SK TELECOM CO LTD
Form 6-K
March 25, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF MARCH 2019

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)

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):

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Submission of Audit Report

1. Name of External Auditor	KPMG Samjong Accounting Corporation	
2. Date of Receiving External Audit Report	March 11, 2019	
3. Auditor s Opinion on Seperate Financial Statements	FY2018	FY2017
	Unqualified	Unqualified
4. Financial Highlights of Seperate Financial Statements (KRW)		
- Total Assets	28,848,023,467,304	25,557,521,520,546
- Total Liabilities	11,960,536,543,326	10,550,130,194,227
- Total Shareholders Equity	16,887,486,923,978	15,007,391,326,319
- Capital Stock	44,639,473,000	44,639,473,000
- Total Shareholder s Equity / Capital Stock Ratio(%)	37,830.8	33,619.1
- Operating Revenue	11,705,638,546,115	12,468,034,993,132
- Operating Profit	1,307,494,276,778	1,697,709,027,091
- Profit before Income Tax	1,221,244,645,982	1,603,807,975,455
- Profit for the Year	933,902,416,151	1,331,114,092,010

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SK TELECOM CO., LTD.

Separate Financial Statements

December 31, 2018 and 2017

(With Independent Auditors   Report Thereon)

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Independent Auditors Report

Based on a report originally issued in Korean

To the Board of Directors and Shareholders of

SK Telecom Co., Ltd.:

Opinion

We have audited the accompanying separate financial statements of SK Telecom Co., Ltd. (the Company) which comprise the separate statements of financial position as of December 31, 2018 and 2017, and the separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2018 and 2017, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards (K-IFRS).

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Accuracy of Revenue

As described in notes 3 and 4 of the separate financial statements, the Company has initially adopted K-IFRS No.1115, *Revenue from Contracts with Customers* (K-IFRS No. 1115), from January 1, 2018 and the Company has taken an exemption not to restate the separate financial statements as of and for the year ended December 31, 2017, presented for comparative purposes, in accordance with transition requirements of the standards. The financial impacts of adopting K-IFRS No. 1115 are discussed in note 3.

The Company s revenue recognition is based on data from complex information technology systems as the Company provides a variety of telecommunications services at various rate plans to numerous subscribers which involves high volume of transactions with subscribers. Therefore, we have identified the accuracy of revenue recognition in the

Company s cellular telecommunications service as a key audit matter due to the complexity of IT systems involved and management judgments involved in the application of the new revenue recognition standard.

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The primary procedures we performed to address this key audit matter included:

Testing certain internal controls relating to the Company s revenue recognition process, including evaluation of the environment of the IT systems supporting the accounting for revenue, including data records, rating and invoicing systems.

Testing the reconciliation of the Company s revenue among rating system, billing system and the general ledger.

Inspecting a sample of contracts with subscribers to assess the Company s revenue recognition policies upon initial adoption of K-IFRS No. 1115 based on the terms and conditions as set out in the contracts, with reference to the requirements of the relevant accounting standards.

2. Recognition of Incremental Costs of Obtaining a Contract

As described in notes 3 and 7 of the separate financial statements, the Company incurs costs, such as commissions to retails stores and authorized dealers based on the number of subscribers retained and newly obtained. Costs that would not have been paid if there had been no binding new or renewed contracts with subscribers are capitalized and amortized over the estimated service periods. As of December 31, 2018, capitalized costs to obtain contracts amount to ₩2,298,542 million.

Determination of whether certain costs of obtaining a contract could be capitalized as well as the amortization period involves a number of key judgments made by the Company and the incremental costs of obtaining contracts are significant in the Company s separate financial statements. Therefore we have identified the recognition of incremental costs of obtaining contracts as a key audit matter.

The primary procedures we performed to address this key audit matter included:

Testing certain controls relating to the Company s process to account for incremental costs of obtaining a contracts.

Obtaining an understanding of the marketing programs communicated to retail stores and authorized dealers and assessing the Company s determination of whether the costs should be capitalized with reference to the requirements of the relevant accounting standards. In addition, on a sample basis, we also compared the capitalized costs with payments to retail stores and authorized dealers.

Testing the mathematical accuracy of the cumulative effect of initially applying K-IFRS No. 1115 in relation to the incremental costs of obtaining contracts as of January 1, 2018 by performing recalculation.

Assessing the estimated service periods that are used in amortizing the capitalized incremental costs of obtaining contracts by testing the completeness and accuracy of data used in the analysis, and by comparing the data used in estimating the estimated service periods with the Company s historical subscriber churn rates and publicly available statistical data.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Company s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company s financial reporting process.

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Auditors Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements as of and for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors report is Sang Hyun Han.

Other Matter

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

KPMG Samjong Accounting Corp.

Seoul, Korea

February 28, 2019

This report is effective as of February 28, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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SK TELECOM CO., LTD.

Separate Statements of Financial Position

As of December 31, 2018 and December 31, 2017

(In millions of won)	*Note*	December 31, 2018	December 31, 2017
Assets			
Current Assets:			
Cash and cash equivalents	*3,33,34*	₩ 877,823	880,583
Short-term financial instruments	*3,5,33,34*	99,000	94,000
Short-term investment securities	*3,9,33,34*	47,849	47,383
Accounts receivable - trade, net	*3,6,33,34,35*	1,354,260	1,520,209
Short-term loans, net	*3,6,33,34,35*	54,336	54,403
Accounts receivable - other, net	*3,6,33,34,35,37*	518,451	1,003,509
Contract assets	*3,8*	1,689	
Prepaid expenses	*3,7*	1,688,234	121,121
Inventories, net		22,079	29,837
Advanced payments and others	*3,6,33,34*	15,657	17,053
		4,679,378	**3,768,098**
Non-Current Assets:			
Long-term financial instruments	*3,5,33,34*	382	382
Long-term investment securities	*3,9,33,34*	410,672	724,603
Investments in subsidiaries, associates and joint ventures	*10*	10,188,914	9,152,321
Property and equipment, net	*11,35*	6,943,490	6,923,133
Goodwill	*12*	1,306,236	1,306,236
Intangible assets, net	*13*	4,010,864	3,089,545
Long-term loans, net	*3,6,33,34,35*	7,236	7,512
Long-term accounts receivable - other	*3,6,33,34,37*	274,053	285,118
Long-term contract assets	*3,8*	5,842	
Long-term prepaid expenses	*3,7*	753,181	25,169
Guarantee deposits	*3,6,33,34,35*	184,887	173,513
Long-term derivative financial assets	*3,18,33,34*	50,805	30,608
Deferred tax assets	*3,30*		30,953
Defined benefit assets	*17*	31,834	40,082
Other non-current assets		249	249
		24,168,645	**21,789,424**
		₩ 28,848,023	**25,557,522**

See accompanying notes to the separate financial statements.

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SK TELECOM CO., LTD.

Separate Statements of Financial Position, Continued

As of December 31, 2018 and December 31, 2017

(In millions of won)	*Note*	**December 31, 2018**	**December 31, 2017**
Liabilities and Shareholders Equity			
Current Liabilities:			
Accounts payable other	*33,34,35*	₩ 1,622,744	1,664,054
Receipts in advance	*3*		76,126
Contract liabilities	*3,8*	46,075	
Withholdings	*3,33,34*	696,790	517,991
Accrued expenses	*33,34*	664,286	790,368
Income tax payable	*30*	162,609	206,060
Unearned revenue	*3*		3,705
Derivative financial liabilities	*18,33,34*		27,791
Provisions	*16*	49,303	48,508
Current installments of long-term debt, net	*14,33,34*	512,377	1,131,047
Current installments of long-term payables - other	*15,33,34*	423,884	301,751
		4,178,068	**4,767,401**
Non-Current Liabilities:			
Debentures, excluding current installments, net	*14,33,34*	5,222,865	4,334,848
Long-term borrowings, excluding current installments, net	*14,33,34*	31,764	42,486
Long-term payables - other	*15,33,34*	1,939,082	1,328,630
Long-term contract liabilities	*3,8*	8,358	
Long-term unearned revenue	*3*		7,033
Long-term derivative financial liabilities	*18,33,34*	1,107	10,719
Long-term provisions	*16*	12,483	16,178
Deferred tax liabilities	*3,30*	523,732	
Other non-current liabilities	*33,34*	43,077	42,836
		7,782,468	**5,782,730**
Total Liabilities		**11,960,536**	**10,550,131**
Shareholders Equity:			
Share capital	*1,19*	44,639	44,639
Capital surplus and others	*19,20,21,22*	415,324	371,895
Retained earnings	*23,24*	16,467,789	14,512,556
Reserves	*25*	(40,265)	78,301
Total Shareholders Equity		**16,887,487**	**15,007,391**

	₩ 28,848,023	**25,557,522**

See accompanying notes to the separate financial statements.

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SK TELECOM CO., LTD.

Separate Statements of Income

For the years ended December 31, 2018 and 2017

(In millions of won)	*Note*	2018	2017
Operating revenue:	*3,26,35*		
Revenue		₩ 11,705,639	12,468,035
Operating expenses:	*35*		
Labor		684,777	624,900
Commissions	*3,7*	4,454,763	4,864,463
Depreciation and amortization		2,324,509	2,370,192
Network interconnection		606,452	628,610
Leased lines		276,699	290,324
Advertising		169,003	150,361
Rent		445,122	435,170
Cost of goods sold		500,119	515,013
Others	*27*	936,701	891,293
		10,398,145	10,770,326
Operating profit		**1,307,494**	**1,697,709**
Finance income	*29*	279,059	188,025
Finance costs	*29*	(255,455)	(274,098)
Other non-operating income	*28*	41,265	18,471
Other non-operating expenses	*28*	(149,817)	(165,783)
Profit (loss) on investments in subsidiaries, associates and joint ventures, net	*10*	(1,302)	139,484
Profit before income tax		**1,221,244**	**1,603,808**
Income tax expense	*30*	287,342	272,694
Profit for the year		₩ 933,902	**1,331,114**
Earnings per share:	*31*		
Basic and diluted earnings per share (in won)		₩ 13,000	18,613

See accompanying notes to the separate financial statements.

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SK TELECOM CO., LTD.

Separate Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(In millions of won)	*Note*	2018	2017
Profit for the year		**₩ 933,902**	**1,331,114**
Other comprehensive income (loss):			
Items that will never be reclassified to profit or loss, net of taxes:			
Remeasurement of defined benefit liabilities	*17*	(16,354)	1,746
Valuation loss on financial assets at fair value through other comprehensive income	*25,29*	(102,454)	
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	*25,29*		119,910
Net change in unrealized fair value of derivatives	*18,25*	28,260	20,184
Other comprehensive income (loss) for the year, net of taxes		**(90,548)**	**141,840**
Total comprehensive income		**₩ 843,354**	**1,472,954**

See accompanying notes to the separate financial statements.

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SK TELECOM CO., LTD.

Separate Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

f won)

			Capital surplus and others							
	Note	**Share capital**	**Paid-in surplus**	**Treasury shares**	**Hybrid bonds**	**Share options**	**Other**	**Sub-total**	**Retained earnings**	**Reserves**
017		**₩ 44,639**	**2,915,887**	**(2,260,626)**	**398,518**		**(682,298)**	**371,481**	**13,902,627**	**(61,793)**
ve										
year									1,331,114	
ve	*17,18,25,29*								1,746	140,094
									1,332,860	140,094
with										
ends	*32*								(635,482)	
ends	*32*								(70,609)	
	22					414		414		
ybrid									(16,840)	
						414		414	(722,931)	
1,		**₩ 44,639**	**2,915,887**	**(2,260,626)**	**398,518**	**414**	**(682,298)**	**371,895**	**14,512,556**	**78,301**
1,		**₩ 44,639**	**2,915,887**	**(2,260,626)**	**398,518**	**414**	**(682,298)**	**371,895**	**14,512,556**	**78,301**
opting 1115	*3*								1,723,985	
opting 1109	*3*								49,611	(58,389)
018		**₩ 44,639**	**2,915,887**	**(2,260,626)**	**398,518**	**414**	**(682,298)**	**371,895**	**16,286,152**	**19,912**

ve										
year									933,902	
ve loss	*17,18,25,29*								(30,371)	(60,177)
									903,531	(60,177)
with										
ends	*32*								(635,482)	
ends	*32*								(70,609)	
	22					593		593		
of	*21*				(398,518)		(1,482)	(400,000)		
m ybrid	*21*				398,759			398,759		
ybrid									(15,803)	
under trol	*10*			281,151			(237,074)	44,077		
				281,151	241	593	(238,556)	43,429	(721,894)	
1,		**₩ 44,639**	**2,915,887**	**(1,979,475)**	**398,759**	**1,007**	**(920,854)**	**415,324**	**16,467,789**	**(40,265)**

See accompanying notes to the separate financial statements.

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SK TELECOM CO., LTD.

Separate Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(In millions of won)	*Note*		2018	2017
Cash flows from operating activities:				
Cash generated from operating activities:				
Profit for the year		₩	933,902	1,331,114
Adjustments for income and expenses	*38*		2,863,632	2,804,239
Changes in assets and liabilities related to operating activities	*38*		510,379	(293,836)
			4,307,913	3,841,517
Interest received			35,456	46,774
Dividends received			177,490	101,256
Interest paid			(183,023)	(183,939)
Income tax paid			(372,808)	(548,138)
Net cash provided by operating activities			**3,965,028**	**3,257,470**
Cash flows from investing activities:				
Cash inflows from investing activities:				
Decrease in short-term investment securities, net				50,000
Decrease in short-term financial instruments, net				1,000
Collection of short-term loans			110,261	206,932
Proceeds from disposals of long-term investment securities			189,083	15,276
Proceeds from disposal of investments in subsidiaries, associates and joint ventures			78,548	
Proceeds from disposal of property and equipment			10,848	19,667
Proceeds from disposal of intangible assets			916	3,811
Sub-total			389,656	296,686
Cash outflows for investing activities:				
Increase in short-term investment securities, net			(5,000)	
Increase in short-term loans			(109,915)	(203,511)
Acquisition of long-term investment securities			(990)	(12,863)
Acquisition of investments in subsidiaries and associates			(1,045,713)	(286,298)
Acquisition of property and equipment			(1,893,284)	(1,870,634)
Acquisition of intangible assets			(444,038)	(75,298)
Sub-total			(3,498,940)	(2,448,604)
Net cash used in investing activities		**₩**	**(3,109,284)**	**(2,151,918)**

See accompanying notes to the separate financial statements.

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SK TELECOM CO., LTD.

Separate Statements of Cash Flows, Continued

For the years ended December 31, 2018 and 2017

(In millions of won)	***Note***	**2018**	**2017**
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from issuance of debentures		₩ 1,326,346	647,328
Cash inflows from settlement of derivatives		116	188
Proceeds from issuance of hybrid bonds		398,759	
Sub-total		1,725,221	647,516
Cash outflows for financing activities:			
Repayments of long-term borrowings		(12,770)	(13,002)
Repayments of hybrid bonds		(400,000)	
Repayments of long-term payables - other		(302,867)	(302,867)
Repayments of debentures		(1,116,550)	(602,733)
Payments of cash dividends		(706,091)	(706,091)
Payments of interest on hybrid bonds		(15,803)	(16,840)
Cash outflows for settlement of derivatives		(29,213)	(105,269)
Sub-total		(2,583,294)	(1,746,802)
Net cash used in financing activities		**(858,073)**	**(1,099,286)**
Net increase (decrease) in cash and cash equivalents		**(2,329)**	**6,266**
Cash and cash equivalents at beginning of the year		880,583	874,350
Effects of exchange rate changes on cash and cash equivalents		(431)	(33)
Cash and cash equivalents at end of the year		**₩ 877,823**	**880,583**

See accompanying notes to the separate financial statements.

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SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2018 and 2017

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, 2018, the Company s total issued shares are held by the following shareholders:

	Number of shares	Percentage of total shares issued (%)
SK Holdings Co., Ltd.	21,624,120	26.78
National Pension Service	7,879,982	9.76
Institutional investors and other shareholders	42,365,726	52.47
Treasury shares	8,875,883	10.99
	80,745,711	100.00

2. Basis of Preparation

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 January 30, 2019, which will be submitted for approval at the shareholders meeting to be held on March 26, 2019.

(1) 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 measured at fair value through profit or loss;

financial instruments measured at fair value through other comprehensive income;

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

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SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2018 and 2017

2. Basis of Preparation, Continued

(2) 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.

(3) 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 most significant effects on the amounts recognized in the separate financial statements is included in note 4 for classification of lease and notes 3 (1), 7 for determination of amortization period of incremental cost of obtaining a contract.

2) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: loss allowance (notes 6 and 34), estimated useful lives of costs to obtain a contract (notes 3 (1), and 7), property and equipment and intangible assets (notes 4 (8), (10), 11 and 13), impairment of goodwill (notes 4 (12) and 12), recognition of provision (notes 4 (17) and 16), measurement of defined benefit liabilities (notes 4 (16) and 17), and recognition of deferred tax assets (liabilities) (notes 4 (25) and 30).

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 including Level 3 fair values, and the measurement of fair value is reviewed is directly reported to the finance executives.

The Company regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, are used to measure fair values, then the Company 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.

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SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2018 and 2017

2. Basis of Preparation, Continued

(3) Use of estimates and judgments, Continued

3) Fair value measurement, Continued

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 34.

3. Changes in accounting policies

The significant accounting policies applied by the Company in these separate financial statements are the same as those applied by the Company in its separate financial statements as of and for the year ended December 31, 2017, except for the changes in accounting policies described below.

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

K-IFRS No. 1115, *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. K-IFRS No. 1115 replaced the revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRS No. 2113, *Customer Loyalty Programs*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate,* and K-IFRS No. 2118, *Transfers of Assets from Customers*.

The Company has initially applied K-IFRS No. 1115 from January 1, 2018 using the cumulative effect method with the effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at January 1, 2018. The Company applied K-IFRS No. 1115 only to contracts that were not completed at the date of initial application, which is January 1, 2018 using the practical expedient permitted by K-IFRS No.1115.

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SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2018 and 2017

3. Changes in accounting policies, Continued

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

1) Identification of performance obligations in the contract

A substantial portion of the Company s revenue is generated from providing wireless telecommunications services. K-IFRS No. 1115 requires the Company to evaluate goods or services promised to customers to determine if there are performance obligations other than wireless telecommunications service that should be accounted for separately. In the case of providing both a wireless telecommunications service and selling a handset together to one customer, the Company allocates considerations from the customer between handset sales revenue and wireless telecommunications service revenue. The handset sales revenue is recognized when handset is delivered and the wireless telecommunications service revenue is recognized over the period of the contract term as stated in the subscription contract. The Company has no amount to be adjusted with respect to identification of performance obligations as at the date of initial application.

2) Allocation of the transaction price to each performance obligations

In accordance with K-IFRS No. 1115, the Company allocates the transaction price of a contract to each performance obligation identified on a relative stand-alone selling price basis. The Company uses adjusted market assessment approach method for estimating the stand-alone selling price of a good or service. In the case of providing both a wireless telecommunications service and a handset together to one customer, the Company allocates the transaction price based on relative stand-alone selling prices. The Company has no amount to be adjusted with respect to allocation of the transaction price as at the date of initial application.

3) Incremental costs to acquire a contract

The Company pays commissions to its retail stores and authorized dealers in connection with acquiring service contracts. The commissions paid to these parties were expensed as incurred and recognized as operating expenses. These commissions would not have been paid if there have been no binding contracts with subscribers. K-IFRS No. 1115 requires the Company to capitalize certain costs associated with commissions paid to obtain new customer contracts and amortize them over the expected contract periods with customers that were calculated based on the Company s historical subscriber churn rate. As a result of applying K-IFRS No. 1115, the Company recognized ₩1,711,387 million of prepaid expenses and ₩644,749 million of long-term prepaid expenses as at the date of initial application, January 1, 2018.

4) Presentation of contract liability

Under K-IFRS No. 1115, the Company reclassified the receipts in advance and unearned revenue amounting to ₩44,045 million that are related to prepaid rate plans and customer loyalty program, respectively, to contract liabilities as at the date of initial application, January 1, 2018.

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Notes to the Separate Financial Statements

For the years ended December 31, 2018 and 2017

3. Changes in accounting policies, Continued

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

5) Impact of adopting K-IFRS No. 1115 on the separate financial statements

If the previous standards were applied to the Company s separate statement of financial position as of December 31, 2018, prepaid expenses and long-term prepaid expenses would have been decreased by ₩1,574,309 million and ₩724,233 million, respectively, and contract assets and long-term contract assets would have been decreased by ₩1,689 million and ₩5,842 million, respectively, while deferred tax assets would have been increased by ₩97,640 million. As a result, total assets would have been decreased by ₩2,208,433 million. In addition, contract liabilities, long-term contract liabilities and deferred tax liabilities would have been decreased by ₩46,075 million, ₩8,358 million and ₩523,732 million, respectively, while other liabilities such as receipts in advance and unearned revenue would have been increased by ₩54,433 million. As a result, total liabilities would have been decreased by ₩523,732 million. In relation to these changes in assets and liabilities, retained earnings would have been decreased by ₩1,684,701 million.

If the previous standards were applied to the Company s separate statement of income for the year ended December 31, 2018, revenues would have been increased by ₩10,394 million, while commission expenses would have been decreased by ₩39,668 million. Operating profit and profit before income tax would have been increased by ₩50,062 million. As a result, profit for the year would have been increased by ₩39,284 million with increase in income tax expense of ₩10,778 million.

The adoption of K-IFRS No. 1115 did not have a material impact on the Company s separate statement of cash flows for the year ended December 31, 2018.

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SK TELECOM CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2018 and 2017

3. Changes in accounting policies, Continued

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

K-IFRS No. 1109 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces K-IFRS No. 1039, *Financial Instruments: Recognition and Measurement*. The Company adopted K-IFRS No. 1109, *Financial Instruments*, from January 1, 2018, and the Company has taken an exemption not to restate the separate financial statements for prior years with respects to transition requirements.

The following table explains the impact of transition to K-IFRS No. 1109 on the opening balance of reserves and retained earnings as at January 1, 2018.

(In millions of won)

	Reserves	Retained earnings
Reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss(FVTPL)	₩ 106	(4,495)
Reclassification of available-for-sale financial assets to financial assets at fair value through other comprehensive income (FVOCI)	(79,908)	85,349
Recognition of loss allowances on accounts receivable - trade and others		(13,049)
Related income tax	21,413	(18,194)
	₩ (58,389)	49,611

1) Classification of financial assets and financial liabilities

K-IFRS No. 1109 largely retains the existing requirements in K-IFRS No. 1039 for the classification and measurement of financial liabilities. However, it eliminates the previous K-IFRS No. 1039 categories for financial assets of held to maturity, available for sale, and loans and receivables.

Under K-IFRS No. 1109, on initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI-debt investment; FVOCI-equity investment; or FVTPL. The classification of financial assets under K-IFRS No. 1109 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. If a contract contains embedded derivatives and the host is an asset within the scope of K-IFRS

No. 1109, then such embedded derivatives are not separated.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flow; and

- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

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For the years ended December 31, 2018 and 2017

3. Changes in accounting policies, Continued

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

1) Classification of financial assets and financial liabilities, Continued

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment s fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. These include all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is an account receivable - trade without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting polices apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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For the years ended December 31, 2018 and 2017

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

1) Classification of financial assets and financial liabilities, Continued

The following table explains the original measurement categories under K-IFRS No. 1039 and the changes in measurement categories under K-IFRS No. 1109 for each class of the Company s financial assets as at the date of initial application, January 1, 2018.

(*In millions of won*)	**Original classification under K-IFRS No. 1039**	**New classification under K-IFRS No. 1109**	**Original carrying amount under K-IFRS No. 1039**	**New carrying amount under K-IFRS No. 1109**	**Difference**
Short-term financial assets:					
Cash and cash equivalents	Amortized cost	Amortized cost	₩ 880,583	880,583	
Short-term financial instruments	Amortized cost	Amortized cost	94,000	94,000	
Short-term investment securities(*1)	Available-for-sale	FVTPL	47,383	47,383	
Accounts receivable - trade	Amortized cost	Amortized cost	1,520,209	1,507,259	(12,950)
Short-term loans	Amortized cost	Amortized cost	54,403	54,403	
Accounts receivable - other(*3)	Amortized cost	FVTPL	759,720	759,720	
Accounts receivable - other	Amortized cost	Amortized cost	243,789	243,690	(99)
Other financial assets	Amortized cost	Amortized cost	659	659	
			3,600,746	3,587,697	(13,049)
Long-term financial assets:					
Long-term financial instruments	Amortized cost	Amortized cost	382	382	
	Available-for- sale	FVTPL	75,527	71,138	(4,389)

Long-term investment securities(*1)						
Long-term investment securities(*2)	Available-for- sale	FVOCI		649,076	654,517	5,441
Long-term loans	Amortized cost	Amortized cost		7,512	7,512	
Long-term accounts receivable - other(*3)	Amortized cost	FVTPL		243,742	243,742	
Long-term accounts receivable - other	Amortized cost	Amortized cost		41,376	41,376	
Guarantee deposits	Amortized cost	Amortized cost		173,513	173,513	
Derivative financial assets	Derivatives hedging instrument	Derivatives hedging instrument		21,554	21,554	
Derivative financial assets	Designated as at FVTPL	FVTPL		9,054	9,054	
				1,221,736	1,222,788	1,052
			₩	4,822,482	4,810,485	(11,997)

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