
| <b>Beginning net book amount</b> | 581,541              | 2,930,753 | 839,620    | 16,130,068   | 777      | 442,221   | 3,137,621                    | 24,062,601   |
| <b>Changes during 2018</b>       |                      |           |            |              |          |           |                              |              |
| Acquisitions                     | 313,288              | 1,087,457 | 390,687    | 10,512,072   | 11,486   | 353,658   | 4,355,503                    | 17,024,151   |
| Receipt of government grants     |                      | (14,976)  |            |              | (25)     |           |                              | (15,001)     |
| Business combination             |                      |           |            | 18           |          | 973       |                              | 991          |
| Disposals                        |                      | (25,545)  | (3,133)    | (93,989)     | (914)    | (1,301)   | (28,562)                     | (152,530)    |
| Depreciation                     |                      | (146,962) | (67,392)   | (5,500,710)  | (914)    | (188,178) |                              | (5,904,156)  |
| Transfers <sup>1</sup>           | 124,356              | 707,556   | 124,659    | 1,619,073    |          | 15,823    | (2,590,483)                  | 984          |
| Exchange differences and others  | 1,044                | (8,336)   | (2,625)    | (24,034)     | (9)      | 115       | (30,578)                     | (64,423)     |
| <b>Ending net book amount</b>    | 1,020,229            | 4,529,947 | 1,281,816  | 22,642,498   | 11,315   | 623,311   | 4,843,501                    | 34,952,617   |
| Acquisition cost                 | 1,020,229            | 5,561,516 | 1,760,456  | 57,335,240   | 14,333   | 1,572,747 | 4,843,501                    | 72,108,022   |
| Accumulated depreciation         |                      | (992,088) | (459,536)  | (34,524,095) | (2,997)  | (949,408) |                              | (36,928,124) |
| Accumulated impairment           |                      | (23,699)  | (19,104)   | (164,916)    |          | (28)      |                              | (207,747)    |
| Government grants                |                      | (15,782)  |            | (3,731)      | (21)     |           |                              | (19,534)     |

|           |           |           |            |        |         |           |            |
|-----------|-----------|-----------|------------|--------|---------|-----------|------------|
| 1,020,229 | 4,529,947 | 1,281,816 | 22,642,498 | 11,315 | 623,311 | 4,843,501 | 34,952,617 |
|-----------|-----------|-----------|------------|--------|---------|-----------|------------|

<sup>1</sup> Investment property was transferred to property, plant and equipment during the year ended December 31, 2018.

|                                  | 2017                 |           |            |              |          |           |                              |              |
|----------------------------------|----------------------|-----------|------------|--------------|----------|-----------|------------------------------|--------------|
|                                  | Land                 | Buildings | Structures | Machinery    | Vehicles | Others    | Construction<br>-in-progress | Total        |
|                                  | (In millions of won) |           |            |              |          |           |                              |              |
| <b>Beginning net book amount</b> | 575,755              | 2,514,376 | 516,145    | 13,196,508   | 1,041    | 435,643   | 1,537,934                    | 18,777,402   |
| <b>Changes during 2017</b>       |                      |           |            |              |          |           |                              |              |
| Acquisitions                     | 7,950                | 216,035   | 279,553    | 6,642,678    | 117      | 161,007   | 2,980,042                    | 10,287,382   |
| Receipt of government grants     |                      | (1,000)   |            |              |          |           |                              | (1,000)      |
| Disposals                        | (2,220)              | (2,141)   | (3,180)    | (164,301)    | (1)      | (507)     | (47,615)                     | (219,965)    |
| Depreciation                     |                      | (112,343) | (49,851)   | (4,301,152)  | (379)    | (155,051) |                              | (4,618,776)  |
| Transfers                        | 1,483                | 330,333   | 108,366    | 876,697      |          | 6,463     | (1,323,342)                  |              |
| Exchange differences and others  | (1,427)              | (14,507)  | (11,413)   | (120,362)    | (1)      | (5,334)   | (9,398)                      | (162,442)    |
| <b>Ending net book amount</b>    | 581,541              | 2,930,753 | 839,620    | 16,130,068   | 777      | 442,221   | 3,137,621                    | 24,062,601   |
| Acquisition cost                 | 581,541              | 3,807,324 | 1,262,928  | 46,463,886   | 3,081    | 1,217,216 | 3,137,621                    | 56,473,597   |
| Accumulated depreciation         |                      | (851,655) | (404,204)  | (30,163,696) | (2,304)  | (774,959) |                              | (32,196,818) |
| Accumulated impairment           |                      | (23,699)  | (19,104)   | (165,509)    |          | (35)      |                              | (208,347)    |
| Government grants                |                      | (1,217)   |            | (4,613)      |          | (1)       |                              | (5,831)      |
|                                  | 581,541              | 2,930,753 | 839,620    | 16,130,068   | 777      | 442,221   | 3,137,621                    | 24,062,601   |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****13. Property, Plant and Equipment, continued**

(2) Details of depreciation expense allocation for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                                     | <b>2018</b>                 | <b>2017</b>      | <b>2016</b>      |
|-------------------------------------|-----------------------------|------------------|------------------|
|                                     | <b>(In millions of won)</b> |                  |                  |
| Cost of sales                       | 5,421,324                   | 4,213,339        | 3,797,210        |
| Selling and administrative expenses | 365,508                     | 292,325          | 276,969          |
| Other expenses                      | 10,152                      | 7,647            | 5,307            |
| Development costs                   | 107,172                     | 105,465          | 54,294           |
|                                     | <b>5,904,156</b>            | <b>4,618,776</b> | <b>4,133,780</b> |

(3) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of December 31, 2018 (see note 34).

(4) The Group capitalized borrowing costs amounting to 33,086 million (2017: 3,964 million and 2016: 14,663 million) on qualifying assets during the year ended December 31, 2018. Borrowing costs were calculated using a capitalization rate of 3.08% (2017: 1.53% and 2016: 3.59%) for the year ended December 31, 2018.

(5) The Group leases certain machinery and others from Hansu Technical Service Ltd. and others under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to 73,069 million as of December 31, 2018 (as of December 31, 2017: 79,161 million). The machinery and others are pledged as collateral for the finance lease liabilities.

The Group leases certain machinery and others from Macquarie Capital and others under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of December 31, 2018 is as follows:

|                      | <b>Minimum lease payments</b> |
|----------------------|-------------------------------|
|                      | <b>(In millions of won)</b>   |
| No later than 1 year | 156,126                       |
| Later than 1 year    | 157,322                       |

(6) Details of insured assets as of December 31, 2018 is as follows:

|                                 | <b>Insured assets</b>  | <b>Insured amount<br/>(In millions of won)</b> | <b>Insurance Company</b>       |
|---------------------------------|--|--|--------------------------------|
| Package insurance               | Property, plant and equipment;<br>investment property; inventories;<br>and business interruption | 80,875,070                                     | Hyundai Marine & Fire          |
| Fire insurance                  | Property, plant and equipment;<br>investment property  | 91,760   | Insurance Co., Ltd. and others |
| Erection all risks<br>insurance | Property, plant and equipment  | 11,659,003                                     |                                |
|                                 |  | 92,625,833                                     |                                |

In addition to the assets stated above, vehicle and delivery equipment are insured by vehicle comprehensive insurance and liability insurance.

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## SK HYNIX, INC. and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2018, 2017 and 2016

**14. Intangible Assets**

(1) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows:

|   | <b>2018</b>                 |   |                              |               | <b>Total</b> |
|---|-----------------------------|---|------------------------------|---------------|--------------|
|   | <b>Goodwill</b>             | <b>Industrial<br/>property<br/>rights</b> | <b>Development<br/>costs</b> | <b>Others</b> |              |
|   | <b>(In millions of won)</b> |   |                              |               |              |
| <b>Beginning net book amount</b>        | 695,073                     | 104,853                                   | 882,250                      | 565,114       | 2,247,290    |
| <b>Changes during 2018</b>              |                             |   |                              |               |              |
| Internal development                    |                             |   | 610,954                      |               | 610,954      |
| External acquisition                    |                             | 12,767                                    |                              | 309,418       | 322,185      |
| Disposals                               |                             | (5,175)                                   |                              | (2,901)       | (8,076)      |
| Receipt of government grants            |                             |   |                              | (2,080)       | (2,080)      |
| Business combination                    | 3,207                       |   |                              | 22,539        | 25,746       |
| Amortization                            |                             | (16,380)                                  | (334,766)                    | (172,949)     | (524,095)    |
| Impairment                              |                             |   | (4,482)                      |               | (4,482)      |
| Exchange differences                    | 11,531                      |   |                              | (203)         | 11,328       |
| <b>Ending net book amount</b>           | 709,811                     | 96,065                                    | 1,153,956                    | 718,938       | 2,678,770    |
| Acquisition cost                        | 709,811                     | 186,057                                   | 2,900,071                    | 1,272,127     | 5,068,066    |
| Accumulated amortization and impairment |                             | (89,992)                                  | (1,746,115)                  | (521,179)     | (2,357,286)  |
| Government grants                       |                             |   |                              | (32,010)      | (32,010)     |
|   | 709,811                     | 96,065                                    | 1,153,956                    | 718,938       | 2,678,770    |

|                                  | <b>2017</b>                 |   |                              |               | <b>Total</b> |
|----------------------------------|-----------------------------|---|------------------------------|---------------|--------------|
|                                  | <b>Goodwill</b>             | <b>Industrial<br/>property<br/>rights</b> | <b>Development<br/>costs</b> | <b>Others</b> |              |
|                                  | <b>(In millions of won)</b> |   |                              |               |              |
| <b>Beginning net book amount</b> | 730,204                     | 98,963                                    | 629,882                      | 456,542       | 1,915,591    |
| <b>Changes during 2017</b>       |                             |   |                              |               |              |
| Internal development             |                             |   | 511,647                      |               | 511,647      |
| External acquisition             |                             | 26,572                                    |                              | 246,692       | 273,264      |

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|   |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
| Disposals                               | (4,872)        |                | (1,076)        | (5,948)        |
| Amortization                            | (15,810)       | (259,279)      | (132,265)      | (407,354)      |
| Impairment                              |                |                | (769)          | (769)          |
| Exchange differences                    | (35,131)       |                | (4,010)        | (39,141)       |
| <b>Ending net book amount</b>           | <b>695,073</b> | <b>104,853</b> | <b>882,250</b> | <b>565,114</b> |
| Acquisition cost                        | 695,073        | 184,971        | 2,293,388      | 950,432        |
| Accumulated amortization and impairment | (80,118)       | (1,411,138)    | (354,424)      | (1,845,680)    |
| Government grants                       |                |                | (30,894)       | (30,894)       |
|   | 695,073        | 104,853        | 882,250        | 565,114        |
|   |                |                |                | 2,247,290      |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****14. Intangible Assets, continued**

(2) Details of amortization expense allocation for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                                     | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|-------------------------------------|-----------------------------|-------------|-------------|
|                                     | <b>(In millions of won)</b> |             |             |
| Cost of sales                       | 65,885                      | 46,308      | 28,877      |
| Selling and administrative expenses | 456,269                     | 360,183     | 293,316     |
| Development costs                   | 1,941                       | 863         | 376         |
|                                     | 524,095                     | 407,354     | 322,569     |

## (3) Goodwill impairment tests

Goodwill impairment tests are undertaken annually. As the Group has only one CGU, goodwill was allocated to one CGU. Recoverable amount of the CGU was determined based on fair value less costs to sell, which was determined using the current stock price as of December 31, 2018. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2018.

## (4) Details of development costs

## (a) Detailed criteria for capitalization of development costs

The Group's development projects for a new product proceeds in the process of review and planning phases (Phase 0 ~ 4) and product design and mass production phases (Phase 5 ~ 8). The Group recognizes expenditures incurred after Phase 4 in relation with the development for new technology is recognized as an intangible asset. Expenditures incurred at phase 0 through 4 are recognized as expenses.

## (b) Development cost capitalized and expenses on research and development

Among costs associated with development activities, 610,954 million (2017: 511,647 million and 2016: 352,022 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2018. In addition, costs associated with research activities and other development expenditures that did not meet the criteria in the amount of 2,284,000 million (2017: 1,975,386 million and 2016: 1,744,711 million) were recognized as expenses for the year ended December 31, 2018.





**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****14. Intangible Assets, continued**

(c) Details of development costs as of December 31, 2018 and 2017 are as follows:

|      | <b>Individual Asset</b> | <b>2018<br/>Book<br/>value<br/>(In millions of won)</b> | <b>Residual amortization period</b> |
|------|-------------------------|---|-------------------------------------|
| DRAM | 1xnm B                  | 112,681   | 7 months                            |
|      | 1ynm <sup>1</sup>       | 345,001   | 23 months                           |
|      | 1znm <sup>2</sup>       | 7,261   |                                     |
| NAND | 3D(72)                  | 37,055  | 6 months                            |
|      | 3D(96) <sup>2</sup>     | 406,615   |                                     |
|      | 3D(128) <sup>2</sup>    | 167,043   |                                     |
| CIS  | Hi-1333                 | 4,298   | 13 months                           |
|      | Hi-1336 <sup>2</sup>    | 30,599  |                                     |
|      | Hi-1631 <sup>2</sup>    | 43,403  |                                     |
|      |                         | 1,153,956   |                                     |

<sup>1</sup> The name of development cost is changed from 1xynm to 1ynm during the year ended December 31, 2018.<sup>2</sup> Amortization has not started as of December 31, 2018.

|      | <b>Individual Asset</b> | <b>2017<br/>Book<br/>value<br/>(In millions of won)</b> | <b>Residual amortization period</b> |
|------|-------------------------|---|-------------------------------------|
| DRAM | 1xnm A                  | 305,848   | 19 months                           |
|      | 1xynm <sup>1</sup>      | 192,260   |                                     |
| NAND | F14                     | 3,990   | 4 months                            |
|      | 3D(48)                  | 42,343  | 9 months                            |
|      | 3D(72) <sup>1</sup>     | 111,164   | 18 months                           |
|      | 3D(96) <sup>1</sup>     | 186,488   |                                     |
|      | 3D(128) <sup>1</sup>    | 8,635   |                                     |
| CIS  | Hi-1332                 | 2,520   | 9 months                            |

|                      |        |
|----------------------|--------|
| Hi-1333 <sup>1</sup> | 7,695  |
| Hi-1336 <sup>1</sup> | 7,235  |
| Hi-1221 <sup>1</sup> | 3,431  |
| Hi-1631 <sup>1</sup> | 10,641 |

882,250

<sup>1</sup> Amortization has not started as of December 31, 2017.

(d) The Group recognizes 4,482 million as an impairment loss in development costs for the year ended December 31, 2018. Meanwhile, there are no impairment losses and reversals of impairment in development costs for the years ended December 31, 2017 and 2016. There are no accumulated impairment losses in development costs as of December 31, 2018 and 2017.

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## SK HYNIX, INC. and Subsidiaries

## Notes to the Consolidated Financial Statements

December 31, 2018, 2017 and 2016

**15. Investment Property**

(1) Changes in investment property for the years ended December 31, 2018 and 2017 are as follows:

|                                  | 2018                 | 2017    |
|----------------------------------|----------------------|---------|
|                                  | (In millions of won) |         |
| <b>Beginning net book amount</b> | 2,468                | 2,573   |
| Depreciation                     | (84)                 | (105)   |
| Transfer <sup>1</sup>            | (984)                |         |
| <b>Ending net book amount</b>    | 1,400                | 2,468   |
| Acquisition cost                 | 2,911                | 5,170   |
| Accumulated depreciation         | (1,511)              | (2,702) |
|                                  | 1,400                | 2,468   |

<sup>1</sup> Investment property was transferred to property, plant and equipment during the year ended December 31, 2018.

(2) The depreciation expense of 84 million was charged to cost of sales for the year ended December 31, 2018 (2017: 105 million and 2016: 106 million).

(3) Rental income from investment property during the year ended December 31, 2018 was 308 million (2017: 495 million and 2016: 500 million).

**16. Other Payables**

Details of other payables as of December 31, 2018 and 2017 are as follows:

|                  | 2018                 | 2017      |
|------------------|----------------------|-----------|
|                  | (In millions of won) |           |
| <b>Current</b>   |                      |           |
| Accrued expenses | 1,879,520            | 1,340,225 |

|                            |           |           |
|----------------------------|-----------|-----------|
| <b>Non-current</b>         |           |           |
| Rent deposits payable      | 14,135    | 3,412     |
| Long-term accrued expenses | 1,096     |           |
|                            | 15,231    | 3,412     |
|                            | 1,894,751 | 1,343,637 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****17. Borrowings**

(1) Details of borrowings as of December 31, 2018 and 2017 are as follows:

|   | <b>2018</b>                 | <b>2017</b>      |
|---|-----------------------------|------------------|
|   | <b>(In millions of won)</b> |                  |
| <b>Current</b>                          |                             |                  |
| Short-term borrowings                   | 585,788                     | 192,686          |
| Current portion of long-term borrowings | 578,665                     | 361,258          |
| Current portion of debentures           | 449,850                     | 219,836          |
|   | <b>1,614,303</b>            | <b>773,780</b>   |
| <b>Non-current</b>                      |                             |                  |
| Long-term borrowings                    | 2,161,566                   | 2,080,333        |
| Debentures                              | 1,506,068                   | 1,317,157        |
|   | <b>3,667,634</b>            | <b>3,397,490</b> |
|   | <b>5,281,937</b>            | <b>4,171,270</b> |

(2) Details of short-term borrowings as of December 31, 2018 and 2017 are as follows:

|                             |                                      | <b>Interest rate per<br/>annum<br/>in 2018 (%)</b> | <b>2018</b>                 | <b>2017</b> |
|-----------------------------|--------------------------------------|--|-----------------------------|-------------|
|                             |                                      |  | <b>(In millions of won)</b> |             |
| General borrowings<br>(won) | Shinhan Bank                         | 3.76   | 1,000                       |             |
|                             | Shinhan Bank                         | 3.92   | 3,920                       |             |
|                             | The Export-Import Bank of Korea      |  |                             | 107,140     |
|                             | City Bank<br>Industrial & Commercial | 3M USD LIBOR + 1.00                                | 22,341                      | 53,466      |
|                             | Bank of China                        |  |                             | 21,387      |
|                             | China Bank                           |  |                             | 10,693      |
|                             | China Development Bank               | 3M USD LIBOR + 1.50                                | 558,527                     |             |

585,788 192,686

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****17. Borrowings, continued**

(3) Details of long-term borrowings as of December 31, 2018 and 2017 are as follows:

|                                     | <b>Financial institutions</b>                    | <b>Interest rate per annum<br/>in 2018 (%)<sup>1</sup></b> | <b>2018</b>        | <b>2017</b>        |
|-------------------------------------|--|--|--------------------|--------------------|
| <b>(In millions of won)</b>         |  |  |                    |                    |
| <b>Local currency borrowings:</b>   |  |  |                    |                    |
| Funds for equipment                 | Korea Development Bank                           | 2.02~2.50  | 500,000            | 500,000            |
| Finance lease liabilities           | Hansu Technical Service Ltd.                     | 3.56~3.71  | 66,757             | 74,557             |
| Funds for equipment                 | NongHyup Bank                                    | 1.00   | 1,248              | 1,170              |
| Finance lease liabilities           | Veolia Water Industrial<br>Development Co., Ltd. | 4.00   | 1,400              | 1,732              |
|                                     |  |  | 569,405            | 577,459            |
| <b>Foreign currency borrowings:</b> |  |  |                    |                    |
| General borrowings                  | The Export-Import Bank of<br>Korea               | 3M USD LIBOR + 1.00~1.40<br>3M JPY LIBOR + 0.57            | 978,233<br>810,544 | 910,690            |
| Funds for equipment                 | Woori Bank<br>China Bank                         | 3M USD LIBOR + 0.98<br>3M USD LIBOR + 1.70                 | 125,787<br>7,484   | 107,140<br>160,710 |
|                                     | Korea Development Bank                           | 3M USD LIBOR + 1.15<br>3M USD LIBOR + 0.95                 | 55,905<br>125,787  | 107,140<br>160,710 |
|                                     | KEB Hana Bank                                    | 3M USD LIBOR + 1.23  | 44,724             | 214,280<br>85,712  |
|                                     | NongHyup Bank                                    | 3M USD LIBOR + 1.33  | 22,362             | 64,284             |
|                                     | Standard Chartered Bank<br>Korea Ltd.            |  |                    | 53,466             |
|                                     |  |  | 2,170,826          | 1,864,132          |
| Less:                               |  |  | 2,740,231          | 2,441,591          |
| Current maturities                  |  |  | (578,665)          | (361,258)          |

2,161,566 2,080,333

<sup>1</sup> As of December 31, 2018, the annual interest rates are as follows:

| <b>Type</b>  | <b>Interest rate per annum as of<br/>December 31, 2018 (%)</b> |
|--------------|--|
| 3M USD LIBOR | 2.80   |
| 3M JPY LIBOR | -0.08  |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****17. Borrowings, continued**

(4) Details of debentures as of December 31, 2018 and 2017 are as follows:

|   | <b>Maturity date</b> | <b>Interest rate per annum in 2018 (%)</b> | <b>2018</b>                 | <b>2017</b>      |
|---|----------------------|--|-----------------------------|------------------|
|   |                      |  | <b>(In millions of won)</b> |                  |
| <b>Unsecured notes in local currency:</b> |                      |  |                             |                  |
| 212th                                     | May 30, 2019         | 5.35                                       | 450,000                     | 450,000          |
| 214-1st                                   | Aug. 26, 2020        | 2.27                                       | 210,000                     | 210,000          |
| 214-2nd                                   | Aug. 26, 2022        | 2.63                                       | 140,000                     | 140,000          |
| 215-1st                                   | Nov. 25, 2018        |  |                             | 70,000           |
| 215-2nd                                   | Nov. 25, 2020        | 2.56                                       | 100,000                     | 100,000          |
| 215-3rd                                   | Nov. 25, 2022        | 2.75                                       | 10,000                      | 10,000           |
| 216-1st                                   | Feb. 19, 2018        |  |                             | 70,000           |
| 216-2nd                                   | Feb. 19, 2021        | 2.22                                       | 180,000                     | 180,000          |
| 216-3rd                                   | Feb. 19, 2023        | 2.53                                       | 80,000                      | 80,000           |
| 217-1st                                   | May 27, 2018         |  |                             | 80,000           |
| 217-2nd                                   | May 27, 2021         | 2.30                                       | 150,000                     | 150,000          |
| 218th                                     | March 14, 2023       | 3.01                                       | 300,000                     |                  |
| 219-1st                                   | August 27, 2023      | 2.48                                       | 250,000                     |                  |
| 219-2nd                                   | August 27, 2025      | 2.67                                       | 90,000                      |                  |
|   |                      |  | 1,960,000                   | 1,540,000        |
| <b>Less: Discounts on debentures</b>      |                      |  | <b>(4,082)</b>              | <b>(3,007)</b>   |
| <b>Current portion</b>                    |                      |  | <b>(449,850)</b>            | <b>(219,836)</b> |
|   |                      |  | <b>1,506,068</b>            | <b>1,317,157</b> |

**(5) Finance lease liability**

Lease liabilities are effectively secured as the rights to the leased asset belong to the lessor. Details of future minimum lease payments to the lessor as of December 31, 2018 and 2017 are as follows:

|                                    | <b>2018</b>                 | <b>2017</b>   |
|------------------------------------|-----------------------------|---------------|
|                                    | <b>(In millions of won)</b> |               |
| <b>Total minimum lease payment</b> |                             |               |
| No later than 1 year               | 10,773                      | 10,773        |
| Between 1 and 5 years              | 42,633                      | 43,027        |
| Later than 5 years                 | 24,369                      | 34,748        |
|                                    | <b>77,775</b>               | <b>88,548</b> |
| <b>Discount on present value</b>   | (9,618)                     | (12,259)      |
| <b>Net minimum lease payment</b>   |                             |               |
| No later than 1 year               | 10,563                      | 10,563        |
| Between 1 and 5 years              | 38,218                      | 38,550        |
| Later than 5 years                 | 19,376                      | 27,176        |
|                                    | <b>68,157</b>               | <b>76,289</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****18. Other Current and Non-current Liabilities**

Details of other current and non-current liabilities as of December 31, 2018 and 2017 are as follows:

|                                   | <b>2018</b>                 | <b>2017</b> |
|-----------------------------------|-----------------------------|-------------|
|                                   | <b>(In millions of won)</b> |             |
| <b>Current</b>                    |                             |             |
| Advance receipts                  | 8,973                       | 3,040       |
| Unearned income                   | 186                         | 81          |
| Withholdings                      | 49,770                      | 39,862      |
| Deposits received                 | 1,036                       | 989         |
| Contract liabilities              | 80,373                      |             |
| Others                            | 7,500                       | 7,804       |
|                                   | 147,838                     | 51,776      |
| <b>Non-current</b>                |                             |             |
| Other long-term employee benefits | 74,403                      | 63,960      |
| Long-term advance receipts        | 4,900                       | 4,900       |
|                                   | 79,303                      | 68,860      |
|                                   | 227,141                     | 120,636     |

**19. Provisions**

(1) Details of changes in provisions for the years ended December 31, 2018 and 2017 are as follows:

|                            | <b>Beginning</b>            | <b>2018</b>     |                    | <b>Ending</b>  |
|----------------------------|-----------------------------|-----------------|--------------------|----------------|
|                            | <b>balance</b>              | <b>Increase</b> | <b>Utilization</b> | <b>Balance</b> |
|                            | <b>(In millions of won)</b> |                 |                    |                |
| Warranty                   | 3,807                       | 8,848           | (8,663)            | 3,992          |
| Sales returns <sup>1</sup> |                             |                 |                    |                |
| Legal claims               | 9,460                       | 5,881           | (9,460)            | 5,881          |
| Emission allowances        | 37,412                      | 8,923           |                    | 46,335         |

|        |        |          |        |
|--------|--------|----------|--------|
| 50,679 | 23,652 | (18,123) | 56,208 |
|--------|--------|----------|--------|

- <sup>1</sup> Upon adoption of IFRS 15, the amount expected to be incurred for future returns and the Group's right to collect the product from the customer have been recognized as other current liabilities and other current assets respectively.

|                            | Beginning<br>balance | 2017     |             | Ending<br>Balance |
|----------------------------|----------------------|----------|-------------|-------------------|
|                            |                      | Increase | Utilization |                   |
| (In millions of won)       |                      |          |             |                   |
| Warranty                   | 2,997                | 7,682    | (6,872)     | 3,807             |
| Sales returns <sup>1</sup> | 13,317               | 118,564  | (101,209)   | 30,672            |
| Legal claims               | 400                  | 9,460    | (400)       | 9,460             |
| Emission allowances        | 26,108               | 11,999   | (695)       | 37,412            |
|                            | 42,822               | 147,705  | (109,176)   | 81,351            |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****19. Provisions, continued**

<sup>1</sup> The Group estimated the expected sales returns based on historical results and adjusts sales and cost of sales, respectively. Accordingly, related gross profit and estimated expenses related to the return (such as transportation costs) are recorded as provisions for sales returns.

**(2) Provisions for warranty**

The Group estimates the expected warranty costs based on historical results and accrues provisions for warranty.

**(3) Provisions for legal claims**

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated.

**(4) Provision for emission allowances**

The Group recognizes estimated future payment for the number of emission certificates required to settle the Group's obligation exceeding the actual number of certificates on hand as emission allowances according to the Act on Allocation and Trading of Greenhouse Gas Emission Permits.

**20. Defined Benefit Liabilities**

Under the defined benefit plan, the Group pays employee benefits to retired employees in the form of a lump sum based on their salaries and years of service at the time of their retirement. Accordingly, the Group is exposed to a variety of actuarial assumption risks such as risk associated with expected years of service, interest risk, and market (investment) risk.

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

|  | <b>2018</b>                 | <b>2017</b> |
|--|-----------------------------|-------------|
|  | <b>(In millions of won)</b> |             |
| Present value of defined benefit obligations | 1,609,055                   | 1,330,559   |
| Fair value of plan assets                    | (1,608,832)                 | (1,337,848) |
| Net defined benefit liabilities (assets)     | 223                         | (7,289)     |

|                                     |         |          |
|-------------------------------------|---------|----------|
| Defined benefit liabilities         | 5,387   | 6,096    |
| Defined benefit assets <sup>1</sup> | (5,164) | (13,385) |

<sup>1</sup> The Parent Company and certain subsidiaries' fair value of plan assets in excess of the present value of defined benefit obligations amounted to 5,164 million and 13,385 million as of December 31, 2018 and 2017 is presented as defined benefit assets.

(2) Principal actuarial assumptions as of December 31, 2018 and 2017 are as follows:

|   | 2018 (%)    | 2017 (%)    |
|---|-------------|-------------|
| Discount rate for defined benefit obligations | 2.64 ~ 3.78 | 3.81 ~ 4.35 |
| Expected rate of salary increase              | 2.70 ~ 5.83 | 2.20 ~ 5.46 |

(3) Weighted average durations of defined benefit obligations as of December 31, 2018 and 2017 are 11.64 and 11.47 years, respectively.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****20. Defined Benefit Liabilities, continued**

(4) Changes in defined benefit obligations for the years ended December 31, 2018 and 2017 are as follows:

|                                       | <b>2018</b>                 | <b>2017</b> |
|---------------------------------------|-----------------------------|-------------|
|                                       | <b>(In millions of won)</b> |             |
| <b>Beginning balance</b>              | 1,330,559                   | 1,195,047   |
| Current service cost                  | 179,689                     | 156,777     |
| Interest cost                         | 56,465                      | 46,877      |
| Transfer from associates              | 1,077                       | 546         |
| Remeasurements:                       | 73,727                      | (23,406)    |
| Demographic assumption                | 3,138                       |             |
| Financial assumption                  | 102,639                     | (47,319)    |
| Adjustment based on experience        | (32,050)                    | 23,913      |
| Benefits paid                         | (36,798)                    | (45,241)    |
| Business combination                  | 4,300                       |             |
| Effect of movements in exchange rates | 36                          | (41)        |
| <b>Ending balance</b>                 | 1,609,055                   | 1,330,559   |

(5) Changes in plan assets for the years ended December 31, 2018 and 2017 are as follows:

|                          | <b>2018</b>                 | <b>2017</b> |
|--------------------------|-----------------------------|-------------|
|                          | <b>(In millions of won)</b> |             |
| <b>Beginning balance</b> | 1,337,848                   | 888,559     |
| Contributions            | 276,739                     | 460,772     |
| Interest income          | 56,651                      | 34,880      |
| Transfer from associates | 1,837                       | 550         |
| Benefits paid            | (34,768)                    | (27,383)    |
| Business combination     | 3,009                       |             |
| Remeasurements           | (32,484)                    | (19,530)    |
| <b>Ending balance</b>    | 1,608,832                   | 1,337,848   |

(6) The amounts recognized in profit or loss for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                      | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|----------------------|-----------------------------|-------------|-------------|
|                      | <b>(In millions of won)</b> |             |             |
| Current service cost | 179,689                     | 156,777     | 159,190     |
| Past service cost    |                             |             | 33,198      |
| Net interest expense | (186)                       | 11,997      | 20,944      |
|                      | 179,503                     | 168,774     | 213,332     |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****20. Defined Benefit Liabilities, continued**

(7) The amounts in which defined benefit plan related expenses are included for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                                     | <b>2018</b>                 | <b>2017</b>    | <b>2016</b>    |
|-------------------------------------|-----------------------------|----------------|----------------|
|                                     | <b>(In millions of won)</b> |                |                |
| Cost of sales (manufacturing costs) | 101,944                     | 95,301         | 125,241        |
| Selling and administrative expenses | 77,559                      | 73,473         | 88,091         |
|                                     | <b>179,503</b>              | <b>168,774</b> | <b>213,332</b> |

(8) Details of plan assets as of December 31, 2018 and 2017 are as follows:

|          | <b>2018</b>                 | <b>2017</b>      |
|----------|-----------------------------|------------------|
|          | <b>(In millions of won)</b> |                  |
| Deposits | 1,607,552                   | 1,336,484        |
| Other    | 1,280                       | 1,364            |
|          | <b>1,608,832</b>            | <b>1,337,848</b> |

Actual return on plan assets for the year ended December 31, 2018 amounted to 24,167 million (2017 : 15,350 million and 2016: 11,038 million).

(9) As of December 31, 2018, the Group funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies. The Group's reasonable estimation of contribution to the plan assets for the year ending December 31, 2019 is 358,495 million under the assumption that the Group maintains the defined benefit plan.

(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2018 to changes in the principal assumptions is as follows:

| <b>Effects on defined benefit obligation</b> |                         |
|--|-------------------------|
| <b>Increase of rate</b>                      | <b>Decrease of rate</b> |

|   | <b>(In millions of won)</b> |           |
|---|-----------------------------|-----------|
| Discount rate (if changed by 1%)                    | (164,970)                   | 194,258   |
| Expected rate of salary increase (if changed by 1%) | 193,911                     | (167,692) |

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

(11) Information about the maturity profile of the defined benefit obligation as of December 31, 2018 is as follows:

|               | <b>2018</b>                     |                        |                         |                          |              |
|---------------|---------------------------------|------------------------|-------------------------|--------------------------|--------------|
|               | <b>Less<br/>than<br/>1 year</b> | <b>1 - 5<br/>years</b> | <b>5 - 10<br/>years</b> | <b>10 - 20<br/>years</b> | <b>Total</b> |
|               | <b>(In millions of won)</b>     |                        |                         |                          |              |
| Benefits paid | 47,327                          | 373,165                | 903,336                 | 3,300,971                | 4,624,799    |

Information about the maturity profile is based on undiscounted amount of defined benefit obligation and classified to employee's expected years of remaining services.

(12) The Group adopted defined contribution plan for retirement benefit for employees subject to peak wage system. Contributions to defined contribution plans amounting to 216 million (2017: 76 million) was recognized as cost of sales for the year ended December 31, 2018.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****21. Deferred Income Tax**

(1) Changes in deferred income tax assets and liabilities for the years ended December 31, 2018 and 2017 without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

|  | <b>2018</b>                 |                       |               |   |                              |
|--|-----------------------------|-----------------------|---------------|---|------------------------------|
|  | <b>January 1,<br/>2018</b>  | <b>Profit or loss</b> | <b>Equity</b> | <b>Foreign<br/>exchange<br/>differences</b> | <b>December 31,<br/>2018</b> |
|  | <b>(In millions of won)</b> |                       |               |   |                              |
| Inventories, net   | 47,169                      | 55,513                |               | 130   | 102,812                      |
| Property, plant and equipment, net                       | 236,870                     | (96,703)              |               | 594   | 140,761                      |
| Defined benefits liabilities, net                        | 416                         | (30,020)              | 29,182        | (187)                                       | (609)                        |
| Short-term and long-term investment<br>assets and others | 43,191                      | (76,175)              |               |   | (32,984)                     |
| Employee benefits  | 34,166                      | 5,785                 |               | 3   | 39,954                       |
| Provisions   | 18,268                      | 794                   |               | 108   | 19,170                       |
| Other assets and other liabilities                       | 14,743                      | 9,840                 |               |   | 24,583                       |
| Accrued expenses   | 13,641                      | 35,242                |               |   | 48,883                       |
| Others   | 47,832                      | 17,408                |               | (8,587)                                     | 56,653                       |
| Deferred tax assets for temporary<br>differences, net    | 456,296                     | (78,316)              | 29,182        | (7,939)                                     | 399,223                      |
| Tax credit carryforwards recognized                      | 7,813                       | 6,693                 |               | 684   | 15,190                       |
| Tax loss carryforwards recognized                        | 130,120                     | (14,286)              |               | 7,172                                       | 123,006                      |
| <b>Deferred tax assets recognized</b>                    | <b>594,229</b>              | <b>(85,909)</b>       | <b>29,182</b> | <b>(83)</b>                                 | <b>537,419</b>               |

|  | <b>2017</b>                 |                       |               |   |                              |
|--|-----------------------------|-----------------------|---------------|---|------------------------------|
|  | <b>January 1,<br/>2017</b>  | <b>Profit or loss</b> | <b>Equity</b> | <b>Foreign<br/>exchange<br/>differences</b> | <b>December 31,<br/>2017</b> |
|  | <b>(In millions of won)</b> |                       |               |   |                              |

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|  |                |                  |              |                 |                |
|--|----------------|------------------|--------------|-----------------|----------------|
| Inventories, net <sup>1</sup>                                      | 16,936         | 30,369           |              | (152)           | 47,153         |
| Property, plant and equipment, net <sup>1</sup>                    | 30,023         | 215,639          |              | (8,792)         | 236,870        |
| Defined benefits liabilities, net                                  | 60,889         | (59,344)         | (1,114)      | (15)            | 416            |
| Short-term and long-term investment assets and others <sup>1</sup> | 34,334         | 4,785            | 4,072        |                 | 43,191         |
| Employee benefits  | 28,671         | 5,490            |              | (3)             | 34,158         |
| Provisions <sup>1</sup>  | 11,582         | 19,237           |              | (137)           | 30,682         |
| Accrued expenses <sup>1</sup>                                      | 26,004         | (12,363)         |              |                 | 13,641         |
| Others <sup>1</sup>  | 38,259         | 13,207           |              | (1,505)         | 49,961         |
| Deferred tax assets for temporary differences, net                 | 246,698        | 217,020          | 2,958        | (10,604)        | 456,072        |
| Tax credit carryforwards recognized                                | 360,131        | (351,182)        |              | (912)           | 8,037          |
| Tax loss carryforwards recognized                                  | 180,807        | (31,852)         |              | (18,835)        | 130,120        |
| <b>Deferred tax assets recognized</b>                              | <b>787,636</b> | <b>(166,014)</b> | <b>2,958</b> | <b>(30,351)</b> | <b>594,229</b> |

<sup>1</sup> Inventories, property, plant and equipment, short-term and long-term investment assets, provisions, accrued expenses and others as of December 31, 2017 are reclassified to conform with the classification as of December 31, 2018.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****21. Deferred Income Tax, continued**

(2) As of December 31, 2018, the deductible temporary differences that are not recognized as deferred tax assets (liabilities) are as follows:

|  | <b>2018</b>                 | <b>2017</b> |
|--|-----------------------------|-------------|
|  | <b>(In millions of won)</b> |             |
| Investments in subsidiaries, associates, and joint ventures and others | (5,139)                     | 317,133     |
| deductible temporary differences                                       | 17,756                      | 60,511      |

**22. Derivative Financial Instruments**

(1) There was no derivative financial instruments as of December 31, 2018 and December 31, 2017.

(2) Details of gains and losses from derivative instruments for the year ended December 31, 2017 are as follows (2018: nil):

|                     | <b>Gain<br/>on<br/>valuation</b> | <b>Loss<br/>on<br/>valuation</b> | <b>2017<br/>Gain on<br/>transaction</b> | <b>Loss on<br/>transaction</b> |
|---------------------|----------------------------------|----------------------------------|---|--------------------------------|
|                     | <b>(In millions of won)</b>      |                                  |   |                                |
| Interest rates swap |                                  |                                  | 902                                     | 913                            |

**23. Capital Stock, Capital Surplus and Other Equity**

(1) The Parent Company has 9,000,000,000 authorized shares and the face value per share is 5,000 as of December 31, 2018. The number of shares issued, common stock, capital surplus and other capital as of December 31, 2018 and 2017, are as follows:

|                            | <b>2018</b>                 | <b>2017</b> |
|----------------------------|-----------------------------|-------------|
|                            | <b>(In millions of won,</b> |             |
|                            | <b>thousands of shares)</b> |             |
| Issued shares <sup>1</sup> | 731,530                     | 731,530     |

|                                     |             |           |
|-------------------------------------|-------------|-----------|
| Capital stock:                      |             |           |
| Common stock                        | 3,657,652   | 3,657,652 |
| Capital surplus:                    |             |           |
| Additional paid in capital          | 3,625,797   | 3,625,797 |
| Others                              | 517,939     | 517,939   |
|                                     | 4,143,736   | 4,143,736 |
| Other equity:                       |             |           |
| Acquisition cost of treasury shares | (2,508,427) | (771,913) |
| Stock option                        | 1,976       | 813       |
|                                     | (2,506,451) | (771,100) |
| Number of treasury shares           | 44,001      | 22,001    |

<sup>1</sup> As of December 31, 2018, total number of shares is 728,002 thousand shares, which differs from total issued shares due to the effect of stock retirement.

(2) The Group's number of outstanding shares is decreased to 684,002 thousand shares as of ended December 31, 2018 due to acquisition of treasury shares. Meanwhile, there are no changes in number of outstanding shares during the years ended December 31, 2017 and 2016.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****24. Accumulated Other Comprehensive Loss**

(1) Details of accumulated other comprehensive loss as of December 31, 2018 and 2017 are as follows:

|  | <b>2018</b>                 | <b>2017</b> |
|--|-----------------------------|-------------|
|  | <b>(In millions of won)</b> |             |
| Equity-accounted investees share of other comprehensive loss         | (18,166)                    | (20,442)    |
| Loss on valuation of available-for-sale financial asset <sup>1</sup> |                             | (10,735)    |
| Foreign operations foreign currency translation differences          | (464,653)                   | (471,087)   |
|  | (482,819)                   | (502,264)   |

<sup>1</sup> Due to the application of IFRS 9, available-for-sale financial assets for equity investments were reclassified to financial assets measured at fair value through profit or loss. As a result of this reclassification, as at January 1, 2018, other comprehensive loss of 10,735 million was reclassified to retained earnings.

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2018 and 2017 are as follows:

|   | <b>Beginning</b>            | <b>Change</b> | <b>2018<br/>Effect of significant<br/>change in<br/>accounting<br/>policy</b> | <b>Ending</b> |
|---|-----------------------------|---------------|---|---------------|
|   | <b>(In millions of won)</b> |               |   |               |
| Equity-accounted investees share of other comprehensive income (loss) | (20,442)                    | 2,276         |   | (18,166)      |
| Loss on valuation of long-term investment assets                      | (10,735)                    |               | 10,735  |               |
| Foreign operations foreign currency translation differences           | (471,087)                   | 6,434         |   | (464,653)     |
|   | (502,264)                   | 8,710         | 10,735  | (482,819)     |

|   | <b>Beginning</b>            | <b>2017<br/>Change</b> | <b>Ending</b> |
|---|-----------------------------|------------------------|---------------|
|   | <b>(In millions of won)</b> |                        |               |
| Equity-accounted investees share of other comprehensive income (loss) | 5,944                       | (26,386)               | (20,442)      |
| Loss on valuation of available-for-sale financial assets              |                             | (10,735)               | (10,735)      |
| Foreign operations foreign currency translation differences           | (85,047)                    | (386,040)              | (471,087)     |
|   | (79,103)                    | (423,161)              | (502,264)     |

## 25. Retained Earnings and Dividends

(1) Details of retained earnings as of December 31, 2018 and 2017 are as follows:

|                                    | <b>2018</b>                 | <b>2017</b> |
|------------------------------------|-----------------------------|-------------|
|                                    | <b>(In millions of won)</b> |             |
| Legal reserve <sup>1</sup>         | 178,954                     | 108,354     |
| Discretionary reserve <sup>2</sup> | 235,506                     | 235,506     |
| Unappropriated retained earnings   | 41,619,141                  | 26,943,396  |
|                                    | 42,033,601                  | 27,287,256  |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****25. Retained Earnings and Dividends, continued**

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial year, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit.

<sup>2</sup> Discretionary reserve is a reserve for technology development.

**(2) Dividends of the Parent Company**

(a) Details of dividends for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                             | <b>2018</b>  | <b>2017</b>    | <b>2016</b>    |
|-----------------------------|--|----------------|----------------|
|                             | <b>(In millions of won and in thousands of shares)</b> |                |                |
| Type of dividends           | Cash Dividends   | Cash Dividends | Cash Dividends |
| Outstanding ordinary shares | 684,002  | 706,002        | 706,002        |
| Par value (in won)          | 5,000  | 5,000          | 5,000          |
| Dividend rate               | 30%  | 20%            | 12%            |
| Total dividends             | 1,026,003  | 706,002        | 423,601        |

(b) Dividend payout ratio for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|---|-----------------------------|-------------|-------------|
|   | <b>(In millions of won)</b> |             |             |
| Dividends   | 1,026,003                   | 706,002     | 423,601     |
| Profit attributable to owners of the Parent Company | 15,540,111                  | 10,641,512  | 2,953,774   |
| Dividend payout ratio                               | 6.60%                       | 6.63%       | 14.34%      |

(c) Dividend yield ratio for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                     | <b>2018</b>     | <b>2017</b> | <b>2016</b> |
|---------------------|-----------------|-------------|-------------|
|                     | <b>(In won)</b> |             |             |
| Dividends per share | 1,500           | 1,000       | 600         |

|                      |        |        |        |
|----------------------|--------|--------|--------|
| Closing stock price  | 60,500 | 76,500 | 44,700 |
| Dividend yield ratio | 2.48%  | 1.31%  | 1.34%  |

## 26. Revenue

The nature and impact on the Group of initial adopting the IFRS 15 *Revenue from contracts with customers* are described in note 3-(26). Comparative information has not been restated to reflect the new requirement under IFRS 15.

(1) Details of the Group's revenue for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                    | 2018                 | 2017       | 2016       |
|--------------------|----------------------|------------|------------|
|                    | (In millions of won) |            |            |
| Sale of goods      | 40,388,846           | 30,035,297 | 17,146,961 |
| Providing services | 56,220               | 74,137     | 51,014     |
|                    | 40,445,066           | 30,109,434 | 17,197,975 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****26. Revenue, continued**

(2) Details of the Group's revenue by product and service types for the years ended December 31, 2018, 2017 and 2016 are as follows:

|            | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|------------|-----------------------------|-------------|-------------|
|            | <b>(In millions of won)</b> |             |             |
| DRAM       | 32,370,936                  | 22,887,259  | 12,340,767  |
| NAND Flash | 7,420,857                   | 6,648,748   | 4,347,535   |
| Other      | 653,273                     | 573,427     | 509,673     |
|            | 40,445,066                  | 30,109,434  | 17,197,975  |

(3) The Group's revenue information by region based on the location of selling entities for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                                    | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|------------------------------------|-----------------------------|-------------|-------------|
|                                    | <b>(In millions of won)</b> |             |             |
| Korea                              | 840,491                     | 1,207,464   | 1,099,426   |
| China                              | 15,785,993                  | 10,074,686  | 5,960,235   |
| Taiwan                             | 2,950,067                   | 2,626,577   | 1,732,573   |
| Asia (other than China and Taiwan) | 4,609,601                   | 3,574,788   | 2,165,201   |
| U.S.A.                             | 14,278,161                  | 11,063,503  | 5,397,944   |
| Europe                             | 1,980,753                   | 1,562,416   | 842,596     |
|                                    | 40,445,066                  | 30,109,434  | 17,197,975  |

(4) Details of the Group's revenue by the timing of revenue recognition for the years ended December 31, 2018, 2017 and 2016 are as follows:

|  | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|--|-----------------------------|-------------|-------------|
|  | <b>(In millions of won)</b> |             |             |
| Performance obligations satisfied at a point in time | 40,388,846                  | 30,035,297  | 17,146,961  |

|   |            |            |            |
|---|------------|------------|------------|
| Performance obligations satisfied over time | 56,220     | 74,137     | 51,014     |
|   | 40,445,066 | 30,109,434 | 17,197,975 |

(5) Revenue recognition policies and performance obligation

Revenue is measured based on promised consideration in a contract with a customer. The Group recognizes revenue when (or as) the Group transfers a promised good to a customer.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2018, 2017 and 2016**

**26. Revenue, continued**

Revenue recognition policies regarding the nature and timing of performance obligations satisfaction in the contract are as follows:

|               | <b>Nature of goods or services and timing of performance obligation satisfaction</b>   | <b>Revenue recognition under IFRS 15</b>   |
|---------------|--|--|
| Sale of goods | <p>Revenue is recognized when (or as) goods are transferred to a customer and the customer obtains control of that asset, which is typically upon delivery or shipment depending on the terms of the contract.</p> <p>When the good is defective, the customer is granted the right to return the defective goods in exchange for a functioning product or cash.</p> | <p>Revenue is measured at the amount of consideration for the sale of goods, reflecting the expected amount of return estimated through historical information. The Group's right to recover products from customers on settling the refund liability is recognized as asset and refund liability is recognized as well.</p> <p>Settling a refund liability shall initially be measured by reference to the former carrying amount of the product less any expected costs to recover those products. Refund liability is included in other current liabilities (See note 18) and right to recover products from customers on settling the refund liability is included in other current assets (See note 10). The Group updates the measurement of the asset arising from changes in expectations about products to be returned at the end of each reporting period.</p> |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****27. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>                 | <b>2017</b>      | <b>2016</b>      |
|---|-----------------------------|------------------|------------------|
|   | <b>(In millions of won)</b> |                  |                  |
| <b>Selling and administrative expenses:</b> |                             |                  |                  |
| Salaries                                    | 564,923                     | 467,824          | 348,571          |
| Defined benefit plan                        | 27,200                      | 25,841           | 30,135           |
| Employee benefits                           | 115,892                     | 87,299           | 86,721           |
| Commission                                  | 369,307                     | 232,799          | 230,903          |
| Depreciation                                | 130,229                     | 96,153           | 82,461           |
| Amortization                                | 442,389                     | 348,519          | 282,392          |
| Freight and custody charge                  | 27,412                      | 38,920           | 31,821           |
| Legal cost                                  | 34,032                      | 33,251           | 9,286            |
| Rental                                      | 13,301                      | 13,633           | 14,571           |
| Taxes and dues                              | 31,785                      | 17,132           | 18,160           |
| Training                                    | 32,636                      | 27,105           | 19,503           |
| Advertising                                 | 92,025                      | 83,748           | 47,055           |
| Utility                                     | 11,603                      | 14,480           | 14,204           |
| Supplies                                    | 103,384                     | 82,108           | 56,067           |
| Repair                                      | 24,938                      | 35,871           | 6,185            |
| Travel and transportation                   | 15,483                      | 11,166           | 10,459           |
| Sales promotion                             | 64,837                      | 57,180           | 42,170           |
| Sales repair                                | 6,243                       | 7,682            | 38,584           |
| Others                                      | 28,859                      | 30,168           | 20,131           |
|   | <b>2,136,478</b>            | <b>1,710,879</b> | <b>1,389,379</b> |
| <b>Research and development:</b>            |                             |                  |                  |
| Expenditure on research and development     | 2,894,954                   | 2,487,033        | 2,096,733        |
| Development cost capitalized                | (610,954)                   | (511,647)        | (352,022)        |
|   | <b>2,284,000</b>            | <b>1,975,386</b> | <b>1,744,711</b> |
|   | <b>4,420,478</b>            | <b>3,686,265</b> | <b>3,134,090</b> |



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****28. Expenses by Nature**

Nature of expenses for the years ended December 31, 2018, 2017 and 2016 is as follows:

|   | <b>2018</b>                 | <b>2017</b>       | <b>2016<sup>2</sup></b> |
|---|-----------------------------|-------------------|-------------------------|
|   | <b>(In millions of won)</b> |                   |                         |
| Changes in finished goods and work-in-process | (1,473,125)                 | (528,298)         | (60,415)                |
| Raw materials and consumables                 | 5,659,357                   | 4,257,017         | 3,437,714               |
| Employee benefit                              | 3,669,809                   | 3,059,690         | 2,317,687               |
| Depreciation and amortization                 | 6,309,070                   | 4,912,260         | 4,396,478               |
| Royalty                                       | 172,615                     | 221,789           | 229,422                 |
| Commission                                    | 1,675,122                   | 1,254,084         | 986,059                 |
| Utility                                       | 1,131,394                   | 971,489           | 840,129                 |
| Repair  | 1,023,685                   | 946,132           | 604,458                 |
| Outsourcing                                   | 1,072,241                   | 895,996           | 785,755                 |
| Other   | 361,148                     | 397,949           | 383,942                 |
| <b>Total<sup>1</sup></b>                      | <b>19,601,316</b>           | <b>16,388,108</b> | <b>13,921,229</b>       |

<sup>1</sup> Total expenses consist of cost of sales and selling and administrative expenses.

<sup>2</sup> Expenses for the year ended December 31, 2016 were reclassified to conform with the classification for the years ended December 31, 2018 and 2017.

**29. Finance Income and Expenses**

Finance income and expenses for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|---|-----------------------------|-------------|-------------|
|   | <b>(In millions of won)</b> |             |             |
| <b>Finance income:</b>                    |                             |             |             |
| Interest income                           | 62,478                      | 54,275      | 34,174      |
| Dividend income                           | 2,136                       | 13          | 18          |
| Foreign exchange differences <sup>1</sup> | 1,386,287                   | 893,047     | 762,747     |



|  |           |           |          |
|--|-----------|-----------|----------|
| Gain from derivative instruments                               |           | 902       | 1,472    |
| Gain on valuation of short-term investment assets <sup>2</sup> | 16,740    | 1,399     | 1,133    |
| Gain on valuation of long-term investment assets <sup>2</sup>  | 182,461   |           |          |
| Gain on disposal of short-term investment assets <sup>2</sup>  | 36,349    | 15,754    | 15,348   |
| Gain on disposal of short-term investment assets <sup>2</sup>  | 5,504     | 31,078    |          |
|  | 1,691,955 | 996,468   | 814,892  |
| <b>Finance expenses:</b>                                       |           |           |          |
| Interest expenses  | 94,635    | 123,918   | 120,122  |
| Foreign exchange differences <sup>1</sup>                      | 1,046,217 | 1,124,628 | 724,681  |
| Loss from derivative instruments                               |           | 913       | 1,525    |
| Loss on disposal of long-term investment assets <sup>2</sup>   |           | 158       |          |
| Loss on valuation of long-term investment assets <sup>2</sup>  | 1,282     |           |          |
|  | 1,142,134 | 1,249,617 | 846,328  |
| <b>Net finance income (expense)</b>                            | 549,821   | (253,149) | (31,436) |

<sup>1</sup> The foreign exchange differences of long-term investment assets amounting to 87,246 million are included.

<sup>2</sup> Gain (loss) related to investment assets for the years ended December 31, 2017 and 2016 were reclassified to conform with the classification for the year ended December 31, 2018.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****30. Other Income and Expenses**

(1) Other income for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|---|-----------------------------|-------------|-------------|
|   | <b>(In millions of won)</b> |             |             |
| Gain on disposal of property, plant and equipment | 39,403                      | 35,161      | 13,167      |
| Gain on disposal of intangible asset              |                             | 758         |             |
| Other   | 73,407                      | 41,963      | 39,204      |
|   | 112,810                     | 77,882      | 52,371      |

(2) Other expenses for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|---|-----------------------------|-------------|-------------|
|   | <b>(In millions of won)</b> |             |             |
| Loss on disposal of property, plant and equipment   | 59,738                      | 10,229      | 6,566       |
| Loss on disposal of intangible assets               | 5,545                       | 4,872       | 5,218       |
| Loss on disposal of trade receivables               | 9,031                       | 7,049       | 3,137       |
| Loss on impairment of property, plant and equipment |                             |             | 3,746       |
| Loss on impairment of intangible assets             | 4,483                       | 769         | 98          |
| Donation  | 62,041                      | 76,195      | 51,629      |
| Other   | 37,520                      | 19,746      | 33,585      |
|   | 178,358                     | 118,860     | 103,979     |

**31. Income Tax Expense**

(1) Income tax expense for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                                     | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|-------------------------------------|-----------------------------|-------------|-------------|
|                                     | <b>(In millions of won)</b> |             |             |
| <b>Current tax:</b>                 |                             |             |             |
| Current tax on profits for the year | 5,728,798                   | 2,687,405   | 543,594     |

|  |                  |                  |                |
|--|------------------|------------------|----------------|
| Adjustments for the current tax liabilities attributable to prior year, but recognized in current year | (13,661)         | (56,072)         | 77,696         |
|  | 5,715,137        | 2,631,333        | 621,290        |
| <b>Deferred tax:</b>   |                  |                  |                |
| Changes in net deferred tax assets   | 85,909           | 166,014          | (365,319)      |
| <b>Income tax expense</b>  | <b>5,801,046</b> | <b>2,797,347</b> | <b>255,971</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****31. Income Tax Expense, continued**

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>                 | <b>2017</b>      | <b>2016</b>    |
|---|-----------------------------|------------------|----------------|
|   | <b>(In millions of won)</b> |                  |                |
| <b>Profit before tax</b>  | 21,341,029                  | 13,439,566       | 3,216,454      |
| <b>Tax calculated at domestic tax rates applicable to profits in the respective countries</b> | 5,858,421                   | 3,204,233        | 777,920        |
| <b>Tax effects of:</b>  |                             |                  |                |
| Tax-exempt income   | (39,732)                    | (157)            | (2,669)        |
| Non-deductible expenses   | 10,008                      | 4,703            | 3,981          |
| Changes in unrecognized deferred tax assets   | 88,614                      | (113,829)        | (517,805)      |
| Tax credit  | (137,671)                   | (126,213)        | (101,843)      |
| Adjustments for prior years tax liabilities due to change in estimates                        | (13,661)                    | (56,072)         | 77,696         |
| Others  | 35,067                      | (115,318)        | 18,691         |
| <b>Income tax expense</b>   | <b>5,801,046</b>            | <b>2,797,347</b> | <b>255,971</b> |

(3) Income taxes recognized directly in equity for the years ended December 31, 2018 and 2017 are as follows:

|  | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|--|-----------------------------|-------------|-------------|
|  | <b>(In millions of won)</b> |             |             |
| Remeasurements of defined benefit liabilities            | 29,182                      | (1,114)     | 68,171      |
| Gain on valuation of available-for-sale financial assets |                             | 4,072       |             |
|  | 29,182                      | 2,958       | 68,171      |

**32. Earnings per Share**

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Parent Company by the weighted average number of outstanding ordinary shares during the years.

(1) Basic earnings per share for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>  | <b>2017</b>   | <b>2016</b>  |
|---|--|---------------|--------------|
|   | <b>(In millions of won, except for shares and per share amounts)</b> |               |              |
| Profit attributable to ordinary shareholders                        | 15,540,111   | 10,641,512    | 2,953,774    |
| Weighted average number of outstanding ordinary shares <sup>1</sup> | 698,278,083  | 706,001,795   | 706,001,795  |
| <b>Basic earnings per share (in won)</b>                            | <b>22,255</b>  | <b>15,073</b> | <b>4,184</b> |

<sup>1</sup> Weighted average number of outstanding ordinary shares is calculated as follows:

|   | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|--------------------|
|   | <b>(In shares)</b> |                    |                    |
| Outstanding ordinary shares                                   | 728,002,365        | 728,002,365        | 728,002,365        |
| Acquisition of treasury shares                                | (29,724,282)       | (22,000,570)       | (22,000,570)       |
| <b>Weighted average number of outstanding ordinary shares</b> | <b>698,278,083</b> | <b>706,001,795</b> | <b>706,001,795</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****32. Earnings per Share, continued**

(2) Diluted earnings per share for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | <b>2018</b>  | <b>2017</b>   | <b>2016</b>  |
|---|--|---------------|--------------|
|   | <b>(In millions of won, except for shares and per share amounts)</b> |               |              |
| Profit attributable to ordinary shareholders of the Parent Company          | 15,540,111   | 10,641,512    | 2,953,774    |
| Weighted average number of diluted outstanding ordinary shares <sup>1</sup> | 698,364,251  | 706,038,232   | 706,001,795  |
| <b>Diluted earnings per share (in won)</b>                                  | <b>22,252</b>  | <b>15,072</b> | <b>4,184</b> |

<sup>1</sup> Weighted average number of diluted ordinary shares outstanding is calculated as follows:

|   | <b>2018</b>        | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|--------------------|
|   | <b>(In shares)</b> |                    |                    |
| Weighted average number of outstanding ordinary shares                | 698,278,083        | 706,001,795        | 706,001,795        |
| Stock options   | 86,168             | 36,437             |                    |
| <b>Weighted average number of diluted outstanding ordinary shares</b> | <b>698,364,251</b> | <b>706,038,232</b> | <b>706,001,795</b> |

**33. Transactions with Related Parties and Others**

(1) Details of related parties as of December 31, 2018 are as follows:

| <b>Type</b>           | <b>Name of related parties</b>   |
|-----------------------|--|
| Associates            | Stratio, Inc., SK China Company Limited, Gemini Partners Pte. Ltd., TCL Fund,<br>SK South East Asia Investment Pte. Ltd.,<br>Hushan Xinju (Chengdu) Venture Investment Center (Smartsorce) |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd., Hystars Semiconductor (Wuxi) Co., Ltd.  |
| Other related parties | SK Telecom Co., Ltd., which has significant influence over the Group,  |

SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries

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Table of Contents**SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****33. Transactions with Related Parties and Others, continued**

(2) Significant transactions for the years ended December 31, 2018, 2017 and 2016 are as follows:

|                             | <b>Company</b>                             | <b>2018<br/>Operating<br/>revenue<br/>and<br/>others</b> | <b>Operating<br/>expense<br/>and others</b> | <b>Asset<br/>acquisition</b> | <b>Dividend<br/>income</b> |
|-----------------------------|--|--|---|------------------------------|----------------------------|
| <b>(In millions of won)</b> |  |  |   |                              |                            |
| Associates                  | SK China Company Limited                   |  | 9,699                                       |                              |                            |
| Joint venture               | HITECH Semiconductor (Wuxi)<br>Co., Ltd.   | 3,442  | 621,986                                     | 1,901                        | 13,120                     |
|                             | Hystars Semiconductor (Wuxi) Co.,<br>Ltd.  | 162  |   |                              |                            |
| Other related parties       | SK Telecom Co., Ltd. <sup>1</sup>          | 313  | 162,342                                     | 46,122                       |                            |
|                             | SK Holdings Co., Ltd. <sup>2</sup>         | 1,465  | 231,180                                     | 539,447                      |                            |
|                             | ESSENCORE Limited                          | 917,320  |   |                              |                            |
|                             | SK Engineering & Construction Co.,<br>Ltd. | 4,038  | 25,882                                      | 2,484,366                    |                            |
|                             | SK Energy Co., Ltd.                        | 4,040  | 71,059                                      |                              |                            |
|                             | SK Networks Co., Ltd.                      |  | 7,190                                       | 10,600                       |                            |
|                             | SKC Solmics Co., Ltd.                      |  | 21,724                                      | 1,439                        |                            |
|                             | Chungcheong energy service Co.,<br>Ltd.    |  | 19,112                                      | 203                          |                            |
|                             | SK Materials Co., Ltd.                     |  | 68,957                                      |                              |                            |
|                             | SK Siltron Co., Ltd.                       | 4,392  | 338,741                                     |                              |                            |
|                             | Others                                     | 461  | 358,935                                     | 68,464                       |                            |
| Other                       | Happynarae Co., Ltd. <sup>3</sup>          | 39   | 576,043                                     | 68,630                       |                            |
|                             |  | 935,672  | 2,512,850                                   | 3,221,172                    | 13,120                     |

<sup>1</sup> Operating expense and others include dividend payments of 146,100 million.<sup>2</sup> For the year ended December 31, 2018, royalty paid for the use of the SK brand amounted to 61,955 million.



<sup>3</sup> The transactions are incurred before the acquisition of Happynarae Co., Ltd.

|                       | Company                                    | 2017<br>Operating<br>revenue<br>and<br>others | Operating<br>expense<br>and<br>others | Asset<br>acquisition | Dividend<br>income |
|-----------------------|--|---|---------------------------------------|----------------------|--------------------|
| (In millions of won)  |  |   |                                       |                      |                    |
| Associates            | SK China Company Limited                   |   | 5,836                                 |                      |                    |
| Joint venture         | HITECH Semiconductor (Wuxi)<br>Co., Ltd.   | 5,782   | 582,745                               |                      | 14,828             |
| Other related parties | SK Telecom Co., Ltd. <sup>1</sup>          | 318   | 96,441                                | 24,183               |                    |
|                       | SK Holdings Co., Ltd. <sup>2</sup>         | 994   | 174,556                               | 142,913              |                    |
|                       | ESSENCE Limited                            | 749,238                                       |                                       |                      |                    |
|                       | SK Engineering & Construction Co.,<br>Ltd. | 27,433  | 7,290                                 | 1,464,735            |                    |
|                       | SK Energy Co., Ltd.                        | 5,075   | 54,682                                |                      |                    |
|                       | SK Networks Co., Ltd.                      |   | 5,350                                 |                      |                    |
|                       | SKC Solmics Co., Ltd.                      |   | 30,486                                | 1,020                |                    |
|                       | Chungcheong energy service Co.,<br>Ltd.    | 10  | 16,062                                | 10                   |                    |
|                       | SK Materials Co., Ltd.                     | 3   | 50,657                                |                      |                    |
|                       | SK Siltron Co., Ltd.                       | 1,538   | 84,791                                |                      |                    |
|                       | Others                                     | 667   | 166,867                               | 29,787               |                    |
| Other                 | Happynarae Co., Ltd. <sup>3</sup>          | 34  | 455,632                               | 36,516               |                    |
|                       |  | 791,092                                       | 1,731,395                             | 1,699,164            | 14,828             |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****33. Transactions with Related Parties and Others, continued**

<sup>1</sup> Operating expense and others include dividend payments of 87,660 million.

<sup>2</sup> For the year ended December 31, 2017, royalty paid for the use of the SK brand amounted to 34,882 million.

<sup>3</sup> The transaction is incurred before Happynarae Co., Ltd. is included in a consolidation scope and the Group acquired control over the Happynarae Co., Ltd. during the year ended December 31, 2018.

|                       |  | <b>2016</b>                                 |   |                              |                            |
|-----------------------|--|---|---|------------------------------|----------------------------|
| <b>Company</b>        |  | <b>Operating<br/>revenue and<br/>others</b> | <b>Operating<br/>expense<br/>and others</b> | <b>Asset<br/>acquisition</b> | <b>Dividend<br/>income</b> |
|                       |  | <b>(In millions of won)</b>                 |   |                              |                            |
| Associates            | SK China Company Limited                   |   | 2,596                                       |                              |                            |
| Joint venture         | HITECH Semiconductor (Wuxi)<br>Co., Ltd.   | 1,171                                       | 568,526                                     | 17,678                       | 20,726                     |
| Other related parties | SK Telecom Co., Ltd. <sup>1</sup>          | 375   | 81,125                                      | 12,181                       |                            |
|                       | SK Holdings Co., Ltd. <sup>2</sup>         | 907   | 133,441                                     | 146,823                      |                            |
|                       | ESSENCORE Limited                          | 571,639                                     |   |                              |                            |
|                       | SK Engineering & Construction Co.,<br>Ltd. | 2,512                                       | 21,838                                      | 659,312                      |                            |
|                       | SK Energy Co., Ltd.                        | 4,683                                       | 47,768                                      |                              |                            |
|                       | SK Networks Co., Ltd.                      |   | 4,747                                       |                              |                            |
|                       | SKC Solmics Co., Ltd.                      |   | 34,433                                      | 432                          |                            |
|                       | Chungcheong energy service Co.,<br>Ltd.    | 10  | 16,460                                      |                              |                            |
|                       | SK Materials Co., Ltd.                     |   | 43,213                                      |                              |                            |
|                       | Others                                     | 432   | 123,066                                     | 17,528                       |                            |
| Other                 | Happynarae Co., Ltd. <sup>3</sup>          | 30  | 173,948                                     | 13,595                       |                            |
|                       |  | 581,759                                     | 1,251,161                                   | 867,549                      | 20,726                     |

<sup>1</sup> Operating expense and others include dividend payments of 73,050 million.

- <sup>2</sup> For the year ended December 31, 2016, royalty paid for the use of the SK brand amounted to 37,887 million.
- <sup>3</sup> The transaction is incurred before Happynarae Co., Ltd. is included in a consolidation scope and the Group acquired control over the Happynarae Co., Ltd. during the year ended December 31, 2018.

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Table of Contents**SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****33. Transactions with Related Parties and Others, continued**

(3) The balances of significant transactions as of December 31, 2018 and 2017 are as follows:

|                       |  | <b>2018</b>    | <b>Trade<br/>receivables<br/>and<br/>others<br/>(In millions of won)</b> | <b>Other<br/>payables<br/>and others<br/>(In millions of won)</b> |
|-----------------------|--|----------------|--|---|
|                       |  | <b>Company</b> |  |   |
| Associates            | SK China Company Limited                 |                | 1  | 9,060   |
| Joint venture         | HITECH Semiconductor (Wuxi) Co.,<br>Ltd. |                | 33   | 102,932   |
|                       | Hystars Semiconductor (Wuxi) Co., Ltd.   |                | 19   |   |
| Other related parties | SK Telecom Co., Ltd.                     |                | 3,339  | 15,489  |
|                       | SK Holdings Co., Ltd.                    |                | 1,876  | 144,225   |
|                       | ESSEN CORE Limited                       |                | 71,673   |   |
|                       | SK Engineering & Construction Co., Ltd.  |                | 12,910   | 744,935   |
|                       | SK Energy Co., Ltd.                      |                | 5,350  | 9,005   |
|                       | SK Networks Co., Ltd.                    |                | 790  | 1,452   |
|                       | SKC Solmics Co., Ltd.                    |                | 57   | 8,113   |
|                       | Chungcheong energy service Co., Ltd.     |                | 4  | 3,644   |
|                       | SK Materials Co., Ltd.                   |                | 443  | 18,214  |
|                       | SK Siltron Co., Ltd. <sup>1</sup>        |                | 156,023  | 37,070  |
|                       | Others                                   |                | 14,918   | 120,955   |
|                       |  |                | 267,436  | 1,215,094   |

|                       |  | <b>2017</b>    | <b>Trade<br/>receivables<br/>and<br/>others<br/>(In millions of won)</b> | <b>Other<br/>payables<br/>and<br/>others<br/>(In millions of won)</b> |
|-----------------------|--|----------------|--|---|
|                       |  | <b>Company</b> |  |   |
| Associates            | SK China Company Limited                 |                |  | 5,610   |
| Joint venture         | HITECH Semiconductor (Wuxi) Co.,<br>Ltd. |                |  | 90,782  |
| Other related parties | SK Telecom Co., Ltd.                     |                | 94   | 3,014   |

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|       |   |         |           |
|-------|---|---------|-----------|
|       | SK Holdings Co., Ltd.                   | 5,530   | 108,038   |
|       | ESSENCORE Limited                       | 90,367  |           |
|       | SK Engineering & Construction Co., Ltd. | 7,327   | 946,517   |
|       | SK Energy Co., Ltd.                     | 500     | 10,505    |
|       | SK Networks Co., Ltd.                   |         | 1,395     |
|       | SKC Solmics Co., Ltd.                   |         | 3,393     |
|       | Chungcheong energy service Co., Ltd.    | 11      | 2,128     |
|       | SK Materials Co., Ltd.                  |         | 11,692    |
|       | SK Siltron Co., Ltd. <sup>1</sup>       | 150,521 | 21,071    |
|       | Others                                  | 90      | 93,433    |
| Other | Happynarae Co., Ltd. <sup>2</sup>       | 3       | 55,126    |
|       |   | 254,443 | 1,352,704 |

<sup>1</sup> The Group has paid 150,000 million in advance for the purchase of wafers during the year ended December 31, 2017 (See note 34).

<sup>2</sup> The transaction is incurred before Happynarae Co., Ltd. is included in a consolidation scope and the Group acquired control over the Happynarae Co., Ltd. during the year ended December 31, 2018.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****33. Transactions with Related Parties and Others, continued****(4) Key management compensation**

Key management includes the Parent Company's directors, members of the board of directors, chief financial officer, and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2018, 2017 and 2016 are as follows:

| <b>Details</b>                        | <b>2018</b>                 | <b>2017</b>    | <b>2016</b>   |
|---------------------------------------|-----------------------------|----------------|---------------|
|                                       | <b>(In millions of won)</b> |                |               |
| Salaries                              | 106,408                     | 106,291        | 68,504        |
| Defined benefit plan related expenses | 10,516                      | 8,840          | 8,184         |
| Share-based payment                   | 1,163                       | 813            |               |
| Others                                | 19                          | 13             | 21            |
|                                       | <b>118,106</b>              | <b>115,957</b> | <b>76,709</b> |

(5) The Group's acquisitions of subsidiaries during the year ended December 31, 2018 are presented in note 1 and note 37 and the Group's acquisitions and additional interests in associates during the year ended December 31, 2018 are presented in note 11.

**34. Commitments and Contingencies**

*(1) The details of litigations and claims of the Group as of December 31, 2018 are as follows:*

*(a) Lawsuit from Netlist, Inc.*

Netlist, Inc. filed a lawsuit against the Parent Company and its subsidiaries including SK hynix America Inc. alleging infringement of multiple patents to U.S. District Court for the Central District of California, USA, on August 31, 2016 and June 14, 2017, to US International Trade Commission on September 1, 2016 and on October 31, 2017, to the German District court of Munich and the Beijing Intellectual Property Court, respectively on July 11, 2017. As of December 31, 2018, the patent infringement lawsuits filed by Netlist, Inc. in the U.S. have not been finalized and the final result cannot be predicted.

Meanwhile, the lawsuit filed to the U.S. International Trade Commission on September 1, 2016 was finalized on January 16, 2018 with the conclusion that the Parent Company and its subsidiaries did not infringe the patents of Netlist, Inc. Netlist, Inc. filed a petition on March 26, 2018.

In addition, regarding the lawsuit filed to the Beijing Intellectual Property Court on July 11, 2017, the Patent Reexamination Board ( PRB ) determined that the patent was invalid on May 30, 2018. Accordingly, the patent infringement lawsuit was dismissed on June 26, 2018. Netlist, Inc. did not appeal PRB s decision that invalidated the patent and the decision was finalized.

In addition, regarding the lawsuit filed to the German District court of Munich on July 11, 2017, the Court determined that the Group did not infringe the patent litigation of Netlist, Inc. on January 31, 2019.

*(b) Price-fixing class-action lawsuits in North America*

On April 27, 2018, a purported class-action lawsuit was filed against the Parent Company and its subsidiary, SK hynix America Inc. in the U.S. District Court for the Northern District of California asserting claims based on alleged price-fixing of DRAM products during the period from June 1, 2016 to February 1, 2018. Similar lawsuits were subsequently filed in federal court in the U.S., as well as in Canadian courts in British Columbia, Quebec and Ontario. As of December 31, 2018, the lawsuits filed have not been finalized and the Group is unable to predict the outcome of these matters and therefore cannot reliably estimate the range of possible loss.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2018, 2017 and 2016**

**34. Commitments and Contingencies, continued**

*(c) The antitrust investigation in China*

The State Administration for Market Regulation of China initiated to investigate the violation of the antitrust law regarding on primary DRAM businesses sales in China in May 2018. The pending case currently is under investigation. As of December 31, 2018, the Group is unable to predict the outcome of these matters and therefore cannot reliably estimate the range of possible loss.

*(d) Other patent infringement claims and litigation*

In addition to the above litigations, the Group has responded to various disputes related to intellectual property rights and has recognized a liability when it represents a present obligation as a result of past event and is probable that an outflow of resources will arise and a loss can be reliably estimated.

**(2) Technology and patent license agreements**

The Group has entered into a number of patent license agreements with several companies. The related royalties are paid on a lump-sum or running basis in accordance with the respective agreements. The lump-sum royalties are expensed over the contract period using the straight-line method.

**(3) Contract for supply of industrial water**

The Group has entered into a new contract with Veolia Water Industrial Development Co., Ltd. ( Veolia ) under which the Group purchases industrial water from Veolia during period of June 2018 through May 2023. According to the contract, the Group is obligated to pay base service charges, which are predetermined and additional service charges which are variable according to the amount of water used.

**(4) Post- process service contract with HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)**

The Group has entered into an agreement with HITECH to be provided with post-process service by HITECH. The conditions of the service provided includes package, package test, modules and others. According to the agreement, the Group is liable to guarantee a certain level of margin to HITECH.

**(5) Assets provided as collateral**

Details of assets provided as collateral as of December 31, 2018 are as follows:



|           | <b>Book<br/>value<br/>(In millions of won)</b> | <b>Pledged<br/>amount</b> | <b>Remark</b>                       |
|-----------|--|---------------------------|-------------------------------------|
| Land      | 1,260  | 941,284                   |                                     |
| Buildings | 6,779  |                           | Borrowings for equipment and others |
| Machinery | 599,550  |                           |                                     |
|           | 607,589  | 941,284                   |                                     |

Other than the above assets provided as collateral, the finance lease assets of the Group are pledged as collateral for the finance lease liabilities in accordance with the finance lease contracts.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****34. Commitments and Contingencies, continued****(6) Financing agreements**

Details of credit lines with financial institutions as of December 31, 2018 are as follows:

|  | <b>Financial Institution</b> | <b>Commitment</b>   | <b>Currency</b> | <b>Amount<br/>(In millions of won and<br/>millions of foreign currencies)</b> |
|--|------------------------------|---|-----------------|---|
| The Parent Company                             |                              | Import finance including usance   | USD             | 225   |
|  | KEB Hana Bank and others     | Export finance including bills bought                                   | USD             | 50  |
|  |                              | Comprehensive limit contract for import and export                      | USD             | 960   |
|  |                              | Accounts receivable factoring contracts which have no right to recourse | KRW             | 140,000   |
|  | Agricultural                 |   |                 |   |
| SK hynix Semiconductor (China) Ltd.            | Bank of China and others     | Import finance including usance   | RMB             | 1,548   |
|  | Citibank and others          | Accounts receivable factoring contracts which have no right to recourse | USD             | 392   |
| SK hynix America Inc. and other sales entities | others                       |   | USD             | 249   |
| Domestic subsidiaries                          | KEB Hana Bank and others     | Import finance including usance   | USD             | 45  |
|  |                              | Finance secured by accounts receivable                                  | KRW             | 46,000  |
|  |                              | Agent agreement for payment of goods received                           | KRW             | 12,500  |

**(7) Details of guarantees provided to others as of December 31, 2018 are as follows:**

|           | <b>Amount<br/>(In millions of won)</b> | <b>Remark</b>  |
|-----------|--|--|
| Employees | 4                                      | Guarantees for employees borrowings relating to employee stock ownership |

**(8) Capital commitments**

The Group's unrecorded commitments in relation to the capital expenditures on property, plant and equipment as of December 31, 2018 and 2017 are 1,857,092 million and 661,588 million, respectively.

**(9) Long-term purchase agreement for raw materials**

The Group has entered into a procurement agreement with SK Siltron Co., Ltd. from 2019 to 2023 for stable supply of wafer with an advanced payment of 150,000 million during the year ended December 31, 2017. In addition, SK Siltron Co., Ltd. has committed to provide certain portion of its investment assets as collateral to secure the advanced payment of 150,000 million prepaid by the Group.

**(10) Investment in TMC**

In regards to the Group's interests in TMC through its investments in SPC1 and SPC2, equity shares in TMC owned, directly or indirectly, by the Group are limited to a certain percentage during certain periods after the date of acquisition. In addition, during the periods, the Group does not have the right in appointing TMC's directors and is unable to exercise significant influence over decision-making for TMC's operation and management.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****35. Statements of Cash Flows**

(1) Reconciliations between profit for the year and net cash inflow from operating activities for the years ended December 31, 2018, 2017 and 2016 are as follows:

|   | 2018                 | 2017        | 2016      |
|---|----------------------|-------------|-----------|
|   | (In millions of won) |             |           |
| <b>Profit for the year</b>                          | 15,539,984           | 10,642,219  | 2,960,483 |
| <b>Adjustment</b>                                   |                      |             |           |
| Income tax expense                                  | 5,801,046            | 2,797,347   | 255,971   |
| Defined benefit plan related expenses               | 179,503              | 168,774     | 213,332   |
| Depreciation of property, plant and equipment       | 5,904,156            | 4,618,776   | 4,133,780 |
| Depreciation of investment property                 | 84                   | 105         | 106       |
| Amortization  | 524,095              | 407,354     | 322,569   |
| Share-based compensation expenses                   | 1,163                | 813         |           |
| Loss on disposal of property, plant and equipment   | 59,738               | 10,229      | 6,566     |
| Loss on disposal of intangible assets               | 5,545                | 4,872       | 5,218     |
| Loss on impairment of intangible assets             | 4,483                | 769         | 98        |
| Loss on impairment of property, plant and equipment |                      |             | 3,746     |
| Loss on valuation of long-term investment asset     | 1,282                |             |           |
| Interest expense                                    | 94,635               | 123,918     | 120,122   |
| Loss on foreign currency translation                | 181,210              | 246,316     | 116,500   |
| Gain on equity method investments, net              | (14,702)             | (12,367)    | (22,752)  |
| Gain on disposal of property, plant and equipment   | (39,403)             | (35,161)    | (13,167)  |
| Gain on disposal of intangible assets               |                      | (758)       |           |
| Gain on valuation of short-term investment assets   | (16,740)             | (1,399)     | (1,133)   |
| Gain on disposal of short-term investment assets    | (36,349)             | (15,754)    | (15,348)  |
| Gain on valuation of long-term investment assets    | (182,461)            |             |           |
| Gain on disposal of long-term investment assets     | (5,504)              | (31,078)    |           |
| Loss on derivative instruments, net                 |                      | 11          | 53        |
| Interest income                                     | (62,478)             | (54,275)    | (34,174)  |
| Gain on foreign currency translation                | (126,094)            | (310,978)   | (106,840) |
| Impairment loss on associate investment             | 1,695                |             |           |
| Others, net   | 7,047                | 3,664       | 697       |
| <b>Changes in operating assets and liabilities</b>  |                      |             |           |
| Increase in trade receivables                       | (547,255)            | (2,964,272) | (470,792) |
| Decrease (increase) in loans and other receivables  | 38,102               | (36,541)    | 62,758    |
| Increase in inventories                             | (1,782,384)          | (634,623)   | (110,769) |

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|   |                   |                   |                  |
|---|-------------------|-------------------|------------------|
| Increase in other assets                        | (98,632)          | (302,967)         | (55,760)         |
| Increase (decrease) in trade payables           | 58,773            | 514,751           | (208,439)        |
| Increase in other payables                      | (16,161)          | (110)             | (23,558)         |
| Increase (decrease) in other non-trade payables | 542,437           | 666,770           | (328,871)        |
| Increase (decrease) in provisions               | (25,183)          | 38,860            | 17,521           |
| Increase in other liabilities                   | 118,986           | 4,081             | 5,018            |
| Payment of defined benefit liabilities          | (8,862)           | (15,313)          | (18,514)         |
| Contributions to plan assets                    | (276,739)         | (460,772)         | (327,640)        |
| <b>Cash generated from operating activities</b> | <b>25,825,017</b> | <b>15,373,261</b> | <b>6,486,781</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****35. Statements of Cash Flows, continued**

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2018, 2017 and 2016 are as follows:

|  | <b>2018</b>                 | <b>2017</b> | <b>2016</b> |
|--|-----------------------------|-------------|-------------|
|  | <b>(In millions of won)</b> |             |             |
| Investment in-kind for SK China Company Limited                                    |                             | 143,209     |             |
| Increase in other payables related to acquisition of property, plant and equipment | 954,918                     | 1,154,195   | 224,412     |
| Transfer of investment property to property, plant and equipment                   | 984                         |             |             |

(3) Changes in liabilities arising from financial activities for the years ended December 31, 2018 and 2017 are as follows:

|   | <b>2018</b>                 | <b>2017</b> |
|---|-----------------------------|-------------|
|   | <b>(In millions of won)</b> |             |
| <b>Beginning balance</b>                  | 4,171,270                   | 4,335,978   |
| Cash flows from financing activities      |                             |             |
| Proceeds from borrowings                  | 3,125,721                   | 782,329     |
| Repayments of borrowings                  | (2,078,522)                 | (710,635)   |
| Foreign currency differences              | 61,857                      | (238,112)   |
| Present value discount (interest expense) | 1,611                       | 1,710       |
| <b>Ending balance</b>                     | 5,281,937                   | 4,171,270   |

**36. Share-based payment**

(1) The Group granted equity-settled share options to the Group's key management during the year ended December 31, 2018 and the stock options as of December 31, 2018 are as follows:

| <b>Total numbers of share<br/>option</b> | <b>Exercised</b> | <b>Forfeited or Cancelled</b> | <b>Outstanding at<br/>December 31, 2018</b> |
|--|------------------|-------------------------------|---|
|--|------------------|-------------------------------|---|

|                 | <b>granted</b> |                    |
|-----------------|----------------|--------------------|
|                 |                | <b>(In shares)</b> |
| 1 <sup>st</sup> | 99,600         | 99,600             |
| 2 <sup>nd</sup> | 99,600         | 99,600             |
| 3 <sup>rd</sup> | 99,600         | 99,600             |
| 4 <sup>th</sup> | 7,747          | 7,747              |
| 5 <sup>th</sup> | 7,223          | 7,223              |
|                 | 313,770        | 313,770            |

|                 | <b>Grant date</b> | <b>Service Period for Vesting</b> |                   | <b>Exercisable Period</b> |                   | <b>Exercise price<br/>(in won)</b> |
|-----------------|-------------------|-----------------------------------|-------------------|---------------------------|-------------------|------------------------------------|
| 1 <sup>st</sup> | March 24, 2017    | March 24, 2017                    | March 24, 2019    | March 25, 2019            | March 24, 2022    | 48,400                             |
| 2 <sup>nd</sup> | March 24, 2017    | March 24, 2017                    | March 24, 2020    | March 25, 2020            | March 24, 2023    | 52,280                             |
| 3 <sup>rd</sup> | March 24, 2017    | March 24, 2017                    | March 24, 2021    | March 25, 2021            | March 24, 2024    | 56,460                             |
| 4 <sup>th</sup> | January 01, 2018  | January 1, 2018                   | December 31, 2019 | January 1, 2020           | December 31, 2022 | 77,440                             |
| 5 <sup>th</sup> | March 28, 2018    | March 28, 2018                    | March 28, 2020    | March 29, 2020            | March 28 2023     | 83,060                             |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2018, 2017 and 2016****36. Share-based payment, continued**

## (2) Measurement of fair value

The compensation cost is calculated by applying a binomial option-pricing model in estimating the fair value of the option at grant date. The inputs used are as follows:

|   | 1 <sup>st</sup> | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> | 5 <sup>th</sup> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Expected volatility                           | 23.23%          | 23.23%          | 23.23%          | 22.50%          | 25.30%          |
| Estimated fair value of share option (in won) | 10,026          | 9,613           | 9,296           | 16,687          | 18,362          |
| Dividend yield ratio                          | 1.20%           | 1.20%           | 1.20%           | 0.78%           | 1.23%           |
| Risk free ratio                               | 1.86%           | 1.95%           | 2.07%           | 2.38%           | 2.46%           |

(3) The compensation expense for the year ended December 31, 2018 was 1,163 million (2017: 813 million).

**37. Business Combination**

(1) The Group acquired control over Happynarae Co., Ltd. and its subsidiaries as of December 28, 2018 by purchasing 100% share of Happynarae Co., Ltd. to increase effectiveness of procurement process and creating social value. The Group paid 63,147 million in cash as consideration and recognized goodwill of 3,208 million.

(2) Detail of consideration paid, fair value of acquired assets and assumed liabilities are as follows:

|  | 2018<br>(In<br>millions<br>of won) |
|--|------------------------------------|
| <b>Consideration paid</b>                    |                                    |
| Cash and cash equivalents                    | 63,147                             |
| <b>Recognized assets and liabilities</b>     |                                    |
| Cash and cash equivalents                    | 29,817                             |
| Short-term financial instruments             | 23,000                             |
| Trade receivables, and other receivables net | 129,649                            |
| Inventories, net                             | 1,634                              |
| Long-term investment assets                  | 2,714                              |



|                                    |           |
|------------------------------------|-----------|
| Property, plant and equipment, net | 991       |
| Intangible assets, net             | 22,539    |
| Other asset                        | 6,164     |
| Trade payables and other payables  | (143,804) |
| Deferred tax liabilities           | (4,646)   |
| Current tax liabilities            | (3,427)   |
| Defined benefit liabilities, net   | (1,291)   |
| Other liabilities                  | (3,401)   |
| Identifiable net asset             | 59,939    |
| Goodwill                           | 3,208     |

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**SK TELECOM CO., LTD.**

*(Registrant)*

/s/ Jeong Hwan Choi

Name: Jeong Hwan Choi

Title: Senior Vice President, IRO

Date: April 29, 2019