

SK TELECOM CO LTD
Form 6-K
February 27, 2017

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

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE MONTH OF FEBRUARY 2017

Commission File Number: 333-04906

SK Telecom Co., Ltd.

(Translation of registrant's name into English)

Euljiro 65(Euljiro2-ga), Jung-gu

Seoul 04539, Korea

(Address of principal executive office)

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

Form 20-F

Form 40-F

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

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

RESOLUTION TO CALL

THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Board of Directors of SK Telecom Co., Ltd. (the Company) has resolved to call the Annual General Meeting of Shareholders, to be held at the following time and place and the agenda of which shall be as follows:

- 1. Date / Time** March 24, 2017 09:00 AM (Seoul time)
- 2. Place** SUPEX Hall, 4th Floor, SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul, Korea
- 3. Agenda**
1. Approval of financial statements for the 33rd fiscal year(2016)

 2. Amendment to the Articles of Incorporation

 3. Approval of the appointment of directors as set forth in Item 3 of the Company's agenda enclosed herewith

 - 3.1 Election of an executive Director(Park, Jung Ho)

 - 3.2 Election of an non-executive director(Cho, Dae Sik)

 - 3.2 Election of an independent non-executive director(Lee, Jae Hoon)

 - 3.3 Election of an independent non-executive director(Ahn, Jae Hyeon)

 - 3.4 Election of an independent non-executive director(Ahn, Jung Ho)

 4. Approval of the appointment of members of the Audit Committee as set forth in Item 4 of the Company's agenda enclosed herewith

4.1 Election of a member of Audit Committee(Lee, Jae Hoon)

4.2 Election of a member of Audit Committee (Ahn, Jae Hyeon)

5. Approval of ceiling amount of the remuneration for directors

6. Stock Option Grant

February 23, 2017

**4. Date of the resolution
by the Board of Directors**

| | | |
|----------------------------------|---------|---|
| Attendance of external directors | Present | 4 |
| | Absent | 0 |

5. Other Noteworthy Matters -

Documents relating to the Annual Meeting of Shareholders

**1. Approval of Financial Statements for the 33rd Fiscal Year(2016)
SK TELECOM CO., LTD. AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2016

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | December 31, 2016 | December 31, 2015 |
|--|---------------|------------------------------|------------------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | 32,33 | ₩ 1,505,242 | 768,922 |
| Short-term financial instruments | 5,32,33,34,35 | 468,768 | 691,090 |
| Short-term investment securities | 8,32,33 | 107,364 | 92,262 |
| Accounts receivable - trade, net | 6,32,33,34 | 2,240,926 | 2,344,867 |
| Short-term loans, net | 6,32,33,34 | 58,979 | 53,895 |
| Accounts receivable - other, net | 6,32,33,34,35 | 1,121,444 | 673,739 |
| Prepaid expenses | | 169,173 | 151,978 |
| Inventories, net | 7 | 259,846 | 273,556 |
| Advanced payments and other | 6,8,32,33,34 | 64,886 | 109,933 |
| Total Current Assets | | 5,996,628 | 5,160,242 |
| Non-Current Assets: | | | |
| Long-term financial instruments | 5,32,33,35 | 937 | 10,623 |
| Long-term investment securities | 8,32,33 | 828,521 | 1,207,226 |
| Investments in associates and joint ventures | 10 | 7,404,323 | 6,896,293 |
| Property and equipment, net | 11,34,35 | 10,374,212 | 10,371,256 |
| Investment property, net | 12 | | 15,071 |
| Goodwill | 13 | 1,932,452 | 1,908,590 |
| Intangible assets, net | 14 | 3,776,354 | 2,304,784 |
| Long-term loans, net | 6,32,33,34 | 65,476 | 62,454 |
| Long-term accounts receivable - other | 6,32,33,35 | 149,669 | 2,420 |
| Long-term prepaid expenses | | 88,130 | 76,034 |
| Guarantee deposits | 6,32,33,34 | 298,964 | 297,281 |
| Long-term derivative financial assets | 20,32,33 | 214,770 | 166,399 |
| Defined benefit assets | 19 | 30,247 | |
| Deferred tax assets | 29 | 75,111 | 17,257 |
| Other non-current assets | 6,32,33 | 61,869 | 85,457 |
| Total Non-Current Assets | | 25,301,035 | 23,421,145 |
| Total Assets | | ₩ 31,297,663 | 28,581,387 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Financial Position, Continued

As of December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | December 31, 2016 | December 31, 2015 |
|---|-------------|------------------------------|------------------------------|
| Liabilities and Shareholders Equity | | | |
| Current Liabilities: | | | |
| Short-term borrowings | 15,32,33 | ₩ 2,614 | 260,000 |
| Current installments of long-term debt, net | 15,32,33 | 888,467 | 703,087 |
| Current installments of finance lease liabilities | 32,33 | | 26 |
| Current installments of long-term payables other | 16,32,33 | 301,773 | 120,185 |
| Accounts payable - trade | 32,33,34 | 402,445 | 279,782 |
| Accounts payable - other | 32,33,34 | 1,767,799 | 1,323,434 |
| Withholdings | 32,33,34 | 964,084 | 865,327 |
| Accrued expenses | 32,33 | 1,125,816 | 920,739 |
| Income tax payable | 29 | 474,931 | 381,794 |
| Unearned revenue | | 188,403 | 224,233 |
| Provisions | 17 | 66,227 | 40,988 |
| Receipts in advance | | 174,588 | 136,844 |
| Derivative financial liabilities | 20,32,33 | 86,950 | |
| Other current liabilities | | 2 | 54 |
| Total Current Liabilities | | 6,444,099 | 5,256,493 |
| Non-Current Liabilities: | | | |
| Debentures, excluding current installments, net | 15,32,33 | 6,338,930 | 6,439,147 |
| Long-term borrowings, excluding current installments, net | 15,32,33 | 139,716 | 121,553 |
| Long-term payables - other | 16,32,33 | 1,624,590 | 581,697 |
| Long-term unearned revenue | | 2,389 | 2,842 |
| Defined benefit liabilities | 19 | 70,739 | 98,856 |
| Long-term derivative financial liabilities | 20,32,33 | 203 | 89,296 |
| Long-term provisions | 17 | 31,690 | 29,217 |
| Deferred tax liabilities | 29 | 479,765 | 538,114 |
| Other non-current liabilities | 32,33 | 49,112 | 50,076 |
| Total Non-Current Liabilities | | 8,737,134 | 7,950,798 |
| Total Liabilities | | 15,181,233 | 13,207,291 |
| Shareholders Equity | | | |
| Share capital | 1,21 | 44,639 | 44,639 |
| Capital surplus and others | 21,22,23 | 199,779 | 189,510 |
| Retained earnings | 24 | 15,953,164 | 15,007,627 |

| | | | |
|--|----|---------------------|-------------------|
| Reserves | 25 | (226,183) | 9,303 |
| Equity attributable to owners of the Parent Company | | 15,971,399 | 15,251,079 |
| Non-controlling interests | | 145,031 | 123,017 |
| Total Shareholders Equity | | 16,116,430 | 15,374,096 |
| Total Liabilities and Shareholders Equity | | ₩ 31,297,663 | 28,581,387 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 2016 and 2015

| <i>(In millions of won except for per share data)</i> | <i>Note</i> | 2016 | 2015 |
|--|-------------|------------------|------------------|
| Operating revenue: | <i>4,34</i> | | |
| Revenue | | ₩ 17,091,816 | 17,136,734 |
| Operating expenses: | <i>34</i> | | |
| Labor | <i>19</i> | 1,869,763 | 1,893,745 |
| Commissions | | 5,376,726 | 5,206,951 |
| Depreciation and amortization | <i>4</i> | 2,941,886 | 2,845,295 |
| Network interconnection | | 954,267 | 957,605 |
| Leased line | | 394,412 | 389,819 |
| Advertising | | 438,453 | 405,005 |
| Rent | | 517,305 | 493,586 |
| Cost of products that have been resold | | 1,838,368 | 1,955,861 |
| Others | <i>26</i> | 1,224,892 | 1,280,861 |
| | | 15,556,072 | 15,428,728 |
| Operating income | <i>4</i> | 1,535,744 | 1,708,006 |
| Finance income | <i>4,28</i> | 575,050 | 103,900 |
| Finance costs | <i>4,28</i> | (326,830) | (350,100) |
| Gain relating to investments in subsidiaries, associates and joint ventures, net | <i>4,10</i> | 544,501 | 786,140 |
| Other non-operating income | <i>4,27</i> | 66,303 | 30,910 |
| Other non-operating expenses | <i>4,27</i> | (298,629) | (243,491) |
| Profit before income tax | <i>4</i> | 2,096,139 | 2,035,365 |
| Income tax expense | <i>29</i> | 436,038 | 519,480 |
| Profit for the year | | 1,660,101 | 1,515,885 |
| Attributable to : | | | |
| Owners of the Parent Company | | ₩ 1,675,967 | 1,518,604 |
| Non-controlling interests | | (15,866) | (2,719) |
| Earnings per share | <i>30</i> | | |
| Basic and diluted earnings per share (in won) | | ₩ 23,497 | 20,988 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | 2016 | 2015 |
|--|-------------|--------------------|------------------|
| Profit for the year | | ₩ 1,660,101 | 1,515,885 |
| Other comprehensive income (loss) | | | |
| Items that will never be reclassified to profit or loss, net of taxes: | | | |
| Remeasurement of defined benefit liabilities | 19 | (7,524) | (14,489) |
| Items that are or may be reclassified subsequently to profit or loss, net of taxes: | | | |
| Net change in unrealized fair value of available-for-sale financial assets | 25,28 | (223,981) | (3,661) |
| Net change in other comprehensive income of investments in associates and joint ventures | 10,25 | (9,939) | (5,709) |
| Net change in unrealized fair value of derivatives | 20,25,28 | (13,218) | (1,271) |
| Foreign currency translation differences for foreign operations | 25 | 7,331 | 26,965 |
| Other comprehensive income (loss) for the year, net of taxes | | (247,331) | 1,835 |
| Total comprehensive income | | ₩ 1,412,770 | 1,517,720 |
| Total comprehensive income (loss) attributable to: | | | |
| Owners of the Parent Company | | ₩ 1,432,982 | 1,522,280 |
| Non-controlling interests | | (20,212) | (4,560) |
| <i>See accompanying notes to the consolidated financial statements.</i> | | | |

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(In millions of won)

| | Controlling Interest | | | | Sub-total | Non-controlling interests | Total equity |
|--------------------------------------|----------------------|--|-------------------|----------------|-------------------|---------------------------|-------------------|
| | Share capital | Capital surplus (deficit) and other reserves | Retained earnings | Reserves | | | |
| Balance at January 1, 2015 | ₩ 44,639 | 277,998 | 14,188,591 | (4,489) | 14,506,739 | 741,531 | 15,248,270 |
| Total comprehensive income: | | | | | | | |
| Profit (loss) for the year | | | 1,518,604 | | 1,518,604 | (2,719) | 1,515,885 |
| Other comprehensive income (loss) | | | (13,402) | 17,078 | 3,676 | (1,841) | 1,835 |
| | | | 1,505,202 | 17,078 | 1,522,280 | (4,560) | 1,517,720 |
| Transactions with owners: | | | | | | | |
| Cash dividends | | | (668,494) | | (668,494) | (143) | (668,637) |
| Interest on hybrid bonds | | | (16,840) | | (16,840) | | (16,840) |
| Acquisition of treasury shares | | (490,192) | | | (490,192) | | (490,192) |
| Disposal of treasury shares | | 425,744 | | | 425,744 | | 425,744 |
| Changes in consolidation scope | | | | | | (5,226) | (5,226) |
| Changes in ownership in subsidiaries | | (24,040) | (832) | (3,286) | (28,158) | (608,585) | (636,743) |
| | | (88,488) | (686,166) | (3,286) | (777,940) | (613,954) | (1,391,894) |
| Balance at December 31, 2015 | ₩ 44,639 | 189,510 | 15,007,627 | 9,303 | 15,251,079 | 123,017 | 15,374,096 |
| Balance at January 1, 2016 | ₩ 44,639 | 189,510 | 15,007,627 | 9,303 | 15,251,079 | 123,017 | 15,374,096 |
| Total comprehensive income: | | | | | | | |
| Profit (loss) for the year | | | 1,675,967 | | 1,675,967 | (15,866) | 1,660,101 |
| Other comprehensive loss | | | (7,499) | (235,486) | (242,985) | (4,346) | (247,331) |

| | | | | | |
|--------------------------------------|-----------------|----------------|-------------------|------------------|-------------------|
| | 1,668,468 | (235,486) | 1,432,982 | (20,212) | 1,412,770 |
| Transactions with owners: | | | | | |
| Cash dividends | (706,091) | | (706,091) | (300) | (706,392) |
| Interest on hybrid bonds | (16,840) | | (16,840) | | (16,840) |
| Changes in ownership in subsidiaries | 10,269 | | 10,269 | 42,526 | 52,795 |
| | 10,269 | (722,931) | (712,662) | 42,226 | (670,436) |
| Balance at December 31, 2016 | ₩ 44,639 | 199,779 | 15,953,164 | (226,183) | 15,971,399 |
| | | | | 145,031 | 16,116,430 |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | 2016 | 2015 |
|---|-------------|------------------|------------------|
| Cash flows from operating activities: | | | |
| Cash generated from operating activities | | | |
| Profit for the year | ₩ | 1,660,101 | 1,515,885 |
| Adjustments for income and expenses | 36 | 3,039,561 | 3,250,143 |
| Changes in assets and liabilities related to operating activities | 36 | 13,764 | (685,734) |
| Sub-total | | 4,713,426 | 4,080,294 |
| Interest received | | 44,602 | 43,400 |
| Dividends received | | 98,267 | 62,973 |
| Interest paid | | (245,236) | (275,796) |
| Income tax paid | | (367,891) | (132,742) |
| Net cash provided by operating activities | | 4,243,168 | 3,778,129 |
| Cash flows from investing activities: | | | |
| Cash inflows from investing activities: | | | |
| Decrease in short-term financial instruments, net | | 222,322 | |
| Decrease in short-term investment securities, net | | | 105,158 |
| Collection of short-term loans | | 238,980 | 398,308 |
| Decrease in long-term financial instruments | | 28 | 7,424 |
| Proceeds from disposals of long-term investment securities | | 555,519 | 149,310 |
| Proceeds from disposals of investments in associates and joint ventures | | 66,852 | 185,094 |
| Proceeds from disposals of property and equipment | | 22,549 | 36,586 |
| Proceeds from disposals of intangible assets | | 16,532 | 3,769 |
| Proceeds from disposals of assets held for sale | | | 1,009 |
| Collection of long-term loans | | 1,960 | 2,132 |
| Decrease in deposits | | 14,894 | 14,635 |
| Proceeds from disposals of other non-current assets | | 728 | 607 |
| Proceeds from disposals of subsidiaries | | | 155 |
| Increase in cash due to acquisition of a subsidiary | | | 10,355 |
| Receipt of government grants | | 300 | |
| Sub-total | | 1,140,664 | 914,542 |
| Cash outflows for investing activities: | | | |
| Increase in short-term financial instruments, net | | | (385,612) |
| Increase in short-term investment securities, net | | (6,334) | |
| Increase in short-term loans | | (239,303) | (370,378) |
| Increase in long-term loans | | (32,287) | (16,701) |
| Increase in long-term financial instruments | | (342) | (10,008) |
| Acquisitions of long-term investment securities | | (30,949) | (312,261) |

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| | | |
|--|----------------------|--------------------|
| Acquisitions of investments in associates and joint ventures | (130,388) | (65,080) |
| Acquisitions of property and equipment | (2,490,455) | (2,478,778) |
| Acquisitions of intangible assets | (635,387) | (127,948) |
| Increase in deposits | (12,943) | (12,536) |
| Increase in other non-current assets | (763) | (2,542) |
| Acquisitions of business, net of cash acquired | (4,498) | (13,197) |
| Acquisitions of subsidiaries | (19,223) | |
| Sub-total | (3,602,872) | (3,795,041) |
| Net cash used in investing activities | ₩ (2,462,208) | (2,880,499) |

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | 2016 | 2015 |
|--|-------------|--------------------|--------------------|
| Cash flows from financing activities: | | | |
| Cash inflows from financing activities: | | | |
| Proceeds from issuance of debentures | ₩ | 776,727 | 1,375,031 |
| Proceeds from long-term borrowings | | 49,000 | |
| Cash inflows from settlement of derivatives | | 251 | 175 |
| Cash inflows from transactions with non-controlling interests | | 35,646 | |
| Sub-total | | 861,624 | 1,375,206 |
| Cash outflows for financing activities: | | | |
| Decrease in short-term borrowings, net | | (257,386) | (106,600) |
| Repayments of long-term accounts payable-other | | (122,723) | (191,436) |
| Repayments of debentures | | (770,000) | (620,000) |
| Repayments of long-term borrowings | | (33,387) | (21,924) |
| Cash outflows from settlement of derivatives | | | (655) |
| Payments of finance lease liabilities | | (26) | (3,206) |
| Payments of dividends | | (706,091) | (668,494) |
| Payments of interest on hybrid bonds | | (16,840) | (16,840) |
| Acquisitions of treasury shares | | | (490,192) |
| Cash outflows due to transactions with non-controlling interests | | | (220,442) |
| Sub-total | | (1,906,453) | (2,339,789) |
| Net cash used in financing activities | | (1,044,829) | (964,583) |
| Net increase (decrease) in cash and cash equivalents | | 736,131 | (66,953) |
| Cash and cash equivalents at beginning of the year | | 768,922 | 834,429 |
| Effects of exchange rate changes on cash and cash equivalents | | 189 | 1,446 |
| Cash and cash equivalents at end of the year | ₩ | 1,505,242 | 768,922 |

See accompanying notes to the consolidated financial statements.

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, 2016, the Parent Company's total issued shares are held by the following shareholders:

| | Number of shares | Percentage of total shares issued (%) |
|--|---------------------|--|
| SK Holdings Co., Ltd. | 20,363,452 | 25.22 |
| National Pension Service | 7,159,704 | 8.87 |
| Institutional investors and other minority stockholders | 43,086,004 | 53.36 |
| Treasury shares | 10,136,551 | 12.55 |
| | 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, 2016 and 2015 is as follows:

| | Subsidiary | Location | Primary business | Ownership (%)(*1) | |
|---|------------------------------------|----------|--|-------------------|---------------|
| | | | | Dec. 31, 2016 | Dec. 31, 2015 |
| Subsidiaries owned by the Parent Company | SK Telink Co., Ltd.(*2) | Korea | Telecommunication and MVNO service | 85.9 | 83.5 |
| | SK Communications Co., Ltd.(*3) | Korea | Internet website services | 64.5 | 64.5 |
| | SK Broadband Co., Ltd.(*4) | Korea | Telecommunication services | 100.0 | 100.0 |
| | PS&Marketing Corporation | Korea | Communications device retail business | 100.0 | 100.0 |
| | SERVICEACE Co., Ltd. | Korea | Customer center management service | 100.0 | 100.0 |
| | SERVICE TOP Co., Ltd. | Korea | Customer center management service | 100.0 | 100.0 |
| | Network O&S Co., Ltd. | Korea | Base station maintenance service | 100.0 | 100.0 |

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|---|-----------|---|-------|-------|
| SK Planet Co., Ltd.(*5) | Korea | Telecommunication service | 98.1 | 100.0 |
| IRIVER LIMITED (*6) | Korea | Manufacturing digital audio players and other portable media devices. | 48.9 | 49.0 |
| SK Telecom China Holdings Co., Ltd. | China | Investment | 100.0 | 100.0 |
| SK Global Healthcare Business Group, Ltd. | Hong Kong | Investment | 100.0 | 100.0 |
| SKT Vietnam PTE. Ltd. | Singapore | Telecommunication service | 73.3 | 73.3 |
| SKT Americas, Inc. | USA | Information gathering and consulting | 100.0 | 100.0 |
| YTK Investment Ltd. | Cayman | Investment association | 100.0 | 100.0 |
| Atlas Investment | Cayman | Investment association | 100.0 | 100.0 |
| Entrix Co., Ltd. | Korea | Cloud streaming services | 100.0 | 100.0 |
| SK techx Co., Ltd.(*7) | Korea | System software development and supply | 100.0 | |
| One Store Co., Ltd.(*7) | Korea | Telecommunication services | 65.5 | |

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of December 31, 2016 and 2015 is as follows, Continued:

| | Subsidiary | Location | Primary business | Ownership (%)(*1) | |
|---|---|-----------|--|-------------------|---------------|
| | | | | Dec. 31, 2016 | Dec. 31, 2015 |
| Subsidiaries owned by SK Planet Co., Ltd. | M&Service Co., Ltd. | Korea | Data base and internet website service | 100.0 | 100.0 |
| | Commerce Planet Co., Ltd.(*7) | Korea | Online shopping mall operation agency | | 100.0 |
| | SK Planet Japan, K. K. | Japan | Digital contents sourcing service | 100.0 | 100.0 |
| | SK Planet Global PTE. Ltd. | Singapore | Digital contents sourcing service | 100.0 | 100.0 |
| | SKP GLOBAL HOLDINGS PTE. LTD. | Singapore | Investment | 100.0 | 100.0 |
| | SKP America LLC. | USA | Digital contents sourcing service | 100.0 | 100.0 |
| | shopkick Management Company, Inc.(*8) | USA | Investment | 100.0 | 95.2 |
| | shopkick, Inc. | USA | Mileage-based online transaction app development | 100.0 | 100.0 |
| | Planet11 E-commerce Solutions India Pvt. Ltd.(*7) | India | Electronic commerce platform service | 99.0 | |
| | 11street (Thailand) Co., Ltd.(*7) | Thailand | Electronic commerce | 100.0 | |
| | Hello Nature Ltd.(*7) | Korea | Retailing of agro-fisheries and livestock | 100.0 | |
| Subsidiaries owned by IRIVER LIMITED | iriver Enterprise Ltd. | Hong Kong | Management of Chinese subsidiary | 100.0 | 100.0 |
| | iriver America Inc.(*7) | USA | Marketing and sales in North America | | 100.0 |
| | iriver Inc. | USA | Marketing and sales in North America | 100.0 | 100.0 |
| | iriver China Co., Ltd. | China | Sales and manufacturing MP3,4 in China | 100.0 | 100.0 |
| | Dongguan iriver Electronics Co., Ltd. | China | Sales and manufacturing e-book in China | 100.0 | 100.0 |
| | groovers JP Ltd. | Japan | Digital music contents sourcing and distribution service | 100.0 | 100.0 |
| Subsidiaries owned by SK Telink Co., Ltd. | Neosnetworks Co., Ltd.(*2) | Korea | Guarding of facilities | 100.0 | 83.9 |
| Subsidiaries owned by SK techx | K-net Culture and Contents Venture Fund | Korea | Investment association | 59.0 | 59.0 |
| | | Korea | Investment association | | 66.7 |

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|------------|--|--------|------------------------|-------|-------|
| Co., Ltd. | Fitech Focus Limited Partnership II(*7) | | | | |
| | Open Innovation Fund(*7) | Korea | Investment association | | 98.9 |
| Others(*9) | Stonebridge Cinema Fund | Korea | Investment association | 55.2 | 55.2 |
| | SK Telecom Innovation Fund, L.P. (formerly, Technology Innovation Partners, L.P.)(*10) | USA | Investment | 100.0 | 100.0 |
| | SK Telecom China Fund I L.P. | Cayman | Investment | 100.0 | 100.0 |

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of December 31, 2016 and 2015 is as follows, Continued:

- (*1) The ownership interest represents direct ownership interest in subsidiaries either by the Parent Company or subsidiaries of the Parent Company
- (*2) During the year ended December 31, 2016, the Parent Company acquired 219,967 shares of SK Telink Co., Ltd., a subsidiary of the Parent Company, in return for the transfer of Parent Company's owned shares of Neosnetworks Co., Ltd., a subsidiary of the Parent Company, to SK Telink Co., Ltd., as contribution in kind. In addition, SK Telink Co., Ltd. exercised call options to purchase the entire shares of Neosnetworks Co., Ltd. held by non-controlling interests during the year ended December 31, 2016 and Neosnetworks Co., Ltd. became the wholly owned subsidiary of SK Telink Co., Ltd.
- (*3) On November 24, 2016, the board of directors of the Parent Company resolved to acquire the shares of SK Communications Co., Ltd. held by all of the other shareholders of SK Communications Co., Ltd. on February 7, 2017 at ₩2,814 per share in cash. On November 24, 2016, the extraordinary meeting of shareholders of the SK Communications Co., Ltd. approved the sale of shares and its voluntary delisting of SK Communication Co., Ltd.'s ordinary shares from KOSDAQ market of Korea Exchange.
- (*4) On November 2, 2015, the board of directors of the Parent Company entered into a share purchase agreement to acquire 30%(23,234,060 shares) of the issued and outstanding common shares of CJ Hello Vision Co., Ltd. (CJ Hello Vision) from CJ O Shopping Co., Ltd. (CJ O Shopping) for an aggregate purchase price of ₩500,000 million. The agreement stated government's approval as prerequisite. On November 2, 2015, the board of directors of SK Broadband Co., Ltd. (SK Broadband), a subsidiary of the Parent Company, approved the merger of SK Broadband into CJ Hello Vision, and then SK Broadband entered into a merger agreement with CJ Hello Vision with government's approval as prerequisite. After the announcement of disapproval of proposed takeover of CJ Hello Vision by the Fair Trade Commission (FTC) on July 18, 2016, the Parent Company announced the revocation of share purchase agreement to CJ O Shopping while SK Broadband withdrew from merger agreement with CJ Hello Vision on July 25, 2016 as execution of the share purchase agreement with CJ O Shopping and merger agreement between SK Broadband and CJ Hello Vision became objectively impossible.
- (*5) The ownership interest changed due to the shares issued to employee stock ownership association by SK Planet Co., Ltd. during the year ended December 31, 2016.
- (*6) Although the Group has less than 50% of the voting rights of IRIVER LIMITED, the Group is considered to have control over IRIVER LIMITED since the Group holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed.

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of December 31, 2016 and 2015 is as follows, Continued:

(*7) Changes in subsidiaries are explained in Note 1-(4).

(*8) During the year ended December 31, 2016, the Group acquired all of the non-controlling interests in shopkick Management Company, Inc.

(*9) Others are owned together by SK techx Co., Ltd. and three other subsidiaries of the Parent Company.

(*10) Changed its name to SK Telecom Innovation Fund, L.P. during the year ended December 31, 2016.

(3) Condensed financial information of subsidiaries

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

(In millions of won)

| Subsidiary | As of December 31, 2016 | | | 2016 | |
|-----------------------------------|-------------------------|-------------------|--------------|-----------|---------------|
| | Total assets | Total liabilities | Total equity | Revenue | Profit (loss) |
| SK Telink Co., Ltd. | ₩ 440,726 | 122,741 | 317,985 | 406,930 | 61,966 |
| M&Service Co., Ltd. | 112,768 | 61,596 | 51,172 | 173,816 | 4,958 |
| SK Communications Co., Ltd. | 128,233 | 31,592 | 96,641 | 58,154 | (20,419) |
| SK Broadband Co., Ltd. | 3,518,907 | 2,371,842 | 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 | 186,761 | 3,971 |
| Network O&S Co., Ltd. | 69,834 | 35,858 | 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 | 52,330 | (9,987) |
| SKP America LLC. | 439,209 | | 439,209 | | 1,226 |
| SK techx Co., Ltd. | 213,390 | 52,563 | 160,827 | 193,396 | 28,859 |
| One Store Co., Ltd. | 134,207 | 41,738 | 92,469 | 106,809 | (22,161) |
| shopkick Management Company, Inc. | 354,627 | | 354,627 | | (85) |
| shopkick, Inc. | 37,947 | 34,024 | 3,923 | 45,876 | (27,149) |

The above financial information is a summary of separate financial information of each subsidiary except for IRIVER LIMITED s, which is consolidated financial information.

(*1) The condensed 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) Consolidated financial information. The condensed consolidated financial information of IRIVER LIMITED includes financial information of iriver Enterprise Ltd., iriver America Inc., iriver Inc., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd. and groovers Japan Co., Ltd., subsidiaries of IRIVER LIMITED.

1. Reporting Entity, Continued**(3) Condensed financial information of subsidiaries, Continued**

Condensed financial information of the significant subsidiaries as of and for the year ended December 31, 2015 is as follows:

(In millions of won)

| Subsidiary | As of December 31, 2016 | | | 2016 | |
|-----------------------------------|-------------------------|-------------------|--------------|-----------|---------------|
| | Total assets | Total liabilities | Total equity | Revenue | Profit (loss) |
| SK Telink Co., Ltd. | ₩ 309,955 | 113,878 | 196,077 | 431,368 | 55,781 |
| M&Service Co., Ltd. | 89,452 | 42,414 | 47,038 | 143,255 | 5,549 |
| SK Communications Co., Ltd. | 152,496 | 35,014 | 117,482 | 80,147 | (14,826) |
| SK Broadband Co., Ltd. | 3,291,707 | 2,170,484 | 1,121,223 | 2,731,344 | 10,832 |
| PS&Marketing Corporation | 509,580 | 300,364 | 209,216 | 1,791,944 | 4,835 |
| SERVICEACE Co., Ltd. | 65,424 | 34,240 | 31,184 | 206,338 | 2,778 |
| SERVICE TOP Co., Ltd. | 61,897 | 38,482 | 23,415 | 197,092 | 4,396 |
| Network O&S Co., Ltd. | 77,426 | 48,069 | 29,357 | 210,676 | 6,466 |
| SK Planet Co., Ltd. | 2,406,988 | 784,631 | 1,622,357 | 1,624,630 | (75,111) |
| IRIVER LIMITED(*) | 60,434 | 12,377 | 48,057 | 55,637 | 635 |
| SKP America LLC. | 380,141 | | 380,141 | | 791 |
| Entrix Co., Ltd. | 30,876 | 3,186 | 27,690 | 4,895 | (1,826) |
| shopkick Management Company, Inc. | 306,248 | 7 | 306,241 | 7 | (2,455) |
| shopkick, Inc. | 25,388 | 32,243 | (6,855) | 33,851 | (52,390) |

The above financial information is a summary of separate financial information of each subsidiary except for IRIVER LIMITED s, which is consolidated financial information.

(*) The condensed consolidated financial information of IRIVER LIMITED includes financial information of iriver Enterprise Ltd., iriver America Inc., iriver Inc., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd. and groovers Japan Co., Ltd., subsidiaries of IRIVER LIMITED.

1. Reporting Entity, Continued

(4) Changes in subsidiaries

The list of subsidiaries that were newly included in consolidation during the year ended December 31, 2016 is as follows:

| Subsidiary | Reason |
|---|---|
| SK techx Co., Ltd. | Established by spin-off from SK Planet Co., Ltd., a subsidiary of the Parent Company. |
| One Store Co., Ltd. | Established by spin-off from SK Planet Co., Ltd. |
| Planet11 E-commerce Solutions India Pvt. Ltd. | Acquired by SK Planet Co., Ltd. |
| 11street (Thailand) Co., Ltd. | Established by SK Planet Co., Ltd. |
| Hello Nature Ltd. | Acquired by SK Planet Co., Ltd. |

The list of subsidiaries that were excluded from consolidation during the year ended December 31, 2016 is as follows:

| Subsidiary | Reason |
|-------------------------------------|---|
| Commerce Planet Co., Ltd. | Merged into SK Planet Co., Ltd. |
| Fitech Focus Limited Partnership II | Liquidated during the year ended December 31, 2016. |
| Open Innovation Fund | Liquidated during the year ended December 31, 2016. |
| iriver America Inc. | Liquidated during the year ended December 31, 2016. |

- (5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2016 and 2015 are as follows. There were no dividends paid during the years ended December 31, 2016 and 2015 by these subsidiaries.

(In millions of won)

| | SK Communications Co., | |
|--|-------------------------------|----------------------------|
| | Ltd. | One Store Co., Ltd. |
| Ownership of non-controlling interests (%) | 35.46 | 34.46 |
| | As of December 31, | |
| | 2016 | |
| Current assets | ₩ 81,806 | 90,414 |
| Non-current assets | 46,427 | 43,793 |
| Current liabilities | (30,098) | (40,969) |
| Non-current liabilities | (1,494) | (769) |
| Net assets | 96,641 | 92,469 |
| Carrying amount of non-controlling interests | 34,265 | 31,863 |
| | 2016 | |
| Revenue | ₩ 58,154 | 106,809 |

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| | | |
|---|-----------|----------|
| Loss for the year | 20,419 | 22,161 |
| Total comprehensive loss | 20,849 | 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 | | 51,408 |
| Net increase(decrease) in cash and cash equivalents | (1,266) | 26,165 |

1. Reporting Entity, Continued

- (5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2016 and 2015 are as follows. There were no dividends paid during the years ended December 31, 2016 and 2015 by these subsidiaries., Continued

(In millions of won)

| | SK Communications Co., Ltd. | |
|--|------------------------------------|----------|
| Ownership of non-controlling interests (%) | | 35.46 |
| | December 31, 2015 | |
| Current assets | ₩ | 95,662 |
| Non-current assets | | 56,834 |
| Current liabilities | | (33,306) |
| Non-current liabilities | | (1,708) |
| Net assets | | 117,482 |
| Carrying amount of non-controlling interests | | 41,659 |
| | 2015 | |
| Revenue | ₩ | 80,147 |
| Loss for the year | | 14,826 |
| Total comprehensive loss | | 16,698 |
| Loss attributable to non-controlling interests | | 5,254 |
| Net cash used in operating activities | ₩ | (2,706) |
| Net cash provided by investing activities | | 8,723 |
| Net cash provided by financing activities | | |
| Net increase in cash and cash equivalents | | 6,017 |

2. Basis of Presentation

(1) Statement of compliance

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

The consolidated financial statements were authorized for issuance by the Board of Directors on February 2, 2017, which will be submitted for approval at the shareholders meeting to be held on March 24, 2017.

(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 statements of financial position:

derivative financial instruments measured at fair value

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

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

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

2. Basis of Presentation, Continued

(3) Functional and presentation currency

Financial statements of Group entities within the Group are prepared in functional currency of each group entity, which is the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

(4) Use of estimates and judgments

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

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

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in Note 3 for the following areas: revenue, consolidation: whether the Group has de facto control over an investee, and classification of lease.

2) Assumptions and estimation uncertainties

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

3) Fair value measurement

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

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

When measuring the fair value of an asset or a liability, the 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;

2. Basis of Presentation, Continued

(4) Use of estimates and judgments, Continued

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 33.

3. Significant Accounting Policies

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

(1) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's operating segments have been determined to be each business unit, for which the Group generates separately identifiable financial information that is regularly reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance. The Group has three reportable segments which consist of cellular services, fixed-line telecommunication services and others, as described in Note 5. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(2) Basis of consolidation

(i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Consideration transferred is generally measured at fair value, identical to the measurement of identifiable net assets acquired at fair value. The difference between the acquired company's fair value and the consideration transferred is accounted for goodwill. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received excluding costs to issue debt or equity securities recognized based on K-IFRS No. 1032 and 1039.

3. Significant Accounting Policies, Continued

(2) Basis of consolidation, Continued

(i) Business combination, Continued

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.

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in a Controlling Company's ownership interest in a subsidiary that do not result in the Controlling Company losing control of the subsidiary are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

(iv) Loss of control

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

(v) Interest in investees accounted for using the equity method

Interest in investees accounted for using the equity method composed of interest in associates and joint ventures. An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the net assets of the arrangement.

The investment in an associate and a joint venture is initially recognized at cost including transaction costs and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture after the date of acquisition.

3. Significant Accounting Policies, Continued

(2) Basis of consolidation, Continued

(vi) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with investees accounted for using the equity method are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

(vii) Business combinations under common control

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

(3) Cash and cash equivalents

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

(4) Inventories

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

(5) Non-derivative financial assets

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

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

3. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

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

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

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is

the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

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

Cash flow hedge

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

3. Significant Accounting Policies, Continued

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

(ii) Separable embedded derivatives

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

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

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

(iii) Other derivative financial instruments

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

(7) Impairment of financial assets

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

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

significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

3. Significant Accounting Policies, Continued

(7) Impairment of financial assets, Continued

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

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

(8) Property and equipment

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

3. Significant Accounting Policies, Continued

(8) Property and equipment, continued

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

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

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

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

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

| | Useful lives (years) |
|------------------------------|----------------------|
| Buildings and structures | 15 ~ 40 |
| Machinery | 3 ~ 15 |
| Other property and equipment | 4 ~ 10 |

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

(9) Borrowing costs

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

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the

purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period do not exceed the amount of borrowing costs incurred during that period.

3. Significant Accounting Policies, Continued

(10) Intangible assets

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

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

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

| | Useful lives (years) |
|------------------------|----------------------|
| Frequency usage rights | 5 ~ 13.1 |
| Land usage rights | 5 |
| Industrial rights | 5, 10 |
| Development costs | 5 |
| Facility usage rights | 10, 20 |
| Customer relations | 3 ~ 7 |
| Other | 3 ~ 20 |

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

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

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

3. Significant Accounting Policies, Continued

(11) Government grants

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

(i) Grants related to assets

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

(ii) Grants related to income

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

(12) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

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

Investment property except for land, are depreciated on a straight-line basis over 15~40 years as estimated useful lives.

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

(13) Impairment of non-financial assets

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

3. Significant Accounting Policies, Continued

(13) Impairment of non-financial assets, Continued

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

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

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

(14) Leases

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

(i) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated 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 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.

3. Significant Accounting Policies, Continued

(14) Leases, Continued

(ii) Operating leases

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

(iii) Determining whether an arrangement contains a lease

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

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

(15) Non-current assets held for sale

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

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

(16) Non-derivative financial liabilities

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

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

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

3. Significant Accounting Policies, Continued

(16) Non-derivative financial liabilities, Continued

(ii) Other financial liabilities

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

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

(17) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined contribution plans

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

(iv) Retirement benefits: defined benefit plans

At 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.

3. Significant Accounting Policies, Continued

(17) Employee benefits, Continued

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

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

(v) Termination benefits

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

(18) Provisions

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

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

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

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

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

(19) Transactions in foreign currencies

(i) Foreign currency transactions

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

3. Significant Accounting Policies, Continued

(19) Transactions in foreign currencies, Continued

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

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate at the reporting date.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(20) Share capital

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

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

(21) Hybrid bond

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

3. Significant Accounting Policies, Continued

(22) Revenue

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

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

(i) Services rendered

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed. Revenues received for the activation of service are deferred and recognized over the average customer retention period.

Revenue from fixed-line services includes domestic local and long-distance call charges, international phone connection charges, and broadband internet services. Such revenues are recognized as the related services are performed.

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

(ii) Goods sold

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

(iii) Customer loyalty programmes

For customer loyalty programmes, 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 programmes 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.

3. Significant Accounting Policies, Continued

(22) Revenue, Continued

(iv) Bundled arrangements

When the Group sells both handsets and wireless services to subscribers, the Group recognizes these transactions separately as sales for handset and wireless telecommunication services.

(23) Finance income and finance costs

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

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

(24) Income taxes

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

(i) Current tax

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 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.

(ii) Deferred tax

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

temporary difference can be utilized.

3. Significant Accounting Policies, Continued

(24) Income taxes, Continued

(ii) Deferred tax, Continued

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

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

(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 ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees, if any.

(26) Standards issued but not yet effective

The following new standards are effective for annual periods beginning after January 1, 2016 and earlier application is permitted; however, the Group has not early adopted the following new standards in preparing these financial statements.

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

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

Adoption of K-IFRS No. 1109 will generally be applied retrospectively, except for the following:

exemption allowing the Group not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes; and

Prospective application of new hedge accounting except for those specified in K-IFRS 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

3. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

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

To ensure smooth implementation of K-IFRS No.1109, the Group needs to assess the financial impact of adopting K-IFRS No. 1109, to formulate the accounting policy, and to design, implement and stabilize the accounting system and related controls. The actual impact of adopting K-IFRS No. 1109 on the Group's financial statements in 2018 cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

The Group has not yet revised its accounting process and internal controls related to reporting financial instruments and will perform the assessment of the financial impact of adoption of K-IFRS No. 1109 on its financial statements in the future. However, the general impacts of accounting changes on the financial statements that will arise from K-IFRS No. 1109 are as follows:

i) Classification and measurement of financial assets

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

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

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

(*2) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option.

(26) Standards issued but not yet effective, Continued

(1) K-IFRS 1109, *Financial Instruments*, Continued

i) Classification and measurement of financial assets, Continued

As new classification requirements for financial assets under K-IFRS No. 1109 are more stringent than requirements under K-IFRS No. 1039, the adoption of the new standard may result in increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Group. As of December 31, 2016, the Group's financial assets consist of ₩5,937,507 million of loans and receivables, ₩935,885 million of available-for-sale financial assets, and ₩7,368 million of financial assets at fair value through profit or loss.

A financial asset is measured at amortized cost under K-IFRS No. 1109 if the asset is held by the Group to collect its contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2016, the Group has ₩5,937,507 million of loans and receivables measured at amortized cost.

A financial asset is measured at fair value through other comprehensive income under K-IFRS No. 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2016, the Group has ₩6,755 million of available-for-sale financial assets.

Under K-IFRS No. 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2016, the Group has ₩929,130 million of available-for-sale equity instruments; and unrealized valuation gain from available-for-sale equity instruments amounting to ₩347,722 million is recycled from OCI to profit or loss.

All other financial assets are measured at FVTPL. As of December 31, 2016, the Group has ₩7,359 million of debt instrument designated as FVTPL using the fair value option.

ii) Classification and measurement of financial liabilities

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

Adoption of K-IFRS 1109 might result in decrease in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability is presented in OCI.

As of December 31, 2016, the Group has financial liabilities designated as FVTPL using fair value option amounting to ₩59,600 million out of the total financial liability amount of ₩9,918,433 million. Changes in fair value on financial liabilities designated as FVTPL using fair value option amounting to ₩4,108 million has recognized as loss during the year ended December 31, 2016.

(26) Standards issued but not yet effective, Continued

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

iii) Impairment: financial assets and contract assets

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

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

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

(*1) Under K-IFRS No. 1115, for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under K-IFRS No. 1115, the Group may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Group may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.

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

K-IFRS No. 1109 allows the Group to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date. As of December 31, 2016, the Group has ₩5,937,507 million of debt instrument financial assets measured at amortized cost and ₩369,332 million as loss allowances for these assets.

(26) Standards issued but not yet effective, Continued

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

iv) Hedge accounting

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

By complying with the hedging rules in K-IFRS No. 1109, the Group may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS No. 1039 thereby reducing volatility in profit or loss. As of December 31, 2016, the Group has recognized the total amount of ₩2,782,026 million as hedged liabilities that applies hedge accounting and changes in fair value of cash flow hedge has been recognized in OCI in the amount of ₩125,393 million.

When initially applying K-IFRS No. 1109, the Group may choose as its accounting policy to continue to apply hedge accounting requirements under K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109.

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

K-IFRS No. 1115, *Revenue from Contracts with Customers*, published on November 6, 2015 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRIC No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRIC No. 2113, *Customer Loyalty Programmes*, K-IFRIC No. 2115, *Agreements for the Construction of Real Estate*, and K-IFRIC No. 2118, *Transfers of Assets from Customers*. The Group plans to apply K-IFRS No. 1115 initially on January 1, 2018. In accordance with the requirements in K-IFRS No. 1008, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Group is considering the adoption of K-IFRS No. 1115 in its financial statements for the year ending December 31, 2018 using the retrospective approach.

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

identification of the contract with a customer;

identification of the performance obligations in the contract;

determination of the transaction price;

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

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

As of December 31, 2016, the Group has not yet updated its accounting process and internal controls related to revenue recognition.

(26) Standards issued but not yet effective, Continued

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

The Group plans to assess the financial impact on its financial statements resulting from the adoption of K-IFRS No. 1115 by December 31, 2017 and disclose the result in its financial statements for the year ending December 31, 2017. The impact of accounting changes on its financial statements that may arise from the adoption of K-IFRS No. 1115 is expected to include the following:

i) Identification of the separate performance obligations in the contract

The Group provides wireless telecommunications services and most of the Group's revenues are generated from these services. K-IFRS No. 1115 requires the Group to evaluate goods or services promised to customers to determine if they are performance obligations other than wireless telecommunications service that should be accounted for separately. The amount and timing of revenue recognition under K-IFRS No. 1105 may be different from those under K-IFRS No. 1018 depending on the conclusion over the existence of separately identifiable performance obligations and the timing of satisfying each performance obligation.

ii) Allocate the transaction price to the separate performance obligations

In accordance with K-IFRS No. 1115, the Group should allocate the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price. The Group plans to use adjusted market assessment method for estimating the stand-alone selling price. However, in some circumstances, expected cost plus a margin approach will be used.

iii) Incremental costs to acquire a contract

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

Under K-IFRS 1115, incremental costs to acquire a contract and certain costs to fulfill a contract are capitalized and amortized over the period the goods and services are delivered. However, as a practical expedient, the Group plans to expense the incremental cost as incurred if the amortization period of the contract acquisition and fulfillment cost is considered less than one year.

SK TELECOM CO., LTD.

Separate Financial Statements

December 31, 2016 and 2015

SK TELECOM CO., LTD.

Separate Statements of Financial Position, Continued

As of December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | December 31, 2016 | December 31, 2015 |
|--|---------------|------------------------------|------------------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | 28,29 | ₩ 874,350 | 431,666 |
| Short-term financial instruments | 4,28,29 | 95,000 | 121,500 |
| Short-term investment securities | 6,28,29 | 97,340 | 92,262 |
| Accounts receivable - trade, net | 5,28,29,30 | 1,594,504 | 1,528,751 |
| Short-term loans, net | 5,28,29,30 | 54,143 | 47,741 |
| Accounts receivable - other, net | 5,28,29,30,33 | 772,570 | 264,741 |
| Prepaid expenses | | 107,989 | 92,220 |
| Inventories, net | | 32,479 | 45,991 |
| Advanced payments and other | 5,28,29 | 32,740 | 88,657 |
| Total Current Assets | | 3,661,115 | 2,713,529 |
| Non-Current Assets: | | | |
| Long-term financial instruments | 4,28,29 | 102 | 10,062 |
| Long-term investment securities | 6,28,29 | 560,966 | 726,505 |
| Investments in subsidiaries, associates and joint ventures | 7 | 8,726,538 | 8,810,548 |
| Property and equipment, net | 8,30 | 7,298,539 | 7,442,280 |
| Goodwill | 9 | 1,306,236 | 1,306,236 |
| Intangible assets, net | 10 | 3,275,663 | 1,766,069 |
| Long-term loans, net | 5,28,29,30 | 11,160 | 35,080 |
| Long-term accounts receivable - other | 5,28,29,30,33 | 147,139 | |
| Long-term prepaid expenses | | 27,918 | 29,802 |
| Guarantee deposits | 5,28,29,30 | 173,287 | 166,656 |
| Long-term derivative financial assets | 15,28,29 | 176,465 | 139,923 |
| Deferred tax assets | 25 | 58,410 | |
| Defined benefit assets | 14 | 24,787 | |
| Other non-current assets | | 249 | 250 |
| Total Non-Current Assets | | 21,787,459 | 20,433,411 |
| Total Assets | | ₩ 25,448,574 | 23,146,940 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Financial Position, Continued

As of December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | December 31, 2016 | December 31, 2015 |
|---|-----------------|------------------------------|------------------------------|
| Liabilities and Shareholders Equity | | | |
| Current Liabilities: | | | |
| Short-term borrowings | <i>11,28,29</i> | ₩ | 230,000 |
| Current installments of long-term debt, net | <i>11,28,29</i> | 628,868 | 592,637 |
| Current installments of long-term payables - other | <i>12,28,29</i> | 301,773 | 120,185 |
| Accounts payable other | <i>28,29,30</i> | 1,546,252 | 927,170 |
| Withholdings | <i>28,29</i> | 642,582 | 607,690 |
| Accrued expenses | <i>28,29</i> | 663,918 | 540,770 |
| Income tax payable | <i>25</i> | 461,999 | 375,189 |
| Unearned revenue | | 1,360 | 10,014 |
| Derivative financial liabilities | <i>15,28,29</i> | 86,950 | |
| Provisions | <i>13</i> | 59,027 | 37,551 |
| Receipts in advance | | 71,431 | 50,100 |
| Total Current Liabilities | | 4,464,160 | 3,491,306 |
| Non-Current Liabilities: | | | |
| Debentures, excluding current installments, net | <i>11,28,29</i> | 4,991,067 | 5,033,495 |
| Long-term borrowings, excluding current installments, net | <i>11,28,29</i> | 61,416 | 72,554 |
| Long-term payables - other | <i>12,28,29</i> | 1,602,943 | 550,964 |
| Long-term unearned revenue | | 2,389 | 2,768 |
| Defined benefit liabilities | <i>14</i> | | 4,006 |
| Long-term derivative financial liabilities | <i>15,28,29</i> | | 89,296 |
| Long-term provisions | <i>13</i> | 21,493 | 20,055 |
| Deferred tax liabilities | <i>25</i> | | 56,274 |
| Other non-current liabilities | <i>28,29</i> | 48,152 | 46,762 |
| Total Non-Current Liabilities | | 6,727,460 | 5,876,174 |
| Total Liabilities | | 11,191,620 | 9,367,480 |
| Shareholders Equity | | | |
| Share capital | <i>1,16</i> | 44,639 | 44,639 |
| Capital surplus and others | <i>16,17,18</i> | 371,481 | 369,446 |
| Retained earnings | <i>19,20</i> | 13,902,627 | 13,418,603 |
| Reserves | <i>21</i> | (61,793) | (53,228) |
| Total Shareholders Equity | | 14,256,954 | 13,779,460 |

| | | |
|--|---------------------|-------------------|
| Total Liabilities and Shareholders Equity | ₩ 25,448,574 | 23,146,940 |
|--|---------------------|-------------------|

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Income

For the years ended December 31, 2016 and 2015

| <i>(In millions of won except for per share data)</i> | <i>Note</i> | 2016 | 2015 |
|---|-------------|--------------------|------------------|
| Operating revenue: | 30 | | |
| Revenue | | ₩ 12,350,479 | 12,556,979 |
| Operating expenses: | 30 | | |
| Labor | | 634,754 | 694,666 |
| Commissions | | 4,716,555 | 5,102,723 |
| Depreciation and amortization | | 2,242,546 | 2,155,531 |
| Network interconnection | | 687,048 | 720,879 |
| Leased line | | 347,741 | 358,031 |
| Advertising | | 174,186 | 175,776 |
| Rent | | 424,929 | 403,317 |
| Cost of products that have been resold | | 502,770 | 462,256 |
| Others | 22 | 837,778 | 825,024 |
| | | 10,568,307 | 10,898,203 |
| Operating income | | 1,782,172 | 1,658,776 |
| Finance income | 24 | 323,563 | 246,394 |
| Finance costs | 24 | (261,393) | (314,191) |
| Other non-operating income | 23 | 54,288 | 15,277 |
| Other non-operating expenses | 23 | (200,771) | (132,993) |
| Loss on investments in associates and joint ventures, net | 7 | (135,077) | (3,819) |
| Profit before income tax | | 1,562,782 | 1,469,444 |
| Income tax expense | 25 | 345,508 | 362,683 |
| Profit for the year | | ₩ 1,217,274 | 1,106,761 |
| Earnings per share | 26 | | |
| Basic and diluted earnings per share (in won) | | ₩ 17,001 | 15,233 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | 2016 | 2015 |
|--|--------------|--------------------|------------------|
| Profit for the year | | ₩ 1,217,274 | 1,106,761 |
| Other comprehensive income (loss) | | | |
| Items that will never be reclassified to profit or loss, net of taxes: | | | |
| Remeasurement of defined benefit liabilities | <i>14</i> | (10,319) | 386 |
| Items that are or may be reclassified subsequently to profit or loss, net of taxes: | | | |
| Net change in unrealized fair value of available-for-sale financial assets | <i>21</i> | 5,385 | (121,528) |
| Net change in unrealized fair value of derivatives | <i>15,21</i> | (13,950) | 1,402 |
| Other comprehensive loss for the year, net of taxes | | (18,884) | (119,740) |
| Total comprehensive income | | ₩ 1,198,390 | 987,021 |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

illions of

| | Share capital | Paid-in surplus | Capital surplus and others | | | | Sub-total | Retained earnings | Reserves | Total equity |
|-----------------------------------|---------------|-----------------|----------------------------|-------------------------------------|--------------|-----------|-----------|-------------------|-----------|--------------|
| | | | Treasury shares | Loss on disposal of treasury shares | Hybrid bonds | Other | | | | |
| Balance at January 1, | ₩ 44,639 | 2,915,887 | (2,139,683) | (18,087) | 398,518 | (722,741) | 433,894 | 12,996,790 | 66,898 | 13,542,000 |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | | | | | 1,106,761 | | 1,106,761 |
| Other comprehensive income (loss) | | | | | | | | 386 | (120,126) | (119,740) |
| | | | | | | | | 1,107,147 | (120,126) | 987,021 |
| Transactions with owners: | | | | | | | | | | |
| Dividends | | | | | | | | (668,494) | | (668,494) |
| Acquisition of treasury shares | | | (490,192) | | | | (490,192) | | | (490,192) |
| Disposal of treasury shares | | | 369,249 | 18,087 | | 38,408 | 425,744 | | | 425,744 |
| Interest on hybrid bonds | | | | | | | | (16,840) | | (16,840) |
| | | | (120,943) | 18,087 | | 38,408 | (64,448) | (685,334) | | (749,727) |
| Balance at December 31, | ₩ 44,639 | 2,915,887 | (2,260,626) | | 398,518 | (684,333) | 369,446 | 13,418,603 | (53,228) | 13,779,000 |
| Balance at January 1, | ₩ 44,639 | 2,915,887 | (2,260,626) | | 398,518 | (684,333) | 369,446 | 13,418,603 | (53,228) | 13,779,000 |

Comprehensive

| | | | | | | | | | |
|------------|---|--------|-----------|-------------|--|---------|-----------|-----------|------------|
| ne: | | | | | | | | | |
| t for the | | | | | | | | 1,217,274 | 1,217, |
| r | | | | | | | | | |
| prehensive | | | | | | | | (10,319) | (8,565) |
| | | | | | | | | | (18, |
| | | | | | | | | 1,206,955 | (8,565) |
| | | | | | | | | | 1,198, |
| sactions | | | | | | | | | |
| owners: | | | | | | | | | |
| dividends | | | | | | | | (706,091) | (706, |
| ness | | | | | | | | | |
| ination | | | | | | | | | |
| r common | | | | | | | | | |
| ol | | | | | | 2,035 | 2,035 | | 2, |
| est on | | | | | | | | (16,840) | (16, |
| d bonds | | | | | | | | | (16, |
| | | | | | | 2,035 | 2,035 | (722,931) | (720, |
| nce at | | | | | | | | | |
| mber 31, | | | | | | | | | |
| | ₩ | 44,639 | 2,915,887 | (2,260,626) | | 398,518 | (682,298) | 371,481 | 13,902,627 |
| | | | | | | | | (61,793) | 14,256, |

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Cash Flows

For the years ended December 31, 2016 and 2015

| <i>(In millions of won)</i> | <i>Note</i> | 2016 | 2015 |
|---|-------------|------------------|------------------|
| Cash flows from operating activities: | | | |
| Cash generated from operating activities | | | |
| Profit for the year | ₩ | 1,217,274 | 1,106,761 |
| Adjustments for income and expenses | 32 | 2,931,278 | 2,811,718 |
| Changes in assets and liabilities related to operating activities | 32 | (143,263) | (699,106) |
| Sub-total | | 4,005,289 | 3,219,373 |
| Interest received | | 23,014 | 18,786 |
| Dividends received | | 113,955 | 59,462 |
| Interest paid | | (199,332) | (221,309) |
| Income tax paid | | (367,354) | (129,183) |
| Net cash provided by operating activities | | 3,575,572 | 2,947,129 |
| Cash flows from investing activities: | | | |
| Cash inflows from investing activities: | | | |
| Decrease in short-term investment securities, net | | | 105,158 |
| Decrease in short-term financial instruments, net | | 36,500 | 21,500 |
| Collection of short-term loans | | 232,745 | 387,922 |
| Decrease in long-term financial instruments | | | 7 |
| Proceeds from disposals of long-term investment securities | | 336,669 | 22,106 |
| Proceeds from disposals of investments in subsidiaries, associates and joint ventures | | 1,063 | 185,557 |
| Increase in cash due to business combination | | 360 | |
| Proceeds from disposals of property and equipment | | 14,539 | 23,372 |
| Proceeds from disposals of intangible assets | | 7,689 | 343 |
| Sub-total | | 629,565 | 745,965 |
| Cash outflows for investing activities: | | | |
| Increase in short-term investment securities, net | | (6,335) | |
| Increase in short-term loans | | (237,197) | (364,687) |
| Increase in long-term financial instruments | | (40) | (10,000) |
| Acquisitions of long-term investment securities | | (19,501) | (296,254) |
| Acquisitions of investments in subsidiaries, associates and joint ventures | | (87,088) | (306,382) |
| Acquisitions of property and equipment | | (1,674,027) | (1,752,804) |
| Acquisitions of intangible assets | | (580,219) | (77,830) |
| Increase in other non-current assets, net | | | (190) |
| Sub-total | | (2,604,407) | (2,808,147) |

| | | |
|--|----------------------|--------------------|
| Net cash used in investing activities | ₩ (1,974,842) | (2,062,182) |
|--|----------------------|--------------------|

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.

Separate Statements of Cash Flows, Continued

For the years ended December 31, 2016 and 2015

| <i>(In millions of won)</i> | 2016 | 2015 |
|---|--------------------|------------------|
| Cash flows from financing activities: | | |
| Cash inflows from financing activities: | | |
| Increase in short-term borrowings, net | ₩ | 30,000 |
| Proceeds from issuance of debentures | 607,474 | 897,029 |
| Cash inflows from settlement of derivatives | 251 | 175 |
| Sub-total | 607,725 | 927,204 |
| Cash outflows for financing activities: | | |
| Decrease in short-term borrowings, net | (230,000) | |
| Repayments of long-term borrowings | (12,814) | (12,814) |
| Repayments of long-term accounts payable - other | (120,718) | (190,134) |
| Repayments of debentures | (680,000) | (250,000) |
| Payments of cash dividends | (706,091) | (668,494) |
| Payments of interest on hybrid bonds | (16,840) | (16,840) |
| Acquisitions of treasury shares | | (490,192) |
| Cash outflows from settlement of derivatives | | (150) |
| Sub-total | (1,766,463) | (1,628,624) |
| Net cash used in financing activities | (1,158,738) | (701,420) |
| Net increase in cash and cash equivalents | 441,992 | 183,527 |
| Cash and cash equivalents at beginning of the year | 431,666 | 248,311 |
| Effects of exchange rate changes on cash and cash equivalents | 692 | (172) |
| Cash and cash equivalents at end of the year | ₩ 874,350 | 431,666 |

See accompanying notes to the separate financial statements.

1. Reporting Entity

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

The Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2016, the Company's total issued shares are held by the following shareholders:

| | Number of shares | Percentage of total shares issued (%) |
|--|---------------------|--|
| SK Holdings Co., Ltd. | 20,363,452 | 25.22 |
| National Pension Service | 7,159,704 | 8.87 |
| Institutional investors and other minority stockholders | 43,086,004 | 53.36 |
| Treasury shares | 10,136,551 | 12.55 |
| Total number of shares | 80,745,711 | 100.00 |

2. Basis of Presentation

(1) Statement of compliance

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

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

The separate financial statements were authorized for issuance by the Board of Directors on February 2, 2017, which will be submitted for approval at the shareholders' meeting to be held on March 24, 2017.

2. Basis of Presentation, Continued

(2) Basis of measurement

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

derivative financial instruments measured at fair value;

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

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

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

(3) Functional and presentation currency

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

(4) Use of estimates and judgments

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

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

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in Note 3 for the following areas: revenue and classification of lease.

2) Assumptions and estimation uncertainties

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

2. Basis of Presentation, Continued

(4) Use of estimates and judgments, Continued

3) Fair value measurement

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

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

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

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

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

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

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

Information about assumptions used for fair value measurements are included in Note 29.

3. Significant Accounting Policies

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

(1) Operating segments

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

3. Significant Accounting Policies, Continued

(2) Investments in subsidiaries and associates

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

(3) Business combinations under common control

SK Holdings Co., Ltd. is the ultimate controlling entity of the Company. The assets and liabilities acquired from the combination of entities or business 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.

(4) Cash and cash equivalents

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

(5) 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.

3. Significant Accounting Policies, Continued

(6) Non-derivative financial assets

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

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

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

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

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

3. Significant Accounting Policies, Continued

(6) Non-derivative financial assets, Continued

(v) De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

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

(7) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

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

3. Significant Accounting Policies, Continued

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

Cash flow hedge

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

(ii) Separable embedded derivatives

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

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

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

(iii) Other derivative financial instruments

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

3. Significant Accounting Policies, Continued

(8) Impairment of financial assets

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

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

significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

(i) Financial assets measured at amortized cost

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

3. Significant Accounting Policies, Continued

(8) Impairment of financial assets, Continued

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

(9) Property and equipment

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

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

3. Significant Accounting Policies, Continued

(9) Property and equipment, Continued

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

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

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

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

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

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

(10) Borrowing costs

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

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period do not exceed the amount of borrowing costs incurred during that period.

3. Significant Accounting Policies, Continued

(11) Intangible assets

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

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

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

| | Useful lives (years) |
|------------------------|----------------------|
| Frequency usage rights | 5 ~ 13.1 |
| Land usage rights | 5 |
| Industrial rights | 5, 10 |
| Development costs | 5 |
| Facility usage rights | 10, 20 |
| Other | 3 ~ 20 |

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

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

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

3. Significant Accounting Policies, Continued

(12) Government grants

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

(i) Grants related to assets

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

(ii) Grants related to income

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

(13) Impairment of non-financial assets

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

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

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

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

3. Significant Accounting Policies, Continued

(14) Leases

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

(iii) Determining whether an arrangement contains a lease

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

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

3. Significant Accounting Policies, Continued

(15) Non-current assets held for sale

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

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

(16) Non-derivative financial liabilities

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

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

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

(ii) Other financial liabilities

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

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

3. Significant Accounting Policies, Continued

(17) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined contribution plans

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

(iv) Retirement benefits: defined benefit plans

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

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

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

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

settlement of defined benefit plan occurs.

3. Significant Accounting Policies, Continued

(17) Employee benefits, Continued

(v) Termination benefits

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

(18) Provisions

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

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

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

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

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

(19) Transactions in foreign currencies

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

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

3. Significant Accounting Policies, Continued

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

(21) Hybrid bond

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

(22) Revenue

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

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

(i) Services rendered

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed. Revenues received for the activation of service are deferred and recognized over the average customer retention period.

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

(ii) Goods sold

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

3. Significant Accounting Policies, Continued

(22) Revenue, Continued

(iii) Customer loyalty programmes

For customer loyalty programmes, 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 programmes 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 redeemed and the Company performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

(23) Finance income and finance costs

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

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

3. Significant Accounting Policies, Continued

(24) Income taxes

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

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

(i) Current tax

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

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and 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.

(ii) Deferred tax

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

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

3. Significant Accounting Policies, Continued

(24) Income taxes, Continued

(ii) Deferred tax, Continued

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 that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

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

(25) Earnings per share

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

(26) Standards issued but not yet effective

The following new standards are effective for annual periods beginning after January 1, 2016 and earlier application is permitted; however, the Company has not early adopted the following new standards in preparing these financial statements.

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

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

Adoption of K-IFRS No. 1109 will generally be applied retrospectively, except for the following:

exemption allowing the Company not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes; and

Prospective application of new hedge accounting except for those specified in K-IFRS 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

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

3. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

(1) K-IFRS 1109, *Financial Instruments*, Continued

To ensure smooth implementation of K-IFRS No.1109, the Company needs to assess the financial impact of adopting K-IFRS No. 1109, to formulate the accounting policy, and to design, implement and stabilize the accounting system and related controls. The actual impact of adopting K-IFRS No. 1109 on the Company's financial statements in 2018 cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

The Company has not yet revised its accounting process and internal controls related to reporting financial instruments and will perform the assessment of the financial impact of adoption of K-IFRS No. 1109 on its financial statements in the future. However, the general impacts of accounting changes on the financial statements that will arise from K-IFRS No. 1109 are as follows:

i) Classification and measurement of financial assets

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

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

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

(*2) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option.

As new classification requirements for financial assets under K-IFRS No. 1109 are more stringent than requirements under K-IFRS No. 1039, the adoption of the new standard may result in increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Company. As of December 31, 2016, the Company's financial assets consist of ₩3,722,715 million of loans and receivables, ₩650,947 million of available-for-sale financial assets, and ₩14,727 million of financial assets at fair value through profit or loss.

3. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

(1) K-IFRS 1109, *Financial Instruments*, Continued

i) Classification and measurement of financial assets, Continued

A financial asset is measured at amortized cost under K-IFRS No. 1109 if the asset is held by the Company to collect its contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2016, the Company has ₩3,722,715 million of loans and receivables measured at amortized cost.

A financial asset is measured at fair value through other comprehensive income under K-IFRS No. 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2016, the Company has ₩2,930 million of available-for-sale financial assets.

Under K-IFRS No. 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss.

All other financial assets are measured at FVTPL. As of December 31, 2016, the Company has ₩7,359 million of debt instrument designated as FVTPL using the fair value option.

ii) Classification and measurement of financial liabilities

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

Adoption of K-IFRS 1109 might result in decrease in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability is presented in OCI.

As of December 31, 2016, the Company has financial liabilities designated as FVTPL using fair value option amounting to ₩59,600 million out of the total financial liability amount of ₩9,918,433 million. Changes in fair value on financial liabilities designated as FVTPL using fair value option amounting to ₩4,108 million has recognized as loss during the year ended December 31, 2016.

3. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

iii) Impairment: financial assets and contract assets

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

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

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

(*1) Under K-IFRS No. 1115, for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under K-IFRS No. 1115, the Company may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Company may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.

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

K-IFRS No. 1109 allows the Company to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date. As of December 31, 2016, the Company has ₩3,722,715 million of debt instrument financial assets measured at amortized cost and ₩218,827 million as loss allowances for these assets.

3. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

iv) Hedge accounting

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

By complying with the hedging rules in K-IFRS No. 1109, the Company may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS No. 1039 thereby reducing volatility in profit or loss. As of December 31, 2016, the Company has recognized the total amount of ₩2,372,464 million as hedged liabilities that applies hedge accounting and changes in fair value of cash flow hedge has been recognized in OCI in the amount of ₩119,732 million.

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

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

K-IFRS No. 1115, *Revenue from Contracts with Customers*, published on November 6, 2015 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRIC No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRIC No. 2113, *Customer Loyalty Programmes*, K-IFRIC No. 2115, *Agreements for the Construction of Real Estate*, and K-IFRIC No. 2118, *Transfers of Assets from Customers*. The Company plans to apply K-IFRS No. 1115 initially on January 1, 2018. In accordance with the requirements in K-IFRS No. 1008, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Company is considering the adoption of K-IFRS No. 1115 in its financial statements for the year ending December 31, 2018 using the retrospective approach.

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

identification of the contract with a customer;

identification of the performance obligations in the contract;

determination of the transaction price;

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

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

As of December 31, 2016, the Company has not yet updated its accounting process and internal controls related to revenue recognition.

3. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

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

The Company plans to assess the financial impact on its financial statements resulting from the adoption of K-IFRS No. 1115 by December 31, 2017 and disclose the result in its financial statements for the year ending December 31, 2017. The impact of accounting changes on its financial statements that may arise from the adoption of K-IFRS No. 1115 is expected to include the following:

i) Identification of the separate performance obligations in the contract

The Company provides wireless telecommunications services and most of the Company's revenues are generated from these services. K-IFRS No. 1115 requires the Company to evaluate goods or services promised to customers to determine if they are performance obligations other than wireless telecommunications service that should be accounted for separately. The amount and timing of revenue recognition under K-IFRS No. 1105 may be different from those under K-IFRS No. 1018 depending on the conclusion over the existence of separately identifiable performance obligations and the timing of satisfying each performance obligation.

ii) Allocate the transaction price to the separate performance obligations

In accordance with K-IFRS No. 1115, the Company should allocate the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price. The Company plans to use adjusted market assessment method for estimating the stand-alone selling price. However, in some circumstances, expected cost plus a margin approach will be used.

iii) Incremental costs to acquire a contract

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

Under K-IFRS 1115, incremental costs to acquire a contract and certain costs to fulfill a contract are capitalized and amortized over the period the goods and services are delivered. However, as a practical expedient, the Company plans to expense the incremental cost as incurred if the amortization period of the contract acquisition and fulfillment cost is considered less than one year.

Disclaimer:

The consolidated and separate financial statements included above have not yet been audited and remain subject to the audit process of the Company's independent auditors. For the Company's audited consolidated and separate financial statements as of and for the years ended December 31, 2015 and 2016 and the respective accompanying notes, please refer to the Company's future filings with the U.S. Securities and Exchange Commission, including its annual report to be filed on Form 20-F and the Company's annual business report to be furnished on Form 6-K.

2. Amendments to the Articles of Incorporation

The proposed amendments are as follows:

| Current | Proposed Amendment | Remarks |
|--|---|--|
| <p>The Company will survive in the rapidly changing world and continue to improve and develop to endure long-term benefits for its shareholders. For this purpose, the Company will establish its management philosophy as follows and carry out its management activities based thereon.</p> | <p>The Company will survive in the rapidly changing world and continue to improve and develop to endure long-term benefits for its shareholders. For this purpose, the Company will establish its management philosophy as follows and carry out its management activities based thereon.</p> | <p>Amended with focus on the happiness of stakeholders while succeeding the existing management philosophy of SKMS(SK Management System)</p> |
| <p>[Corporate View]</p> | <p>The Company will keep its stability and growth to continue to prosper and develop, through which the Company will create its value for its customers, members and shareholders, play a key role in the social and economic development and contribute to the happiness of human being.</p> | |
| <p>The Company will keep its stability and growth to continue to prosper and develop, through which the Company will create its value for its customers, members and shareholders, play a key role in the social and economic development and contribute to the happiness of human being.</p> | <p>The Company will continue to satisfy its customers, obtain trust from them and ultimately develop together with the customers.</p> | |
| <p>[Social Values]</p> | <p>The Company will <u>ensure that its members develop with a sense of achievement in their work</u> and the members will contribute to the corporate development while they work for the Company.</p> | |
| <p>The Company will continue to satisfy its customers, obtain trust from them and ultimately develop together with the customers. The Company will arrange environments to allow its members to voluntarily and enthusiastically engage in its activities and the members will contribute to the corporate development while they work for the Company. The Company will heighten its values to create values for its shareholders and for this purpose, the Company will secure transparency and effectiveness in its management practices. The Company will contribute to the society through social and cultural activities as well as to the economic development and will do its best to manage the Company in compliance with the social norms and</p> | <p>The Company will <u>continue to increase its value so as to continuously create value</u> for its shareholders.</p> | |
| | <p>The Company will <u>grow along with the community through the creation of social values in addition to facilitating economic</u></p> | |

prosperity.

The Company will make an effort to find a balance between the happiness of stakeholders and consider this in both the present and the future to remain sustainable over the long-term **(amended on March 24, 2017).**

Article 10-3. Stock Option

(4) The number of officers and employees to be granted with Stock Option shall not exceed 50% of the total number of officers and employees. The Stock Option that can be granted to each person shall not exceed 1/5000 of total issued and outstanding shares (amended on March 17, 2000).

<Newly established>

Article 10-3. Stock Option

(4) The number of officers and employees to be granted with Stock Option shall not exceed 50% of the total number of officers and employees. The Stock Option that can be granted to each person shall not exceed **1/100** of total issued and outstanding shares **(amended on March 24, 2017).**

Addendum No. 26 (as of March 24, 2017)

Article 1. Date of Effectiveness These Articles of Incorporation shall take effect as of March 24, 2017.

Intended to change the upper limit of Stock Option to be granted to an officer or employee

-

3. Approval of the Appointment of Directors

(1) Candidate for Executive Director(Park, Jung Ho)

| Name | Term | Profile | Remarks |
|----------------------|---------|---|-------------|
| Park, Jung Ho | 3 years | Education | |
| | | B.A., Korea University(Business Administration) ('88) | |
| | | M.B.A., George Washington University | |
| | | Career | New |
| | | President, SK Telecom Co., Ltd.('17 ~ Present) | Appointment |
| | | CEO(C&C), SK Holdings Co., Ltd. ('15~ '16) | |
| | | Head of Corporate Development Office, SK C&C Co., Ltd.('13~ '14) | |
| | | Head of Business Development Office, SK Telecom Co., Ltd ('12) | |

(2) Candidate for Non-Executive Director(Cho, Dae Sik)

| Name | Term | Profile | Remarks |
|---------------------|---------|-------------------------------------|----------|
| Cho, Dae Sik | 3 years | Education | |
| | | B.A. In Sociology, Korea University | |
| | | M.B.A. Clark University | Current |
| | | Career | Director |

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Chairman, SK SUPEX Council(17~Present)

CEO, SK Holdings Co., Ltd. (13 ~ Present)

CFO, Head of Finance Division and Risk Mgmt. & Corporate Auditing
Office, SK Holdings(12)

(3) Candidate for an Independent Non-Executive Director(Lee, Jae Hoon)

| Name | Term | Profile | Remarks |
|--|---------|---|---------------------|
| Lee, Jae Hoon | 3 years | Education | Current Director |
| | | Bachelor in Economics, Seoul National University('78) | |
| | | MS in Applied Economics, University of Michigan at Ann Arbor('87) | |
| | | Ph.D. in Public Administration, Sungkyunkwan University('02) | |
| | | Career | |
| | | Assistant Minister, Ministry of Commerce, Industry and Energy('07) | |
| | | Vice Minister, Ministry of Commerce, Industry and Energy('07~ '08) | |
| Vice Minister, Ministry of Knowledge Economy ('08~ '09) | | | |
| President, Korea Polytechnic University('14~Present) | | | |

(4) Candidate for an Independent Non-Executive Director(Ahn, Jae Hyeon)

| Name | Term | Profile | Remarks |
|------|------|--|---------|
| | | Education | |
| | | Bachelor of Science in Industrial Engineering, Seoul National University('78) | |
| | | Master of Science in Industrial Engineering, Seoul National University('87) | |
| | | Ph.D. in Decision Analysis, Stanford University('02) | |

Career

Senior Technical Staff Member, AT&T Bell Labs(93~ 98)

President, Korea Media Management Association(11)

Dean, College of Information and Media Management, KAIST(11~ 13)

Vice President, College of Business, KAIST(13~ 15)

Professor, Advanced Innovative Management Program,
KAIST(15~Present)

(5) Candidate for an Independent Non-Executive Director(Ahn, Jung Ho)

| Name | Term | Profile | Remarks |
|---|---------|---------|-------------|
| Education | | | |
| Bachelor in Electrical Engineering, Seoul National University(00) | | | |
| Bachelor in Electrical Engineering, Stanford University(02) | | | |
| Ph.D. in Electrical Engineering, Stanford University(07) | | | |
| Career | | | |
| Ahn, Jung Ho | 3 years | | New |
| Senior Research Scientist, Exascale Computing Lab, HP Labs(07~ 09) | | | Appointment |
| Visiting Scholar, Google Inc.(16) | | | |
| Assistant Professor, Graduate School of Convergence Science and Technology, Seoul National University (09 ~ 13) | | | |
| Associate Professor, Graduate School of Convergence Science and Technology, Seoul National University (13 ~ Present) | | | |

4. Approval of the Election of Members of the Audit Committee

(1) Candidate for an Audit Committee Member(Lee, Jae Hoon)

| Name | Term | Profile | Remarks |
|----------------------|---------|---|----------|
| Lee, Jae Hoon | 3 years | Education | Current |
| | | Bachelor in Economics, Seoul National University('78) | Director |
| | | MS in Applied Economics, University of Michigan at Ann Arbor('87) | |
| | | Ph.D. in Public Administration, Sungkyunkwan University('02) | |
| | | Career | |
| | | Assistant Minister, Ministry of Commerce, Industry and Energy('07) | |
| | | Vice Minister, Ministry of Commerce, Industry and Energy('07~ '08) | |
| | | Vice Minister, Ministry of Knowledge Economy ('08~ '09) | |
| | | President, Korea Polytechnic University('14~Present) | |

(2) Candidate for an Audit Committee Member(Ahn, Jae Hyeon)

| Name | Term | Profile | Remarks |
|------|------|--|---------|
| | | Education | |
| | | Bachelor of Science in Industrial Engineering, Seoul National University('78) | |

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Master of Science in Industrial Engineering, Seoul National University(87)

Ph.D. in Decision Analysis, Stanford University(02)

Career

Senior Technical Staff Member, AT&T Bell Labs(93~ 98)

President, Korea Media Management Association(11)

Dean, College of Information and Media Management, KAIST(11~ 13)

Vice President, College of Business, KAIST(13~ 15)

Professor, Advanced Innovative Management Program,
KAIST(15~Present)

5. Approval of Ceiling Amount of the Remuneration of Directors

The number of directors and total amount and maximum authorized amount of compensation of directors are as follows:

| | Fiscal year 2016 | Fiscal year 2017 |
|---|-------------------------|-------------------------|
| Number of directors | | |
| (Number of independent non-executive directors) | 6 persons (4 persons) | 6 persons (4 persons) |
| Total amount and maximum authorized amount of compensation of directors | Won 12 billion | Won 12 billion |

6. Stock Option Grant

In order to align the interests of the management and stakeholders in increasing the value of the company, the company will grant stock options as part of the management remuneration package

Structure

Recipient : Park, Jung Ho

Share Type : Common Share (treasury shares)

Grant Date : March 24, 2017

Number of Shares : 66,504 shares

Exercise Price : To be recalculated from the actual price¹⁾ on the grant date

- 1) Arithmetic mean of volume weighted average closing prices from the following periods prior to the grant date: two months, one month, one week

| | | 22,168 shares | 22,168 shares | 22,168 shares |
|-----------------|--------|----------------------|-----------------------|--------------------------------------|
| Exercise Period | Starts | March 25, 2019 | March 25, 2020 | March 25, 2021 |
| | Ends | March 24, 2022 | March 24, 2023 | March 24, 2024 |
| Exercise Price | | Exercise price | Exercise price x 1.08 | Exercise price x (1.08) ² |

Forward-Looking Statement Disclaimer

The material above contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results or performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. We do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein, and nothing contained herein is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Additional information concerning these and other risk factors are contained in our latest annual report on Form 20-F and in our other filings with the U.S. Securities and Exchange Commission.

SIGNATURES

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

SK TELECOM Co., LTD.
(Registrant)

By: /s/ Lee, Sunhyung
(Signature)
Name: Lee, Sunhyung
Title: Senior Vice President

Date: February 27, 2017