

SK TELECOM CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements
For the years ended December 31, 2023 and 2022
(With the Independent Auditor's Report Thereon)

SK TELECOM CO., LTD. AND SUBSIDIARIES

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

The Shareholders and Board of Directors SK Telecom Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of SK Telecom Co., Ltd. and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statement of financial position as of December 31, 2023 and 2022, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2023, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the two years in the period ended December 31, 2023 in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS").

We also have audited the Group's internal control over financial reporting as of December 31, 2023, based on the criteria established in Conceptual Framework for Designing and Operating Internal Control over Financial Reporting in accordance with the Korean Standards on Auditing ("KSA") issued by the Operating Committee of internal control over financial reporting, and our report dated March 6, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

We conducted our audits in accordance with KSA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

1. *Cut-off of revenue from wireless services.*

As described in notes 3 (21) and 4 (2) to the consolidated financial statements, the Group's revenue from the wireless services is recognized based on data from a complex array of information technology systems which process a significant volume of transactions with its customers. Furthermore, the transactions involve a variety of contractual terms from new subscriptions to deactivations or churn, and changes of rate plans during the period. Therefore, we have identified timing of revenue recognition related to the Group's wireless services as a key audit matter. Related revenue from the wireless services amounted to ₩10,328,980 million in 2023.

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

- Inspecting major contracts with subscribers to assess whether the Group's revenue recognition policies based on the terms and conditions as set out in the contracts, are consistent with reference to the requirements of KIFRS 1115;
- Testing internal controls relating to the timing of revenue recognition for the wireless services; and
- Evaluating the appropriateness of the timing of revenue recognition by recalculating the prorated revenue based on the subscribed rate plan and comparing it with the billing information.

2. Impairment assessment of goodwill for the fixed-line telecommunication services cash generating unit

As described in notes 3 (10) and 16 to the consolidated financial statements, the Group assesses impairment of goodwill allocated to a cash generating unit ("CGU"), at least, annually or when there is an indication of possible impairment by comparing the carrying amount of the CGU to its recoverable amount based on value-in-use ("VIU"). The amount of goodwill allocated to the fixed-line telecommunication services CGU is ₩764,082 million as of December 31, 2023.

In carrying out the goodwill impairment assessment, the Group compared the carrying amount of the fixed-line telecommunication services CGU and its value in use ("VIU") based on discounted cash flow forecasts. We have identified the goodwill impairment assessment for the fixed-line telecommunication services CGU as a key audit matter due to the inherent uncertainties and significant judgement involved in management's estimates around the major assumptions such as estimates of future operating revenue, perpetual growth rate and discount rate, all of which have a significant impact on the determination of the VIU.

The primary audit procedures we have performed for this key audit matter include:

- Assessing the competence and objectivity of the external specialist utilized by management;
- Evaluating the appropriateness of the valuation method and assumptions applied by management by involving our internal specialist;
- Performing a sensitivity analysis for both the discount rate and the perpetual growth rate applied to the discounted cash flow forecasts to assess the impact of changes in these key assumptions on the conclusion reached by management in its impairment assessment;
- Evaluating the reasonableness of management's future cash flow forecasts by comparison with financial budgets approved by management; and
- Performing a retroactive assessment of the prior periods' cash flow forecasts by comparison with the actual results.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 KSA 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.
- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 auditor's report is Yoo, Jung Ho.



March 6, 2024

This report is effective as of March 6, 2024, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of independent auditor's report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

SK TELECOM CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The accompanying consolidated financial statements, including all footnote disclosures, have been prepared by, and are the responsibility of, the Group.

Ryu, Young-Sang
Chief Executive Officer
SK TELECOM CO., LTD.

SK TELECOM CO., LTD. and its Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2023 and 2022

<i>(In millions of won)</i>	<i>Note</i>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Assets			
Current Assets:			
Cash and cash equivalents	<i>5,35,36</i>	1,454,978	1,882,291
Short-term financial instruments	<i>5,35,36</i>	294,934	237,230
Accounts receivable – trade, net	<i>6,35,36,37</i>	1,978,532	1,970,611
Short-term loans, net	<i>6,35,36,37</i>	78,129	78,590
Accounts receivable – other, net	<i>6,35,36,37,38</i>	344,350	479,781
Contract assets	<i>8,36</i>	89,934	83,058
Prepaid expenses	<i>7</i>	1,953,769	1,974,315
Prepaid income taxes	<i>32</i>	161	415
Derivative financial assets	<i>22,35,36,39</i>	8,974	168,527
Inventories, net	<i>9</i>	179,809	166,355
Non-current assets held for sale	<i>41</i>	10,515	6,377
Advanced payments and others	<i>6,35,36</i>	191,517	171,646
		<u>6,585,602</u>	<u>7,219,196</u>
Non-Current Assets:			
Long-term financial instruments	<i>5,35,36</i>	375	375
Long-term investment securities	<i>10,35,36</i>	1,679,384	1,410,736
Investments in associates and joint ventures	<i>12</i>	1,915,012	1,889,289
Investment property, net	<i>14</i>	34,812	25,137
Property and equipment, net	<i>13,15,37,38</i>	13,006,196	13,322,492
Goodwill	<i>11,16</i>	2,075,009	2,075,009
Intangible assets, net	<i>17</i>	2,861,137	3,324,910
Long-term contract assets	<i>8,36</i>	39,837	49,163
Long-term loans, net	<i>6,35,36,37</i>	30,455	26,973
Long-term accounts receivable – other, net	<i>6,35,36,37,38</i>	312,531	373,951
Long-term prepaid expenses	<i>7</i>	1,086,107	1,073,422
Guarantee deposits, net	<i>6,35,36,37</i>	156,863	167,441
Long-term derivative financial assets	<i>22,35,36,39</i>	139,560	152,633
Deferred tax assets	<i>32</i>	11,609	6,860
Defined benefit assets	<i>21</i>	170,737	175,748
Other non-current assets	<i>6,35,36</i>	14,001	14,927
		<u>23,533,625</u>	<u>24,089,066</u>
Total Assets	₩	<u>30,119,227</u>	<u>31,308,262</u>

(Continued)

SK TELECOM CO., LTD. and its Subsidiaries
Consolidated Statements of Financial Position, Continued

As of December 31, 2023 and 2022

(In millions of won)

	<u>Note</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable – trade	35,36,37 W	139,876	89,255
Accounts payable – other	35,36,37	1,913,006	2,427,906
Withholdings	35,36,37	802,506	803,555
Contract liabilities	8	155,576	172,348
Accrued expenses	26,35,36	1,439,786	1,505,549
Income tax payable	32	142,496	112,358
Provisions	20,40	38,255	39,683
Short-term borrowings	18,35,36,39	-	142,998
Current portion of long-term debt, net	18,35,36,39	1,621,844	1,967,586
Current portion of long-term payables – other	19,35,36,39	367,770	398,874
Lease liabilities	35,36,37,39	372,826	386,429
Liabilities held for sale		39	-
		<u>6,993,980</u>	<u>8,046,541</u>
Non-Current Liabilities:			
Debentures, excluding current portion, net	18,35,36,39	7,106,299	6,524,095
Long-term borrowings, excluding current portion, net	18,35,36,39	315,578	668,125
Long-term payables – other	19,35,36,39	892,683	1,239,467
Long-term lease liabilities	35,36,37,39	1,238,607	1,395,628
Long-term contract liabilities	8	56,917	61,574
Defined benefit liabilities	21	-	61
Long-term derivative financial liabilities	22,35,36,39	305,088	302,593
Long-term provisions	20	83,169	79,415
Deferred tax liabilities	32	832,236	763,766
Other non-current liabilities	35,36,37	66,271	71,801
		<u>10,896,848</u>	<u>11,106,525</u>
Total Liabilities		<u>17,890,828</u>	<u>19,153,066</u>
Shareholders' Equity:			
Share capital	1,23	30,493	30,493
Capital surplus and others	11,23,24,25,26	(11,828,644)	(11,567,117)
Retained earnings	27	22,799,981	22,463,711
Reserves	28	387,216	391,233
Equity attributable to owners of the Parent Company		11,389,046	11,318,320
Non-controlling interests		839,353	836,876
Total Shareholder's Equity		<u>12,228,399</u>	<u>12,155,196</u>
Total Liabilities and Shareholder's Equity	₩	<u>30,119,227</u>	<u>31,308,262</u>

The accompanying notes are an integral part of the consolidated financial statements.

SK TELECOM CO., LTD. and its Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 2023 and 2022

(In millions of won, except for earnings per share)

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Operating revenue:	4,37		
Revenue	₩	17,608,511	17,304,973
Operating expenses:	37		
Labor		2,488,245	2,449,813
Commission	7	5,549,899	5,518,786
Depreciation and amortization	4	3,614,766	3,621,325
Network interconnection		678,459	715,285
Leased lines		275,477	268,426
Advertising		235,769	252,402
Rent		142,356	143,747
Cost of goods sold	9	1,266,357	1,268,124
Others	29	1,603,979	1,454,995
		<u>15,855,307</u>	<u>15,692,903</u>
Operating profit	4	1,753,204	1,612,070
Finance income	4,31	248,376	179,838
Finance costs	4,31	(527,401)	(456,327)
Gain (loss) relating to investments in associates and joint ventures, net	4,12	10,928	(81,707)
Other non-operating income	4,30	50,366	55,898
Other non-operating expenses	4,30	(47,294)	(73,620)
Profit before income tax	4	1,488,179	1,236,152
Income tax expense	32	342,242	288,321
Profit for the year	₩	<u>1,145,937</u>	<u>947,831</u>
Attributable to:			
Owners of the Parent Company	₩	1,093,611	912,400
Non-controlling interests		52,326	35,431
Earnings per share	33		
Basic earnings per share (in won)	₩	4,954	4,118
Diluted earnings per share (in won)		4,950	4,116

The accompanying notes are an integral part of the consolidated financial statements.

SK TELECOM CO., LTD. and its Subsidiaries
 Consolidated Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

<i>(In millions of won)</i>	<u>Note</u>	<u>2023</u>	<u>2022</u>
Profit for the year	₩	1,145,937	947,831
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss, net of taxes:			
Remeasurement of defined benefit liabilities (assets)	21	1,853	70,885
Valuation loss on financial assets at fair value through other comprehensive income	28,31	(18,842)	(491,853)
Items that are or may be reclassified subsequently to profit or loss, net of taxes:			
Net change in other comprehensive income of investments in associates and joint ventures	12,28	9,225	119,707
Net change in unrealized fair value of derivatives	22,28,31	(17,460)	(21,366)
Foreign currency translation differences for foreign operations	28	1,257	16,401
Other comprehensive loss for the year, net of taxes		(23,967)	(306,226)
Total comprehensive income	₩	1,121,970	641,605
Total comprehensive income attributable to:			
Owners of the Parent Company	₩	1,072,785	601,193
Non-controlling interests		49,185	40,412

The accompanying notes are an integral part of the consolidated financial statements.

SK TELECOM CO., LTD. and its Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(In millions of won)

	Note	Attributable to owners of the Parent Company					Non-controlling interests	Total equity
		Share capital	Capital surplus (deficit) and others	Retained earnings	Reserves	Sub-total		
Balance as of January 1, 2022		₩ 30,493	(11,623,726)	22,437,341	735,238	11,579,346	755,792	12,335,138
Total comprehensive income (loss):								
Profit for the year		-	-	912,400	-	912,400	35,431	947,831
Other comprehensive income (loss):	12,21,22,28,31	-	-	32,798	(344,005)	(311,207)	4,981	(306,226)
		-	-	945,198	(344,005)	601,193	40,412	641,605
Transactions with owners:								
Annual dividends	34	-	-	(361,186)	-	(361,186)	-	(361,186)
Interim dividends	34	-	-	(542,876)	-	(542,876)	-	(542,876)
Share option	26	-	72,261	-	-	72,261	-	72,261
Interest on hybrid bonds	25	-	-	(14,766)	-	(14,766)	-	(14,766)
Transactions of treasury shares	24	-	(2,683)	-	-	(2,683)	-	(2,683)
Changes in ownership in subsidiaries, etc.	11	-	(12,969)	-	-	(12,969)	40,672	27,703
		-	56,609	(918,828)	-	(862,219)	40,672	(821,547)
Balance as of December 31, 2022		₩ 30,493	(11,567,117)	22,463,711	391,233	11,318,320	836,876	12,155,196
Balance as of January 1, 2023		₩ 30,493	(11,567,117)	22,463,711	391,233	11,318,320	836,876	12,155,196
Total comprehensive income (loss):								
Profit for the year		-	-	1,093,611	-	1,093,611	52,326	1,145,937
Other comprehensive loss:	12,21,22,28,31	-	-	(16,809)	(4,017)	(20,826)	(3,141)	(23,967)
		-	-	1,076,802	(4,017)	1,072,785	49,185	1,121,970
Transactions with owners:								
Annual dividends	34	-	-	(180,967)	-	(180,967)	(50,557)	(231,524)
Interim dividends	34	-	-	(542,282)	-	(542,282)	-	(542,282)
Share option	26	-	7,157	-	-	7,157	10,463	17,620
Interest on hybrid bonds	25	-	-	(17,283)	-	(17,283)	-	(17,283)
Repayments of hybrid bonds	25	-	(400,000)	-	-	(400,000)	-	(400,000)
Issuance of hybrid bonds	25	-	398,509	-	-	398,509	-	398,509
Transactions of treasury shares	24	-	(265,120)	-	-	(265,120)	-	(265,120)
Changes in ownership in subsidiaries, etc.	11	-	(2,073)	-	-	(2,073)	(6,614)	(8,687)
		-	(261,527)	(740,532)	-	(1,002,059)	(46,708)	(1,048,767)
Balance as of December 31, 2023		₩ 30,493	(11,828,644)	22,799,981	387,216	11,389,046	839,353	12,228,399

The accompanying notes are an integral part of the consolidated financial statements.

SK TELECOM CO., LTD. and its Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(In millions of won)

	<i>Note</i>	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:			
Cash generated from operating activities:			
Profit for the year	₩	1,145,937	947,831
Adjustments for income and expenses	39	4,546,338	4,719,438
Changes in assets and liabilities related to operating activities	39	<u>(274,163)</u>	<u>118,106</u>
		5,418,112	5,785,375
Interest received		60,134	52,163
Dividends received		50,899	16,388
Interest paid		(341,488)	(259,719)
Income tax paid		<u>(240,452)</u>	<u>(434,890)</u>
Net cash provided by operating activities		<u>4,947,205</u>	<u>5,159,317</u>
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net		-	264,693
Decrease in short-term investment securities, net		-	5,010
Collection of short-term loans		136,242	123,700
Decrease in long-term financial instruments		-	330,032
Proceeds from disposals of long-term investment securities		100,817	104,190
Proceeds from disposals of investments in associates and joint ventures		4,950	342,645
Proceeds from disposals of assets held for sale		1,353	20,136
Proceeds from disposals of property and equipment		12,900	15,792
Proceeds from disposals of intangible assets		4,428	10,993
Collection of long-term loans		1,547	1,134
Decrease in deposits		5,922	10,056
Proceeds from settlement of derivatives		1,452	1,542
Government grants received		<u>2,967</u>	<u>-</u>
		272,578	1,229,923
Cash outflows for investing activities:			
Increase in short-term financial instruments, net		(51,421)	-
Increase in short-term loans		(130,041)	(127,263)
Increase in long-term loans		(11,602)	(11,724)
Increase in long-term financial instruments		-	(330,032)
Acquisitions of long-term investment securities		(324,997)	(436,753)
Acquisitions of investments in associates and joint ventures		(17,656)	(11,065)
Acquisitions of property and equipment		(2,973,882)	(2,908,287)
Acquisitions of intangible assets		(106,761)	(138,136)
Increase in deposits		(6,848)	(12,146)
Cash decrease due to changes in consolidation scope		(2,275)	-
Cash outflow for business combinations, net		<u>-</u>	<u>(62,312)</u>
		<u>(3,625,483)</u>	<u>(4,037,718)</u>
Net cash used in investing activities	₩	<u>(3,352,905)</u>	<u>(2,807,795)</u>

(Continued)

SK TELECOM CO., LTD. and its Subsidiaries
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2023 and 2022

(In millions of won)

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings, net	₩	-	130,000
Proceeds from issuance of debentures		1,785,108	1,200,122
Proceeds from long-term borrowings		49,950	440,000
Proceeds from issuance of hybrid bonds		398,509	-
Cash inflows from settlement of derivatives		183,090	768
Transactions with non-controlling shareholders		160	31,151
		<u>2,416,817</u>	<u>1,802,041</u>
Cash outflows for financing activities:			
Repayments of short-term borrowings, net		(142,998)	-
Repayments of long-term payables – other		(400,245)	(400,245)
Repayments of debentures		(1,869,190)	(1,390,000)
Repayments of long-term borrowings		(125,000)	(41,471)
Repayments of hybrid bonds		(400,000)	-
Payments of dividends		(773,806)	(904,020)
Payments of interest on hybrid bonds		(17,283)	(14,766)
Repayments of lease liabilities		(402,465)	(401,054)
Acquisition of treasury shares		(285,487)	-
Transactions with non-controlling shareholders		(21,333)	(367)
		<u>(4,437,807)</u>	<u>(3,151,923)</u>
Net cash used in financing activities	<i>39</i>	<u>(2,020,990)</u>	<u>(1,349,882)</u>
Net increase (decrease) in cash and cash equivalents		(426,690)	1,001,640
Cash and cash equivalents at beginning of the year		1,882,291	872,731
Effects of exchange rate changes on cash and cash equivalents		(623)	7,920
Cash and cash equivalents at end of the year	₩	<u>1,454,978</u>	<u>1,882,291</u>

The accompanying notes are an integral part of the consolidated financial statements.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

1. Reporting Entity

(1) General

SK Telecom Co., Ltd. (the "Parent Company") was incorporated on March 29, 1984, under the laws of the Republic of Korea ("Korea") to provide cellular telephone communication 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 are listed on the Stock Market of Korea Exchange, and its depository receipts (DRs) are listed on the New York Stock Exchange. Meanwhile, the Board of Directors of the Parent Company resolved to cancel the listing of the Parent Company's DRs on the London Stock Exchange on June 22, 2023, and the DRs were delisted from the London Stock Exchange as of July 31, 2023. As of December 31, 2023, the Parent Company's total issued shares are held by the following shareholders:

	<u>Number of shares</u>	<u>Percentage of total shares issued (%)</u>
SK Inc.	65,668,397	30.01
National Pension Service	16,330,409	7.46
Institutional investors and other shareholders	126,854,437	57.97
Kakao Investment Co., Ltd.	3,846,487	1.76
Treasury shares	6,133,414	2.80
	<u>218,833,144</u>	<u>100.00</u>

These consolidated financial statements comprise the Parent Company and its subsidiaries (collectively referred to as the "Group"). SK Inc. is the ultimate controlling entity of the Parent Company.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

1. Reporting Entity, Continued

(2) List of consolidated subsidiaries

The list of consolidated subsidiaries as of December 31, 2023 and 2022 is as follows:

	Subsidiary	Location	Primary business	Ownership (%)(*1)	
				Dec. 31, 2023	Dec. 31, 2022
Subsidiaries owned by the Parent Company	SK Telink Co., Ltd.	Korea	International telecommunication and Mobile Virtual Network Operator Service	100.0	100.0
	SK Communications Co., Ltd.	Korea	Internet website services	100.0	100.0
	SK Broadband Co., Ltd.	Korea	Fixed-line telecommunication services	74.4	74.4
	PS&Marketing Corporation	Korea	Communications device retail business	100.0	100.0
	SERVICE ACE Co., Ltd.	Korea	Call center management service	100.0	100.0
	SERVICE TOP Co., Ltd.	Korea	Call center management service	100.0	100.0
	SK O&S Co., Ltd.	Korea	Base station maintenance service	100.0	100.0
	SK Telecom China Holdings Co., Ltd.	China	Investment (Holdings company)	100.0	100.0
	SK Global Healthcare Business Group Ltd.	Hong Kong	Investment	100.0	100.0
	YTK Investment Ltd.	Cayman Islands	Investment	100.0	100.0
	Atlas Investment	Cayman Islands	Investment	100.0	100.0
	SK Telecom Americas, Inc.	USA	Information gathering and consulting	100.0	100.0
	Quantum Innovation Fund I	Korea	Investment	59.9	59.9
	SK Telecom Japan Inc.(*2)	Japan	Information gathering and consulting	33.0	100.0
	Happy Hanool Co., Ltd.	Korea	Service	100.0	100.0
SK stoa Co., Ltd.	Korea	Other telecommunication retail business	100.0	100.0	
SAPEON Inc.	USA	Manufacturing non-memory and other electronic integrated circuits	62.5	62.5	
Subsidiaries owned by SK Broadband Co., Ltd.	Home & Service Co., Ltd.	Korea	Operation of information and communication facility	100.0	100.0
	Media S Co., Ltd.	Korea	Production and supply services of broadcasting programs	100.0	100.0
Subsidiary owned by PS&Marketing Corporation	SK m&service Co., Ltd.	Korea	Database and internet website service	100.0	100.0
Subsidiary owned by SK Telecom Americas, Inc.	Global AI Platform Corporation(*2)	USA	Software development and supply business	100.0	-
Subsidiary owned by Global AI Platform Corporation	Global AI Platform Korea(*2)	Korea	Software development and supply business	100.0	-
Subsidiary owned by Quantum Innovation Fund I	PanAsia Semiconductor Materials LLC.	Korea	Investment	66.4	66.4
Subsidiary owned by SK Telecom Japan Inc.	SK Planet Japan, K. K.(*2)	Japan	Digital contents sourcing service	79.8	79.8
Subsidiary owned by SAPEON Inc.	SAPEON Korea Inc.	Korea	Manufacturing non-memory and other electronic integrated circuits	100.0	100.0
Others(*3)	SK Telecom Innovation Fund, L.P.	USA	Investment	100.0	100.0
	SK Telecom China Fund I L.P.	Cayman Islands	Investment	100.0	100.0

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

1. Reporting Entity, Continued

(2) List of consolidated subsidiaries, Continued

The list of consolidated subsidiaries as of December 31, 2023 and 2022 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) Details of changes in the consolidation scope for year ended December 31, 2023 are presented in note 1-(4).

(*3) Others are owned by Atlas Investment and another subsidiary of the Parent Company.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries

- 1) Condensed financial information of significant consolidated subsidiaries as of and for the year ended December 31, 2023 is as follows:

(In millions of won)

Subsidiary	As of December 31, 2023			2023	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.	₩ 213,920	65,049	148,871	309,091	17,761
SK Broadband Co., Ltd.	6,442,611	3,323,156	3,119,455	4,281,932	213,905
PS&Marketing Corporation	451,549	224,042	227,507	1,353,321	4,681
SERVICE ACE Co., Ltd.	83,395	54,888	28,507	197,598	2,822
SERVICE TOP Co., Ltd.	71,196	47,641	23,555	178,423	1,738
SK O&S Co., Ltd.	140,942	98,346	42,596	345,617	2,614
Home & Service Co., Ltd.	165,667	112,025	53,642	490,094	1,297
SK stoa Co., Ltd.	94,041	37,253	56,788	301,496	(1,427)
SK m&service Co., Ltd.	153,660	88,195	65,465	247,479	1,253

- 2) Condensed financial information of significant consolidated subsidiaries as of and for the year ended December 31, 2022 is as follows:

(In millions of won)

Subsidiary	As of December 31, 2022			2022	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.	₩ 196,281	60,927	135,354	302,595	15,008
SK Broadband Co., Ltd.	6,245,484	3,134,949	3,110,535	4,162,093	212,816
PS&Marketing Corporation	403,030	177,739	225,291	1,376,400	3,856
SERVICE ACE Co., Ltd.	97,597	59,189	38,408	194,798	2,429
SERVICE TOP Co., Ltd.	81,590	53,589	28,001	179,365	1,613
SK O&S Co., Ltd.	121,755	70,280	51,475	331,715	2,059
Home & Service Co., Ltd.	158,248	102,184	56,064	413,259	(1,217)
SK stoa Co., Ltd.	103,910	44,696	59,214	329,304	9,977
SK m&service Co., Ltd. (*)	160,704	95,263	65,441	211,081	4,157

- (*) The financial information is the condensed financial information after the entity was included in the scope of consolidation.

SK TELECOM CO., LTD. and its Subsidiaries
Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

1. Reporting Entity, Continued

(4) Changes in subsidiaries

1) The list of subsidiaries that were newly included in consolidation scope for the year ended December 31, 2023 is as follows:

<u>Subsidiary</u>	<u>Reason</u>
Global AI Platform Corporation Korea	Established by the SK Telecom Americas, Inc
Global AI Platform Corporation	Established by the SK Telecom Americas, Inc

2) The list of subsidiaries that were excluded from consolidation scope for the year ended December 31, 2023 is as follows:

<u>Subsidiary</u>	<u>Reason</u>
SK Telecom Japan Inc.	Loss of control
SK Planet Japan, K. K.	Loss of control

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

1. Reporting Entity, Continued

(5) The financial information of significant non-controlling interests of the Group as of and for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>SK Broadband Co., Ltd. (*)</u>	
Ownership of non-controlling interests (%)		25.4
	<u>As of December 31, 2023</u>	
Current assets	₩	1,388,965
Non-current assets		5,214,315
Current liabilities		(1,388,317)
Non-current liabilities		(1,988,989)
Net assets		3,225,974
Carrying amount of non-controlling interests		819,592
	<u>2023</u>	
Revenue	₩	4,274,747
Profit for the year		202,890
Total comprehensive income		183,499
Profit attributable to non-controlling interests		51,448
Net cash provided by operating activities	₩	1,110,847
Net cash used in investing activities		(1,064,434)
Net cash used in financing activities		(60,254)
Effects of exchange rate changes on cash and cash equivalents		9
Net decrease in cash and cash equivalents		(13,832)
Dividends paid to non-controlling interests for the year ended December 31, 2023	₩	50,557

(*) The above condensed financial information is the consolidated financial information of the subsidiary and reflects fair value adjustments as a result of the business combination.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

1. Reporting Entity, Continued

(5) The financial information of significant non-controlling interests of the Group as of and for the years ended December 31, 2023 and 2022 are as follows, Continued:

(In millions of won)

	<u>SK Broadband Co., Ltd.(*)</u>	
Ownership of non-controlling interests (%)		25.3
	<u>As of December 31, 2022</u>	
Current assets	₩	1,348,305
Non-current assets		5,076,410
Current liabilities		(1,707,805)
Non-current liabilities		(1,488,834)
Net assets		3,228,076
Carrying amount of non-controlling interests		816,676
	<u>2022</u>	
Revenue	₩	4,156,326
Profit for the year		217,303
Total comprehensive income		237,860
Profit attributable to non-controlling interests		51,528
Net cash provided by operating activities	₩	1,184,794
Net cash used in investing activities		(807,965)
Net cash used in financing activities		(415,908)
Effects of exchange rate changes on cash and cash equivalents		(584)
Net decrease in cash and cash equivalents		(39,663)
Dividends paid to non-controlling interests for the year ended December 31, 2022	₩	-

(*) The above condensed financial information is the consolidated financial information of the subsidiary and reflects fair value adjustments as a result of the business combination.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

2. Basis of Preparation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS"), as prescribed in the *Act on External Audits of Stock Companies* of Korea. The accompanying consolidated financial statements have been translated into English from Korean financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

The accompanying consolidated financial statements comprise the Group and the Group's investments in associates and joint ventures.

The consolidated financial statements were authorized for issuance by the Board of Directors on February 2, 2024, which will be submitted for final approval at the shareholder's meeting to be held on March 26, 2024.

(1) Basis of measurement

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

- ✓ derivative financial instruments measured at fair value;
- ✓ financial instruments measured at fair value through profit or loss ("FVTPL");
- ✓ financial instruments measured at fair value through other comprehensive income ("FVOCI");
- ✓ liabilities measured at fair value for cash-settled share-based payment arrangement; and
- ✓ liabilities (assets) for defined benefit plans recognized at the total present value of defined benefit obligations less the fair value of plan assets.

(2) 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.

(3) Use of estimates and judgments

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

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

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in notes for the following areas: consolidation (whether the Group has de facto control over an investee), and determination of stand-alone selling prices.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

2. Basis of Preparation, Continued

(3) Use of estimates and judgments, Continued

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 36), estimated useful lives of costs to obtain a contract (notes 8), property and equipment and intangible assets (notes 3 (7), (8), 13 and 17), impairment of goodwill (notes 3 (10) and 16), recognition of provision (notes 3 (15) and 20), measurement of defined benefit liabilities (assets) (notes 3 (14) and 21), transaction of derivative instruments (notes 3 (6) and 22) and recognition of deferred tax assets (liabilities) (notes 3 (23) and 32).

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

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

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

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ✓ Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Information about assumptions used for fair value measurements are included in note 22 and note 36.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies

The material accounting policies applied by the Group in the preparation of its consolidated financial statements in accordance with KIFRS are included below. Except for certain standards and amendments which are effective for annual periods beginning on or after January 1, 2023, the material accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2022. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The new and amended standards and interpretations that are effective for annual periods beginning on or after January 1, 2023 are as follows. These amended standards had no material impact on the Group's consolidated financial statements.

- Disclosure of Accounting Policies (Amendments to KIFRS 1001)
- Disclosures of Profit or Loss on Financial Liabilities with Conditions for Adjusting an Exercise Price (Amendments to KIFRS 1001)
- Definition of Accounting Estimates (Amendments to KIFRS 1008)
- Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (Amendments to KIFRS 1012)
- KIFRS 1117 *Insurance Contracts* and its amendments
- International tax reform - Pillar Two model rules (Amendments to KIFRS 1012)

The Pillar Two model rules is scheduled to take effect for the Group's fiscal year beginning January 1, 2024. As the Group falls within the scope of the enacted Pillar Two model rules, it has assessed the potential exposure to Pillar Two income tax. The assessment of potential exposure to Pillar Two income tax is based on the most recent tax returns of the Group's ultimate controlling entity group, country-by-country reporting, and financial statements. The Group expects that the exposure to Pillar Two income tax will be immaterial.

(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 as described in note 4. 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.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(2) Basis of consolidation

1) Business combination

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

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

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, except if related to the costs to issue debt or equity securities recognized based on KIFRS 1032 and KIFRS 1109.

Consideration transferred does not include the amount settled in relation to the pre-existing relationship. Such amounts are generally recognized through profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. If contingent consideration is not classified as equity, the Group subsequently recognizes changes in fair value of contingent consideration through profit or loss.

2) Non-controlling interests

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

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

3) Subsidiaries

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(2) Basis of consolidation, Continued

4) Loss of control

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

5) Interest in investees accounted for using the equity method

Interest in investees accounted for using the equity method composed of interest in associates and joint ventures.

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the net assets of the arrangement.

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

6) Intra-group transactions

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

7) Business combinations under common control

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

(3) Cash and cash equivalents

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

(4) Inventories

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(5) Non-derivative financial assets

1) Recognition and initial measurement

Accounts receivable – trade and debt investments issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

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

2) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- FVTPL
- FVOCI – equity investment
- FVOCI – debt investment
- Financial assets at amortized cost

A financial asset is classified based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

2) Classification and subsequent measurement, 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 Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

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

The following accounting policies are applied 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.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

3) Impairment

The Group estimates the expected credit losses ("ECL") for the debt instruments measured at amortized cost and FVOCI based on the Group's historical experience and informed credit assessment that includes forward-looking information. The impairment approach is decided based on the assessment of whether the credit risk of a financial asset has increased significantly since initial recognition. However, the Group applies a practical expedient and recognizes impairment losses equal to lifetime ECLs for accounts receivable – trade and lease receivables from the initial recognition.

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

At each reporting date, the Group assesses whether financial assets measured at amortized cost and debt investments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowance on financial assets measured at amortized cost is deducted from the carrying amount of the respective assets, while loss allowance on debt instruments at FVOCI is recognized in OCI, instead of reducing the carrying amount of the transferred assets.

4) Derecognition

Financial assets

The Group derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
 - the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

4) Derecognition, Continued

Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e., the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

5) Offsetting

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

A financial asset and a financial liability are offset only when the right to set off the amount is not contingent on future event and legally enforceable even on the event of default, insolvency or bankruptcy.

(6) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value at the end of each reporting period, and changes therein are accounted for as described below.

1) Hedge accounting

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

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

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

1) Hedge accounting, Continued

Hedges directly affected by interest rate benchmark reform

When uncertainty arises about the interest rate benchmark designated as a hedged risk and the timing or the amount of the interest rate benchmark-based cash flows of the hedged item or of the hedging instrument as a result of IBOR reform, for the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Group assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based is not altered as a result of interest rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark interest rate will not be altered as a result of interest rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur.

The Group will cease applying the specific policy for assessing the economic relationship between the hedged item and the hedging instrument

- to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the respective item or instrument; or
- when the hedging relationship is discontinued.

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform.

The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship or to the designation of the hedging relationship, the Group determines whether those additional changes result in the discontinuation of hedging accounting. If the additional changes do not result in the discontinuation of hedging accounting, the Group amend the formal designation of the hedging relationship.

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Group deems that the hedging reserve recognized in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

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

1) 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.

2) Other derivative financial instruments

Other derivative financial instrument not designated as a hedging instrument are measured at fair value, and the changes in fair value of the derivative financial instrument is recognized immediately in profit or loss.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(7) Property and equipment

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

Property and equipment, subsequently, are carried at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

	<u>Useful lives (years)</u>
Buildings and structures	15 ~ 40
Machinery	3 ~ 15, 30
Other property and equipment	3 ~ 10

The Group reviews estimated residual values, expected useful lives, and depreciation methods annually at the end of each reporting date and adjusts, if appropriate. The change is accounted for as a change in an accounting estimate.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(8) Intangible assets

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

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

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

	Useful lives (years)
Frequency usage rights	5 ~ 10
Land usage rights	5
Industrial rights	5, 10
Development costs	5
Facility usage rights	10, 20
Customer relations	3 ~ 15
Other	3 ~ 20

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(8) Intangible assets, Continued

Expenditures on research activities are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be reliably measured, 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.

(9) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditures are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. The carrying amount of those parts that are replaced is derecognized. The costs associated with routine maintenance and repairs are recognized in profit or loss as incurred.

Investment property, except for land, is depreciated on a straight-line basis over estimated useful lives of 30 years. In addition, right-of-use asset classified as investment property is depreciated using the straight-line basis from the commencement date to the end of the lease term.

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(10) Impairment of non-financial assets

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

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

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

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergy arising from the business acquired. Any impairment identified at the CGU level will first reduce the carrying amount 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.

(11) Leases

A contract is or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1) Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(11) Leases, Continued

1) Group as a lessee, Continued

The right-of-use asset is subsequently depreciated using the straight-line basis from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognizes the lease payments on short-term leases and leases of low value assets as an expense on a straight-line basis over the lease term.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(11) Leases, Continued

2) Group as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies KIFRS 1115 to allocate the consideration in the contract.

The Group applies derecognition and impairment requirements in KIFRS 1109 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

(12) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sales rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the assets (or disposal groups) must be available for immediate sale in their present condition and their sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amounts and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of assets (or disposal groups) to fair value less costs to sell and a gain for any subsequent increase in fair value less costs to sell up to the cumulative impairment loss previously recognized.

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).

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(13) 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 liabilities.

1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, these liabilities are measured at fair value. The amount of change in fair value of financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income, and the remaining amount of change in the fair value of the liability shall be presented 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.

2) Other financial liabilities

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

3) Derecognition of financial liability

The Group extinguishes a financial liability only when the contractual obligation is fulfilled, canceled or expires. The Group recognizes new financial liabilities at fair value based on new contracts and eliminates existing liabilities when the contractual terms of the financial liabilities change and the cash flows change substantially.

When a financial liability is derecognized, the difference between the carrying amount and the consideration paid (including any transferred non-cash assets or liabilities assumed) is recognized in profit or loss.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(14) Employee benefits

1) Short-term employee benefits

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

2) Other long-term employee benefits

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

3) Retirement benefits: defined contribution plans

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

4) Retirement benefits: defined benefit plans

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

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

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

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(15) Provisions

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

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

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

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

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

(16) Emissions Rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission in Korea.

1) Greenhouse Gases Emission Right

Greenhouse Gases Emission Right consists of emission allowances, which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

2) Emissions liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period. The emissions liabilities are derecognized when they are surrendered to the government.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(17) Transactions in foreign currencies

1) Foreign currency transactions

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

Exchange differences arising from monetary items except for financial liabilities designated cashflow hedging instruments are recognized in profit or loss. If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange differences are also recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any foreign exchange differences are also recognized in profit or loss.

2) Foreign operations

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

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

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

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

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(19) 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.

(20) Share-based payment

For equity-settled share-based payment transaction, if the fair value of the goods or services received cannot be reliably estimated, the Group measures the value indirectly by reference to the fair value of the equity instruments granted. The related expense with a corresponding increase in capital surplus and others is recognized over the vesting period of the awards.

The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the fair value of the liability are recognized in profit or loss.

(21) Revenue

1) Identification of performance obligations in contracts with customers

The Group identifies the distinct services or goods as performance obligations in contracts with customers such as (1) providing wireless and fixed-line telecommunications services, (2) sale of handsets and (3) providing other goods and services. In the case of providing both wireless telecommunications service and selling a handset together to one customer, the Group allocates considerations from the customer between the separate performance obligations for handset sale and wireless telecommunications service. The handset sale revenue is recognized when handset is delivered, and the wireless telecommunications service revenue is recognized over the period of the contract term as stated in the subscription contract.

2) Allocation of the transaction price to each performance obligation

The Group allocates the transaction price of a contract to each performance obligation identified on a relative stand-alone selling price basis. The Group uses "adjusted market assessment approach" for estimating the stand-alone selling price of a good or service.

3) Incremental costs of obtaining a contract

The Group pays commissions to its retail stores and authorized dealers in connection with acquiring service contracts. The commissions paid to these parties constituted a significant portion of the Group's operating expenses. These commissions would not have been paid if there have been no binding contracts with subscribers and, therefore, the Group capitalizes certain costs associated with commissions paid to obtain new customer contracts and amortize them over the expected contract periods.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(21) Revenue, Continued

4) Customer loyalty programs

The Group provides customer loyalty points to customers based on the usage of the service to which the Group allocates a portion of consideration received as a performance obligation distinct from wireless telecommunications services. The amount to be allocated to the loyalty program is measured according to the relative stand-alone selling price of the customer loyalty points. The amount allocated to the loyalty program is deferred as a contract liability and is recognized as revenue when loyalty points are redeemed.

5) Consideration payable to a customer

Based on the subscription contract, a customer who uses the Group's wireless telecommunications services may receive a discount for purchasing goods or services from a designated third party. The Group pays a portion of the price discounts that the customer receives to the third party which is viewed as consideration payable to a customer. The Group accounts for the amounts payable to the third party as a reduction of the wireless telecommunications service revenue.

(22) Finance income and finance costs

Finance income comprises interest income on funds invested (including financial assets measured at fair value), dividend income, gains on disposal of financial assets at FVTPL, changes in fair value of financial instruments at FVTPL, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss when the right to receive the dividend is established.

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

(23) 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 OCI.

The Group pays income tax in accordance with the tax-consolidation system when the Parent Company and its subsidiaries are economically unified.

1) Current tax

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

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(23) Income taxes, Continued

2) Deferred tax

Deferred tax is recognized by 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.

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

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

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

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to offset the amount recognized and intends to settle the current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

3) Uncertainty over income tax treatments

The Group assesses the uncertainty over income tax treatments pursuant to KIFRS 1012. If the Group concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the Group reflects the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty:

- The most likely amount: the single most likely amount in a range of possible outcomes.
- The expected value: the sum of the probability-weighted amounts in a range of possible outcomes.

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For the years ended December 31, 2023 and 2022

3. Material Accounting Policies, Continued

(24) Earnings per share

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

(25) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired only for a purpose of resale.

When an operation is classified as a discontinued operation, the comparative statements of income and comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative year.

(26) Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective for annual period beginning after January 1, 2023 are disclosed below. The following amendments are not expected to have a significant impact on the Group's consolidated financial statements.

- Classification of Liabilities as Current or Non-current (Amendments to KIFRS 1001).
- Disclosures of Information on Supplier Finance Arrangements (Amendments to KIFRS 1007 and KIFRS 1107)
- Lease Liability in a Sale and Leaseback (Amendments to KIFRS 1116)
- Disclosures of Crypto assets (Amendments to KIFRS 1001)

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4. Operating Segments

The Group's operating segments have been identified to be each business unit, by which the Group provides different services and merchandise. The Group's reportable segments include: cellular services, which include cellular voice service, wireless data service and wireless internet services; fixed-line telecommunication services, which include telephone services, internet services, and leased line services; and all other businesses, which include providing shopping channel and digital platform for selling products and other immaterial operations, each of which does not meet the quantitative threshold to be considered as a reportable segment and are presented collectively as others.

(1) Segment information for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023					
		Cellular services	Fixed-line telecommunication services	Others	Sub-total	Adjustments	Total
Total revenue	₩	14,664,180	5,095,704	603,493	20,363,377	(2,754,866)	17,608,511
Inter-segment revenue		1,541,014	1,167,684	46,168	2,754,866	(2,754,866)	-
External revenue		13,123,166	3,928,020	557,325	17,608,511	-	17,608,511
Depreciation and amortization		2,743,448	971,628	24,390	3,739,466	(124,700)	3,614,766
Operating profit (loss)		1,463,934	329,072	(42,771)	1,750,235	2,969	1,753,204
Finance income and costs, net							(279,025)
Gain relating to investments in associates and joint ventures, net							10,928
Other non-operating income and expense, net							3,072
Profit before income tax							1,488,179

(In millions of won)

		2022					
		Cellular services	Fixed-line telecommunication services	Others	Sub-total	Adjustments	Total
Total revenue	₩	14,496,866	4,895,791	592,188	19,984,845	(2,679,872)	17,304,973
Inter-segment revenue		1,554,550	1,082,802	42,520	2,679,872	(2,679,872)	-
External revenue		12,942,316	3,812,989	549,668	17,304,973	-	17,304,973
Depreciation and amortization		2,738,547	981,838	22,730	3,743,115	(121,790)	3,621,325
Operating profit (loss)		1,334,306	311,210	(2,126)	1,643,390	(31,320)	1,612,070
Finance income and costs, net							(276,489)
Loss relating to investments in associates and joint ventures, net							(81,707)
Other non-operating income and expense, net							(17,722)
Profit before income tax							1,236,152

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For the years ended December 31, 2023 and 2022

4. Operating Segments, Continued

1) Segment information for the years ended December 31, 2023 and 2022 are as follows, Continued:

The Group principally operates its businesses in Korea and the revenue amounts earned outside of Korea are immaterial. Therefore, no entity-wide geographical information is presented.

No single customer contributed 10% or more to the Group's total revenue for the years ended December 31, 2023 and 2022.

2) Disaggregation of operating revenues considering the economic factors that affect the nature, amounts, timing and uncertainty of the Group's revenue and future cash flows is as follows:

(In millions of won)

		<u>2023</u>	<u>2022</u>
Goods and Services transferred at a point in time:			
Cellular revenue	Goods and others(*1) ₩	993,919	969,025
Fixed-line telecommunication revenue	Goods and others	93,174	66,477
Other revenue	Others(*2)	459,905	464,805
		<u>1,546,998</u>	<u>1,500,307</u>
Goods and Services transferred over time:			
Cellular revenue	Wireless service(*3)	10,328,980	10,253,217
	Cellular interconnection	432,660	471,163
	Other(*4)	1,367,607	1,248,911
Fixed-line telecommunication revenue	Fixed-line service	147,669	156,662
	Cellular interconnection	15,804	21,209
	Internet Protocol Television(*5)	1,837,209	1,816,130
	International calls	190,872	180,689
	Internet service and miscellaneous(*6)	1,643,292	1,571,822
Other revenue	Miscellaneous(*2)	97,420	84,863
		<u>16,061,513</u>	<u>15,804,666</u>
		<u>₩ 17,608,511</u>	<u>17,304,973</u>

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4. Operating Segments, Continued

(2) Disaggregation of operating revenues considering the economic factors that affect the nature, amounts, timing and uncertainty of the Group's revenue and future cash flows is as follows, Continued:

(*1) Cellular revenue includes revenue from sales of handsets and other electronic accessories.

(*2) Miscellaneous other revenue includes revenue from considerations received for the data broadcasting channel use for product sales-type and sales of goods through data broadcasting.

(*3) Wireless service includes revenue from wireless voice and data transmission services principally derived from wireless subscribers.

(*4) Other revenue includes revenue from billing and collection services as well as other miscellaneous services.

(*5) Internet Protocol Television ("IPTV") service revenue includes revenue from IPTV services principally derived from usage charges to IPTV subscribers.

(*6) Internet service includes revenue from the high speed broadband internet service principally derived from usage charges to subscribers as well as other miscellaneous services.

5. Deposits with Restrictions on Use

Deposits which are restricted in use as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Cash and cash equivalents(*)	₩ 58	43
Short-term financial instruments(*)	79,500	79,514
Long-term financial instruments(*)	372	375
	<u>₩ 79,930</u>	<u>79,932</u>

(*) Includes the followings: i) deposits restricted in use due to the court's order for seizure and collection of bonds; and ii) charitable trust fund established by the Group, profits from which shall be donated to charitable institutions. As of December 31, 2023, such deposits and funds cannot be withdrawn before maturity.

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For the years ended December 31, 2023 and 2022

6. Trade and Other Receivables

(1) Details of trade and other receivables as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	December 31, 2023		
	Gross amount	Loss allowance	Carrying amount
Current assets:			
Accounts receivable – trade	₩ 2,221,266	(242,734)	1,978,532
Short-term loans	78,824	(695)	78,129
Accounts receivable – other(*)	375,748	(31,398)	344,350
Accrued income	4,295	-	4,295
Guarantee deposits (Other current assets)	129,357	-	129,357
	<u>2,809,490</u>	<u>(274,827)</u>	<u>2,534,663</u>
Non-current assets:			
Long-term loans	71,847	(41,392)	30,455
Long-term accounts receivable – other(*)	314,409	(1,878)	312,531
Guarantee deposits	157,163	(300)	156,863
Long-term accounts receivable – trade (Other non-current assets)	12,320	(3)	12,317
	<u>555,739</u>	<u>(43,573)</u>	<u>512,166</u>
	<u>₩ 3,365,229</u>	<u>(318,400)</u>	<u>3,046,829</u>

(*) Gross and carrying amounts of accounts receivable – other as of December 31, 2023 include ₩ 273,945 million of financial instruments classified as fair value through profit or loss (“FVTPL”).

(In millions of won)

	December 31, 2022		
	Gross amount	Loss allowance	Carrying amount
Current assets:			
Accounts receivable – trade	₩ 2,205,530	(234,919)	1,970,611
Short-term loans	79,298	(708)	78,590
Accounts receivable – other(*)	522,091	(42,310)	479,781
Accrued income	1,732	-	1,732
Guarantee deposits (Other current assets)	113,204	-	113,204
	<u>2,921,855</u>	<u>(277,937)</u>	<u>2,643,918</u>
Non-current assets:			
Long-term loans	71,857	(44,884)	26,973
Long-term accounts receivable – other(*)	375,829	(1,878)	373,951
Guarantee deposits	167,741	(300)	167,441
Long-term accounts receivable – trade (Other non-current assets)	14,165	(4)	14,161
	<u>629,592</u>	<u>(47,066)</u>	<u>582,526</u>
	<u>₩ 3,551,447</u>	<u>(325,003)</u>	<u>3,226,444</u>

(*) Gross and carrying amounts of accounts receivable – other as of December 31, 2022 include ₩ 332,669 million of financial instruments classified as fair value through profit or loss (“FVTPL”).

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For the years ended December 31, 2023 and 2022

6. Trade and Other Receivables, Continued

(2) Changes in the loss allowance on accounts receivable – trade measured at amortized costs for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		Beginning balance	Impair ment	Write-offs (*)	Collection of receivables previously written-off	Business combination	Ending balance
2023	₩	234,923	37,906	(40,236)	10,144	-	242,737
2022	₩	238,881	27,053	(42,296)	11,282	3	234,923

(*) The Group writes off the trade and other receivables that are determined to be uncollectable due to reasons such as termination of operations or bankruptcy.

(3) The Group applies the practical expedient that allows the Group to estimate the loss allowance for accounts receivable – trade at an amount equal to the lifetime expected credit losses. The expected credit losses include the forward-looking information. To make the assessment, the Group uses its historical credit loss experience over the past three years and classifies the accounts receivable - trade by their credit risk characteristics and days overdue. Details of loss allowance on accounts receivable – trade as of December 31, 2023 are as follows:

(In millions of won)

			Less than 6 months	6 months ~ 1 year	1 ~ 3 years	More than 3 years
Telecommunications service revenue	Expected credit loss rate		1.51%	69.24%	88.55%	99.99%
	Gross amount	₩	1,467,781	48,329	139,925	21,545
	Loss allowance		22,130	33,461	123,906	21,542
Other revenue	Expected credit loss rate		2.30%	28.27%	53.39%	93.51%
	Gross amount	₩	516,401	4,100	11,378	24,127
	Loss allowance		11,903	1,159	6,075	22,561

As the Group is a wireless and fixed-line telecommunications service provider, the Group's financial assets measured at amortized cost primarily consist of receivables from numerous individual customers, therefore, no significant credit concentration risk arises.

Receivables related to other revenue mainly consist of receivables from corporate customers. The Group transacts only with corporate customers with credit ratings that are considered to be low at credit risk. In addition, the Group is not exposed to significant credit concentration risk as the Group regularly assesses their credit risk by monitoring their credit rating. While the contract assets are under the impairment requirements, no significant credit risk has been identified.

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7. Prepaid expenses

The Group pays commissions to its retail stores and authorized dealers, primarily for wireless telecommunication services based on their performance of attracting new customers and renewing contracts with existing customers, and recognizes costs that would not occur in case of not signing contracts with new and existing customers as prepaid expenses among the commissions. These prepaid expenses are amortized on a straight-line basis over the periods that the Group expects to maintain its customers.

(1) Details of prepaid expenses as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		<u>December 31, 2023</u>	<u>December 31, 2022</u>
Current assets:			
Incremental costs of obtaining contracts	₩	1,882,296	1,888,182
Others		71,473	86,133
	₩	<u>1,953,769</u>	<u>1,974,315</u>
Non-current assets:			
Incremental costs of obtaining contracts	₩	1,022,813	996,180
Others		63,294	77,242
	₩	<u>1,086,107</u>	<u>1,073,422</u>

(2) Incremental costs of obtaining contracts

The amortization in connection with incremental costs of obtaining contracts recognized for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		<u>2023</u>	<u>2022</u>
Amortization recognized	₩	2,505,724	2,485,593

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8. Contract Assets and Liabilities

In case of providing both wireless telecommunication services and sales of handsets, the Group allocated the consideration based on relative stand-alone selling prices and recognized unbilled receivables from handset sales as contract assets. The Group recognized receipts in advance for prepaid telecommunications services and unearned revenue for customer loyalty programs as contract liabilities.

(1) Details of contract assets and liabilities as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Contract assets:		
Allocation of consideration between performance obligations	₩ 129,771	132,221
Contract liabilities:		
Wireless service contracts	19,149	18,544
Customer loyalty programs	7,164	7,706
Fixed-line service contracts	146,106	136,880
Others	40,074	70,792
	<u>₩ 212,493</u>	<u>233,922</u>

(2) The amount of revenue recognized for the years ended December 31, 2023 and 2022 related to the contract liabilities carried forward from the prior periods are ₩141,460 million and ₩109,867 million, respectively. Details of revenue expected to be recognized from contract liabilities as of December 31, 2023 are as follows:

(In millions of won)

	<u>Less than 1 year</u>	<u>1 ~ 2 years</u>	<u>More than 2 years</u>	<u>Total</u>
Wireless service contracts	₩ 19,149	-	-	19,149
Customer loyalty programs	5,717	969	478	7,164
Fixed-line service contracts	93,587	9,502	43,017	146,106
Others	37,124	2,950	-	40,074
	<u>₩ 155,577</u>	<u>13,421</u>	<u>43,495</u>	<u>212,493</u>

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9. Inventories

(1) Details of inventories as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	December 31, 2023			December 31, 2022		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 174,255	(7,641)	166,614	156,919	(5,616)	151,303
Supplies	13,195	-	13,195	15,052	-	15,052
	₩ 187,450	(7,641)	179,809	171,971	(5,616)	166,355

(2) Inventories recognized as operating expenses for the years ended December 31, 2023 and 2022 are ₩1,264,302 million and ₩1,266,217 million, respectively, which are included in the cost of goods sold. In addition, valuation losses on inventories which are included in the cost of goods sold and other operating expenses amount to ₩2,025 million and ₩1,541 million for the years ended December 31, 2023 and 2022, respectively. Write-downs included in other operating expenses for the year ended December 31, 2023 are ₩19 million.

10. Long-term Investment Securities

(1) Details of long-term investment securities as of December 31, 2023 and 2022 are as follows:

(In millions of won)

Category		December 31, 2023	December 31, 2022
Equity instruments	FVOCI(*)	₩ 1,398,734	1,189,597
	FVTPL	8	44,440
		1,398,742	1,234,037
Debt instruments	FVTPL	280,642	176,699
		280,642	176,699
		₩ 1,679,384	1,410,736

(*) The Group designated investments in equity instruments that are not held for trading as financial assets at FVOCI, and the amounts of those equity instruments as of December 31, 2023 and 2022 are ₩1,398,734 million and ₩1,189,597 million, respectively.

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For the years ended December 31, 2023 and 2022

11. Business Combinations

(1) 2023

There were no changes in the Group due to the business combinations for the year ended December 31, 2023.

(2) 2022

1) Acquisition of SK m&service Co., Ltd. by PS&Marketing Corporation:

PS&Marketing Corporation obtained control over SK m&service Co., Ltd. by acquiring its 3,099,112 shares (100%) for the year ended December 31, 2022. As this transaction is a business combination under common control, the assets acquired and liabilities assumed were recognized at the carrying amounts in the ultimate controlling entity's consolidated financial statements, and the difference between the consideration transferred and the carrying amounts of net assets was recognized as capital surplus and others. Subsequent to the acquisition of control, SK m&service Co., Ltd. recognized ₩211,081 million of revenue and ₩4,157 million of net profit for the year ended December 31, 2022. In addition, assuming that the business combination occurred as of January 1, 2022, the Group would have been recognized ₩250,108 million of revenue and ₩4,695 million of net profit for the year ended December 31, 2022.

(i) Summary of the acquiree

	<u>Information of acquiree</u>
Corporate name	SK m&service Co., Ltd.
Location	16 th floor, 34, Supyo-ro, Jung-gu, Seoul, Korea
CEO	Park, Jeong-Min
Industry	Database and internet website service

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11. Business Combinations, Continued

- (ii) Considerations transferred and identifiable assets acquired and liabilities assumed as of the acquisition date are as follows:

(In millions of won)

	<u>Amounts</u>
I. Consideration transferred:	
Cash and cash equivalents	₩ 72,859
II. Fair value of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	10,547
Accounts receivable – trade and other, net	76,035
Inventories, net	3,349
Property and equipment, net	27,138
Intangible assets, net	12,462
Goodwill	2,516
Other assets	10,394
Accounts payable – trade and other	(53,894)
Income tax payable	(399)
Lease liabilities	(6,503)
Provisions	(991)
Defined benefit liabilities	(2,739)
Other liabilities	(18,337)
	<u>59,578</u>
III. Capital surplus and others(I -II)	₩ <u>13,281</u>

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12. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	Country	December 31, 2023		December 31, 2022	
		Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Investments in associates:					
SK China Company Ltd.	China	27.3	₩ 896,990	27.3	₩ 879,527
Korea IT Fund(*1)	Korea	63.3	336,404	63.3	324,860
UniSK	China	49.0	22,285	49.0	20,839
	Cayman				
SK Technology Innovation Company	Islands	49.0	70,409	49.0	69,375
SK MENA Investment B.V.	Netherlands	32.1	14,872	32.1	14,296
SK Latin America Investment S.A.	Spain	32.1	14,607	32.1	11,961
SK South East Asia Investment Pte. Ltd.	Singapore	20.0	355,282	20.0	357,537
Citadel Pacific Telecom Holdings, LLC (*2)	USA	15.0	45,901	15.0	48,542
SM. Culture & Contents Co., Ltd.(*3)	Korea	22.8	41,578	23.1	59,611
Invites Genomics Co., Ltd.(*4)					
(Formerly, Invites Healthcare Co., Ltd.)	Korea	31.1	-	31.1	-
Nam Incheon Broadcasting Co., Ltd.	Korea	27.3	14,344	27.3	13,575
Home Choice Corp.(*2)	Korea	17.8	3,215	17.8	4,456
Konan Technology Inc.	Korea	20.7	6,349	20.8	8,366
CMES Inc. (*2)	Korea	7.7	900	7.7	900
SK telecom Japan Inc.(*5)	Japan	33.0	1,239	-	-
12CM JAPAN and others(*2,6,7)	-	-	81,142	-	69,734
			₩ 1,905,517		₩ 1,883,579
Investments in joint ventures:					
UTC Kakao-SK Telecom ESG Fund(*8)	Korea	48.2	9,495	48.2	5,710
			9,495		5,710
			₩ 1,915,012		₩ 1,889,289

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12. Investments in Associates and Joint Ventures, Continued

(1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2023 and 2022 are as follows, Continued:

(*1) Investment in Korea IT Fund was classified as investment in associates as the Group does not have control over the investee under the contractual agreement with other shareholders.

(*2) These investments were classified as investments in associates as the Group can exercise significant influence through its right to appoint the members of the Board of Directors even though the Group has less than 20% of equity interests.

(*3) The Group recognized an impairment loss of ₩18,755 million as the recoverable amount was assessed to be less than the carrying amount for the year ended December 31, 2023.

(*4) The Group recognized the carrying amount of investments in Invites Genomics Co., Ltd. (Formerly, Invites Healthcare Co., Ltd.) in its entirety as an impairment loss for the year ended December 31, 2022.

(*5) The Group disposed of a portion of shares in SK telecom Japan Inc., which was a subsidiary of the Parent Company, to SK hynix Inc. and SK Square Co., Ltd. for ₩4,900 million in cash, from which it recognized ₩998 million of loss relating to investments in subsidiaries for the year ended December 31, 2023, and the remaining ownership interest is reclassified as investments in associates as of December 31, 2023.

(*6) The Group additionally contributed ₩6,000 million of investment in KB ESG Fund of the three telecommunications companies, ₩28 million in F&U Credit information Co., Ltd., ₩215 million of investment in KDX Korea Data Exchange, ₩132 million of investment in SK Venture Capital, LLC, and ₩261 million of investment in Walden SKT Venture Fund for the year ended December 31, 2023. Also, the Group obtained significant influence by contributing ₩6,500 million to Telecom Daeam Evaluation Jun B Corporation Co., Ltd., and ₩520 million to Covet Co., Ltd., for the year ended December 31, 2023.

(*7) The Group disposed of a portion of shares in Start-up Win-Win Fund for ₩550 million and a portion of SK-KNET Youth Startup Investment Cooperative for ₩4,400 million in cash for the year ended December 31, 2023.

(*8) The Group additionally contributed ₩4,000 million in cash to the investee for the year ended December 31, 2023, but there is no change in the ownership interest. The Group has joint control over the investee pursuant to the agreement with the other shareholders, thus the investment in the investee was classified as investments in joint ventures.

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12. Investments in Associates and Joint Ventures, Continued

(2) The market value of investments in listed associates as of December 31, 2023 and 2022 are as follows:

(In millions of won, except for share data)

	December 31, 2023			December 31, 2022		
	Market price per share (in won)	Number of shares	Market value	Market price per share (in won)	Number of shares	Market value
SM.Culture & Contents Co.,Ltd.	₩ 1,887	22,033,898	41,578	2,960	22,033,898	65,220
Konan Technology Inc.	32,600	2,359,160	76,909	28,250	1,179,580	33,323

(3) The condensed financial information of material associates as of and for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	Korea IT Fund	SK China Company Ltd.	SK South East Asia Investment Pte. Ltd.
As of December 31, 2023			
Current assets	₩ 128,344	1,350,607	213,522
Non-current assets	402,819	1,987,252	3,034,553
Current liabilities	-	99,083	502,728
Non-current liabilities	-	252,100	13,586

	2023		
Revenue	₩ 33,017	70,126	76,686
Profit (loss) for the year	16,330	87,462	(66,169)
Other comprehensive income (loss)	5,316	(56,660)	2,779
Total comprehensive income (loss)	21,646	30,802	(63,390)

(In millions of won)

	Korea IT Fund	SK China Company Ltd.	SK South East Asia Investment Pte. Ltd.
As of December 31, 2022			
Current assets	₩ 98,132	1,223,426	146,589
Non-current assets	414,804	2,050,001	3,034,335
Current liabilities	-	76,654	488,132
Non-current liabilities	-	276,525	-

	2022		
Revenue	₩ 19,916	62,334	72,658
Profit (loss) for the year	7,505	(11,681)	(17,504)
Other comprehensive income (loss)	(11,779)	58,034	(34,220)
Total comprehensive income (loss)	(4,274)	46,353	(51,724)

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12. Investments in Associates and Joint Ventures, Continued

(4) Reconciliations of financial information of material associates to carrying amounts of investments in associates in the consolidated financial statements as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		December 31, 2023				
		Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
Korea IT Fund	₩	531,163	63.3	336,404	-	336,404
SK China Company Ltd.		2,986,676	27.3	814,503	82,487	896,990
SK South East Asia Investment Pte. Ltd. (*)		1,776,411	20.0	355,282	-	355,282

(In millions of won)

		December 31, 2022				
		Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
Korea IT Fund	₩	512,936	63.3	324,860	-	324,860
SK China Company Ltd.		2,920,248	27.3	796,387	83,140	879,527
SK South East Asia Investment Pte. Ltd. (*)		1,787,685	20.0	357,537	-	357,537

(*) Net assets of these entities represent net assets excluding those attributable to their non-controlling interests.

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12. Investments in Associates and Joint Ventures, Continued

(5) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023					
	Beginning balance	Acquisition and disposal	Share of profit (loss)	Other comprehensive income (loss)	Other increase (decrease)	Ending balance
Investments in associates:						
SK China Company Ltd.	₩ 879,527	-	24,054	(6,591)	-	896,990
Korea IT Fund(*1)	324,860	-	10,343	3,366	(2,165)	336,404
UniSK(*1)	20,839	-	2,079	102	(735)	22,285
SK Technology Innovation Company	69,375	-	(178)	1,212	-	70,409
SK MENA Investment B.V.	14,296	-	335	241	-	14,872
SK Latin America Investment S.A.	11,961	-	1,974	672	-	14,607
SK South East Asia Investment Pte. Ltd.	357,537	-	(12,881)	10,626	-	355,282
Citadel Pacific Telecom Holdings, LLC (*1)	48,542	-	2,628	637	(5,906)	45,901
SM. Culture & Contents Co., Ltd.(*2)	59,611	(679)	593	808	(18,755)	41,578
Nam Incheon Broadcasting Co., Ltd.(*1)	13,575	-	905	-	(136)	14,344
Home Choice Corp.	4,456	-	(1,241)	-	-	3,215
Konan Technology Inc.	8,366	(44)	(2,100)	127	-	6,349
CMES Inc.	900	-	-	-	-	900
SK telecom Japan Inc.(*3)	-	-	-	-	1,239	1,239
12CM JAPAN and others(*1,4)	69,734	8,706	5,108	(2,264)	(142)	81,142
	<u>1,883,579</u>	<u>7,983</u>	<u>31,619</u>	<u>8,936</u>	<u>(26,600)</u>	<u>1,905,517</u>
Investments in joint ventures:						
UTC Kakao-SK Telecom ESG Fund	5,710	4,000	(215)	-	-	9,495
	<u>5,710</u>	<u>4,000</u>	<u>(215)</u>	<u>-</u>	<u>-</u>	<u>9,495</u>
	<u>₩ 1,889,289</u>	<u>11,983</u>	<u>31,404</u>	<u>8,936</u>	<u>(26,600)</u>	<u>1,915,012</u>

SK TELECOM CO., LTD. and its Subsidiaries

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12. Investments in Associates and Joint Ventures, Continued

(5) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2023 and 2022 are as follows, Continued:

(*1) Dividends received from the associates are deducted from the carrying amount for the year ended December 31, 2023.

(*2) The Group recognized ₩18,755 million of impairment loss for the year ended December 31, 2023.

(*3) The Group disposed of a portion of shares in SK telecom Japan Inc., which was a subsidiary of the Parent Company, resulting in the reclassification of the remaining shares as an investment in associates for the year ended December 2023.

(*4) The acquisition for the year ended December 31, 2023 includes ₩6,500 million of investment in Telecom Daean Evaluation Jun B Corporation Co., Ltd., ₩6,000 million of investment in KB ESG Fund of the three telecommunications companies, ₩215 million of investment in KDX Korea Data Exchange, ₩132 million of investment in SK Venture Capital, LLC, ₩261 million of investment in Walden SKT Venture Fund, ₩520 million of investment in Covet Co., Ltd., and ₩28 million of investment in F&U Credit information Co., Ltd. The disposal for the year ended December 31, 2023 includes a portion of shares in Start-up Win-Win Fund for ₩550 million and a portion of SK-KNET Youth Startup Investment Cooperative for ₩4,400 million for the year ended December 31, 2023.

SK TELECOM CO., LTD. and its Subsidiaries

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12. Investments in Associates and Joint Ventures, Continued

(5) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2023 and 2022 are as follows, Continued:

(In millions of won)

	2022					
	Beginning balance	Acquisition and disposal	Share of profit (loss)	Other comprehensive income (loss)	Other increase (decrease)	Ending balance
Investments in associates:						
SK China Company Ltd.	₩ 793,754	-	(19,395)	105,168	-	879,527
Korea IT Fund (*1)	339,976	-	4,753	(7,459)	(12,410)	324,860
HanaCard Co., Ltd.	349,866	(368,389)	17,749	774	-	-
UniSK	19,156	-	2,424	(741)	-	20,839
SK Technology Innovation Company	86,301	-	(22,923)	5,997	-	69,375
SK MENA Investment B.V.	15,343	-	(2,059)	1,012	-	14,296
SK Latin America Investment S.A.	14,004	-	(2,083)	40	-	11,961
SK South East Asia Investment Pte. Ltd.	348,782	-	(6,975)	15,730	-	357,537
Pacific Telecom Inc.	43,789	-	2,890	1,863	-	48,542
SM. Culture & Contents Co., Ltd.	60,261	37	(756)	69	-	59,611
Digital Games International Pte. Ltd.	2,208	(1,757)	(562)	111	-	-
Invites Genomics Co., Ltd.(*2) (Formerly, Invites Healthcare Co., Ltd.)	26,474	-	(11,759)	(74)	(14,641)	-
Nam Incheon Broadcasting Co., Ltd.(*1)	12,525	-	1,186	-	(136)	13,575
Home Choice Corp.	3,052	-	1,403	1	-	4,456
Konan Technology Inc.	3,639	5,451	(710)	(14)	-	8,366
CMES Inc.(*3)	-	-	-	-	900	900
12CM JAPAN and others(*4)	68,966	1,873	1,245	-	(2,350)	69,734
	<u>2,188,096</u>	<u>(362,785)</u>	<u>(35,572)</u>	<u>122,477</u>	<u>(28,637)</u>	<u>1,883,579</u>
Investments in joint ventures:						
Finnq Co., Ltd.	7,255	(3,840)	(3,617)	202	-	-
UTC Kakao-SK Telecom ESG Fund	2,000	4,000	(290)	-	-	5,710
	<u>9,255</u>	<u>160</u>	<u>(3,907)</u>	<u>202</u>	<u>-</u>	<u>5,710</u>
	<u>₩ 2,197,351</u>	<u>(362,625)</u>	<u>(39,479)</u>	<u>122,679</u>	<u>(28,637)</u>	<u>1,889,289</u>

SK TELECOM CO., LTD. and its Subsidiaries

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12. Investments in Associates and Joint Ventures, Continued

(5) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2023 and 2022 are as follows, Continued:

(*1) Dividends received from the associates are deducted from the carrying amount for the year ended December 31, 2022.

(*2) The Group recognized ₩14,641 million of impairment loss for the year ended December 31, 2022.

(*3) As the Group obtained significant influence over the investee, ₩900 million of financial assets at FVOCI are reclassified to investments in associates for the year ended December 31, 2022.

(*4) The acquisition for the year ended December 31, 2022 includes ₩2,000 million of cash investment in Smart SKT Infinitum Game Fund, ₩4,000 million of cash investment in KB ESG Fund of three telecommunications companies and ₩12 million of cash investment in SK Venture Capital, LLC. The disposal for the year ended December 31, 2022 includes ₩4,850 million relating to disposal of the part of shares of Start-up Win-Win Fund and ₩1,080 million relating to disposal of the part of shares of Daekyo Wipoongdangdang Contents Korea Fund. In addition, dividends amounting to ₩1,290 million received from Start-up Win-Win Fund deducted from the carrying amount for the year ended December 31, 2022.

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12. Investments in Associates and Joint Ventures, Continued

(6) The Group discontinued the application of equity method to the following investees due to their carrying amounts being reduced to zero. The details of cumulative unrecognized equity method losses as of December 31, 2023 are as follows:

(In millions of won)

	Unrecognized loss		Unrecognized change in equity	
	2023	Cumulative loss	2023	Cumulative loss
Invites Genomics Co., Ltd. (Formerly, Invites Healthcare Co., Ltd.)	₩ 7,844	7,844	1,179	1,179
Daehan Kanggun BcN Co., Ltd. and others	-	5,780	-	(124)
	₩ 7,844	13,624	1,179	1,055

13. Property and Equipment

(1) Property and equipment as of December 31, 2023 and 2022 are as follows:

(In millions of won)

December 31, 2023				
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Carrying amount
Land	₩ 1,248,200	-	-	1,248,200
Buildings	1,775,563	(1,001,721)	(450)	773,392
Structures	941,868	(705,388)	(1,601)	234,879
Machinery	37,688,793	(29,796,000)	(2,139)	7,890,654
Other	1,757,617	(1,271,597)	(863)	485,157
Right-of-use assets	2,549,003	(933,567)	(3,485)	1,611,951
Construction in progress	761,963	-	-	761,963
	₩ 46,723,007	(33,708,273)	(8,538)	13,006,196

(In millions of won)

December 31, 2022				
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Carrying amount
Land	₩ 1,005,857	-	-	1,005,857
Buildings	1,736,257	(950,582)	(450)	785,225
Structures	935,276	(668,019)	(1,601)	265,656
Machinery	37,100,715	(29,185,881)	(1,934)	7,912,900
Other	1,771,890	(1,273,655)	(841)	497,394
Right-of-use assets	2,555,685	(766,350)	(3,206)	1,786,129
Construction in progress	1,069,331	-	-	1,069,331
	₩ 46,175,011	(32,844,487)	(8,032)	13,322,492

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For the years ended December 31, 2023 and 2022

13. Property and Equipment, Continued

(2) Changes in property and equipment for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023						
	₩	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Impairment	Ending balance
Land	₩	1,005,857	12	(388)	242,719	-	-	1,248,200
Buildings		785,225	1,083	(294)	41,516	(54,138)	-	773,392
Structures		265,656	1,632	(198)	6,446	(38,657)	-	234,879
Machinery		7,912,900	553,541	(7,267)	1,734,474	(2,302,789)	(205)	7,890,654
Other		497,394	554,595	(1,205)	(476,097)	(89,506)	(24)	485,157
Right-of-use assets		1,786,129	345,761	(86,069)	(23,436)	(410,032)	(402)	1,611,951
Construction in progress		1,069,331	1,554,922	(26)	(1,862,264)	-	-	761,963
	₩	<u>13,322,492</u>	<u>3,011,546</u>	<u>(95,447)</u>	<u>(336,642)</u>	<u>(2,895,122)</u>	<u>(631)</u>	<u>13,006,196</u>

(In millions of won)

		2022							
	₩	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Impairment	Business combination (*)	Ending balance
Land	₩	972,800	79	(175)	30,364	-	-	2,789	1,005,857
Buildings		794,453	1,071	(638)	36,219	(54,463)	-	8,583	785,225
Structures		291,279	2,288	(32)	10,422	(38,301)	-	-	265,656
Machinery		7,997,927	560,889	(49,586)	1,696,447	(2,292,358)	(419)	-	7,912,900
Other		487,716	780,382	(938)	(672,199)	(105,730)	(391)	8,554	497,394
Right-of-use assets		1,559,333	720,932	(65,961)	(27,579)	(403,794)	(3,133)	6,331	1,786,129
Construction in progress		767,751	1,564,345	(1,709)	(1,261,937)	-	-	881	1,069,331
	₩	<u>12,871,259</u>	<u>3,629,986</u>	<u>(119,039)</u>	<u>(188,263)</u>	<u>(2,894,646)</u>	<u>(3,943)</u>	<u>27,138</u>	<u>13,322,492</u>

(*) Includes assets acquired from SK m&service Co., Ltd. by PS&Marketing Corporation, a subsidiary of the Parent Company for the year ended December 31, 2022.

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14. Investment Property

(1) Investment property as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	December 31, 2023			December 31, 2022		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 14,199	-	14,199	6,115	-	6,115
Buildings	27,462	(17,220)	10,242	21,490	(14,606)	6,884
Right-of-use assets	16,975	(6,604)	10,371	17,057	(4,919)	12,138
	₩ 58,636	(23,824)	34,812	44,662	(19,525)	25,137

(2) Changes in investment property for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023			
	Beginning balance	Transfer	Depreciation	Ending balance
Land	₩ 6,115	8,084	-	14,199
Buildings	6,884	5,343	(1,985)	10,242
Right-of-use assets	12,138	473	(2,240)	10,371
	₩ 25,137	13,900	(4,225)	34,812

(In millions of won)

	2022			
	Beginning balance	Transfer	Depreciation	Ending balance
Land	₩ 6,071	44	-	6,115
Buildings	7,353	564	(1,033)	6,884
Right-of-use assets	9,610	4,124	(1,596)	12,138
	₩ 23,034	4,732	(2,629)	25,137

(3) The Group recognized lease income of ₩6,202 million and ₩5,222 million from investment property for the years ended December 31, 2023 and 2022, respectively.

(4) The fair value of investment property is ₩70,138 million and ₩73,934 million as of December 31, 2023 and 2022, respectively.

15. Leases

(1) Group as a lessee

1) Details of the right-of-use assets as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	December 31, 2023	December 31, 2022
Right-of-use assets:		
Land, buildings and structures	₩ 1,376,721	1,546,918
Others	235,230	239,211
	₩ 1,611,951	1,786,129

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15. Leases, Continued

(1) Group as a lessee, Continued

2) Details of amounts recognized in the consolidated statements of income for the years ended December 31, 2023 and 2022 as a lessee are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Depreciation of right-of-use assets:		
Land, buildings and structures	₩ 346,931	346,499
Others(*)	63,101	57,295
	<u>₩ 410,032</u>	<u>403,794</u>
Interest expense on lease liabilities	₩ 46,595	29,996

(*) Others include the amount reclassified as research and development expenses related to the lease contract for research and development facilities.

Expenses related to short-term leases and leases of low-value assets that the Group recognized are immaterial.

3) The total cash outflows due to lease payments for the years ended December 31, 2023 and 2022 amounted to ₩474,410 million and ₩449,196 million, respectively.

(2) Group as a lessor

1) Finance lease

The Group recognized interest income of ₩800 million and ₩910 million on lease receivables for the years ended December 31, 2023 and 2022, respectively.

The following table sets out a maturity analysis for lease receivables, presenting the undiscounted lease payments to be received subsequent to December 31, 2023.

(In millions of won)

	<u>Amount</u>
Less than 1 year	₩ 11,499
1 ~ 2 years	3,306
2 ~ 3 years	1,517
3 ~ 4 years	693
4 ~ 5 years	271
Undiscounted lease payments	<u>₩ 17,286</u>
Unrealized finance income	₩ 360
Net investment in the lease	16,926

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15. Leases, Continued

(2) Group as a lessor, Continued

2) Operating lease

The Group recognized lease income of ₩235,988 million and ₩246,279 million for the years ended December 31, 2023 and 2022, respectively, of which variable lease payments received are ₩2,694 million and ₩8,622 million, respectively.

The following table sets out a maturity analysis of lease payments, presenting the undiscounted fixed payments to be received subsequent to December 31, 2023.

(In millions of won)

	<u>Amount</u>	
Less than 1 year	₩	148,980
1 ~ 2 years		91,033
2 ~ 3 years		48,701
	₩	<u>288,714</u>

16. Goodwill

(1) Goodwill as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Goodwill related to merger of Shinsegi Telecom, Inc.	₩ 1,306,236	1,306,236
Goodwill related to acquisition of SK Broadband Co., Ltd.	764,082	764,082
Other goodwill	4,691	4,691
	₩ <u>2,075,009</u>	<u>2,075,009</u>

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16. Goodwill, Continued

(2) Details of the impairment testing of Goodwill as of December 31, 2023 is as follows:

Goodwill is allocated to the following CGUs for the purpose of impairment testing.

- goodwill related to Shinsegi Telecom, Inc.(*1): Cellular services;
- goodwill related to SK Broadband Co., Ltd.(*2): Fixed-line telecommunication services; and
- other goodwill: Others.

(*1) Goodwill related to merger of Shinsegi Telecom, Inc.

The recoverable amount of the CGU is based on its value in use calculated by applying the post-tax annual discount rate of 5.4% (2022: 6.7%) (pre-tax annual discount rate for 2023 and 2022: 8.4% and 9.0%) to the estimated future post-tax cash flows based on financial budgets for the next five years. An annual growth rate of 0.0% (2022: 0.0%) was applied for the cash flows expected to be incurred after five years and is not expected to exceed the long-term wireless telecommunication industry growth rate.

(*2) Goodwill related to acquisition of SK Broadband Co., Ltd.

The recoverable amount of the CGU is based on its value in use calculated by applying the post-tax annual discount rate of 6.2% (2022: 6.7%) (pre-tax annual discount rate for 2023 and 2022: 7.9% and 8.5%) to the estimated future post-tax cash flows based on financial budgets for the next five years. An annual growth rate of 1.0% (2022: 1.0%) was applied for the cash flows expected to be incurred after five years and is not expected to exceed the long-term fixed-line telecommunication industry growth rate.

(3) Details of the changes in goodwill for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Beginning balance	₩ 2,075,009	2,072,493
Acquisition(*)	-	2,516
Ending balance	<u>₩ 2,075,009</u>	<u>2,075,009</u>

(*) It consists of goodwill recognized as PS&Marketing Corporation's acquisition of SK m&service Co., Ltd for the years ended December 31, 2022 (See Note 11).

As of December 31, 2023 and 2022, accumulated impairment losses are ₩33,441 million, respectively.

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17. Intangible Assets

(1) Intangible assets as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	December 31, 2023			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Carrying amount
Frequency usage rights(*1)	₩ 3,564,907	(1,958,301)	-	1,606,606
Land usage rights	57,106	(56,519)	-	587
Industrial rights	97,993	(34,141)	(17,698)	46,154
Development costs	14,815	(14,766)	-	49
Facility usage rights	159,891	(145,578)	-	14,313
Customer relations	505,063	(231,913)	-	273,150
Club memberships(*2)	121,895	-	(24,709)	97,186
Other(*3)	4,851,168	(4,020,886)	(7,190)	823,092
	₩ 9,372,838	(6,462,104)	(49,597)	2,861,137

(In millions of won)

	December 31, 2022			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Carrying amount
Frequency usage rights(*1)	₩ 3,767,590	(1,499,158)	(186,000)	2,082,432
Land usage rights	59,389	(58,165)	-	1,224
Industrial rights	94,238	(30,068)	(12,378)	51,792
Development costs	14,497	(14,213)	-	284
Facility usage rights	157,651	(142,654)	-	14,997
Customer relations	505,063	(204,882)	-	300,181
Club memberships(*2)	116,401	-	(24,430)	91,971
Other(*3)	4,627,565	(3,839,030)	(6,506)	782,029
	₩ 9,342,394	(5,788,170)	(229,314)	3,324,910

(*1) The Parent Company was reassigned 800 MHz, 1.8 GHz and 2.1 GHz band of frequency licenses from the Ministry of Science and Information and Communication Technology ("ICT") in exchange for ₩227,200 million, ₩547,800 million and ₩411,700 million, respectively, for the year ended December 31, 2021. The band of frequency was assigned to the Parent Company at the date of initial lump sum payment for the year ended December 31, 2021 and the annual payments in installment for the remaining balances are made in the next five years starting from the date of initial lump sum payment.

(*2) Club memberships are classified as intangible assets with indefinite useful lives and are not amortized.

(*3) Other intangible assets primarily consist of computer software and others.

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17. Intangible Assets, Continued

(2) Changes in intangible assets for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023							Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment (*1)		
Frequency usage rights	₩ 2,082,432	-	-	-	(475,826)	-	1,606,606	
Land usage rights	1,224	155	(15)	40	(817)	-	587	
Industrial rights	51,792	4,563	(350)	-	(4,530)	(5,321)	46,154	
Development costs	284	-	-	-	(234)	(1)	49	
Facility usage rights	14,997	1,884	(16)	981	(3,533)	-	14,313	
Customer relations	300,181	-	-	-	(27,031)	-	273,150	
Club memberships	91,971	7,619	(2,174)	65	-	(295)	97,186	
Other	782,029	91,848	(1,752)	294,567	(339,478)	(4,122)	823,092	
	₩ 3,324,910	106,069	(4,307)	295,653	(851,449)	(9,739)	2,861,137	

(*1) The Group recognized the difference between recoverable amount and the carrying amount of intangible assets amounting to ₩9,739 million as impairment loss for the year ended December 31, 2023.

(In millions of won)

	2022							Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment (*1)	Business Combination(*2)	
Frequency usage rights	₩ 2,559,689	-	-	-	(477,257)	-	-	2,082,432
Land usage rights	2,732	-	-	-	(1,508)	-	-	1,224
Industrial rights	55,954	13,428	(823)	(103)	(4,324)	(12,343)	3	51,792
Development costs	200	-	-	-	(573)	-	657	284
Facility usage rights	17,874	1,396	(2)	252	(4,523)	-	-	14,997
Customer relations	327,257	-	-	-	(27,076)	-	-	300,181
Club memberships	88,494	9,926	(7,113)	-	-	(725)	1,389	91,971
Other	817,569	108,144	(380)	189,075	(342,776)	(16)	10,413	782,029
	₩ 3,869,769	132,894	(8,318)	189,224	(858,037)	(13,084)	12,462	3,324,910

(*1) The Group recognized the difference between recoverable amount and the carrying amount of intangible assets amounting to ₩13,084 million as impairment loss for the year ended December 31, 2022.

(*2) Includes assets acquired from the acquisition of SK m&service Co., Ltd. by PS&Marketing Corporation, a subsidiary of the Parent Company.

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17. Intangible Assets, Continued

(3) Research and development expenditures recognized as expense for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		<u>2023</u>	<u>2022</u>
Research and development costs expensed as incurred	₩	369,507	340,864

(4) Details of frequency usage rights as of December 31, 2023 are as follows:

(In millions of won)

	<u>Amount</u>	<u>Description</u>	<u>Commencement of amortization</u>	<u>Completion of amortization</u>
800MHz license	₩ 109,789	LTE service	Jul. 2021	Jun. 2026
1.8GHz license	308,534	LTE service	Dec. 2021	Dec. 2026
2.6GHz license	364,250	LTE service	Sep. 2016	Dec. 2026
2.1GHz license	231,879	W-CDMA and LTE service	Dec. 2021	Dec. 2026
3.5GHz license	592,154	5G service	Apr. 2019	Nov. 2028
	<u>₩ 1,606,606</u>			

18. Borrowings and Debentures

(1) Short-term borrowings as of December 31, 2023 and 2022 are as follows:

(In millions of won)

<u>Lender</u>	<u>Annual interest rate (%)</u>	<u>Maturity</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
BNK Securities. Co., Ltd.	-	-	- ₩	100,000
KEB Hana Bank	-	-	-	30,000
Hana Financial Investment Co., Ltd.	-	-	-	4,642
DB Financial Investment Co., Ltd.	-	-	-	2,785
Shinhan Financial Investment Co., Ltd.	-	-	-	5,571
			<u>₩</u>	<u>142,998</u>

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18. Borrowings and Debentures, Continued

(2) Long-term borrowings as of December 31, 2023 and 2022 are as follows:

(In millions of won)

Lender	Annual interest rate (%)	Maturity	December 31, 2023	December 31, 2022
Korea Development Bank(*1)	1.87	Feb. 10, 2026	₩ 28,125	40,625
Credit Agricole CIB(*2)	3M CD + 0.82	Dec. 14, 2023	-	12,500
Mizuho bank, Ltd.	1.35	May. 20, 2024	100,000	100,000
DBS bank Ltd.	1.30	May. 28, 2024	200,000	200,000
DBS bank Ltd.	2.65	Mar. 10, 2025	200,000	200,000
Credit Agricole CIB	3.30	Apr. 29, 2024	50,000	50,000
Mizuho Bank, Ltd.	3.29	Nov. 27, 2023	-	100,000
Nonghyup Bank(*3)	MOR + 1.36	Nov. 17, 2024	40,000	40,000
Credit Agricole CIB	4.89	Nov. 28, 2025	50,000	50,000
Mizuho Bank, Ltd.(*2)	3M CD + 1.05	Jul. 25, 2025	50,000	-
			718,125	793,125
Less: present value discount			(47)	(13)
			718,078	793,112
Less: current portions			(402,500)	(124,987)
			₩ 315,578	668,125

(*1) The long-term borrowings are to be repaid by installments on an annual basis from 2022 to 2026.

(*2) 3M CD rates are 3.83% and 3.98% as of December 31, 2023 and 2022, respectively.

(*3) 6M MOR rates are 3.85% and 4.35% as of December 31, 2023 and 2022, respectively.

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18. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2023 and 2022 are as follows:

(In millions of won and thousands of U.S. dollars)

	<u>Purpose</u>	<u>Maturity</u>	<u>Annual interest rate (%)</u>		<u>December 31, 2023</u>	<u>December 31, 2022</u>
Unsecured corporate bonds	Operating and refinancing fund	2032	3.45	₩	90,000	90,000
Unsecured corporate bonds	Operating fund	2023	3.03		-	230,000
Unsecured corporate bonds		2033	3.22		130,000	130,000
Unsecured corporate bonds		2024	3.64		150,000	150,000
Unsecured corporate bonds	Refinancing fund	2024	2.82		190,000	190,000
Unsecured corporate bonds	Operating and refinancing fund	2025	2.49		150,000	150,000
Unsecured corporate bonds		2030	2.61		50,000	50,000
Unsecured corporate bonds	Operating fund	2025	2.66		70,000	70,000
Unsecured corporate bonds		2030	2.82		90,000	90,000
Unsecured corporate bonds	Operating and refinancing fund	2025	2.55		100,000	100,000
Unsecured corporate bonds		2035	2.75		70,000	70,000
Unsecured corporate bonds	Operating fund	2026	2.08		90,000	90,000
Unsecured corporate bonds		2036	2.24		80,000	80,000
Unsecured corporate bonds		2026	1.97		120,000	120,000
Unsecured corporate bonds		2031	2.17		50,000	50,000
Unsecured corporate bonds	Refinancing fund	2027	2.55		100,000	100,000
Unsecured corporate bonds	Operating and refinancing fund	2032	2.65		90,000	90,000
Unsecured corporate bonds	Refinancing fund	2027	2.84		100,000	100,000
Unsecured corporate bonds		2023	2.81		-	100,000
Unsecured corporate bonds		2028	3.00		200,000	200,000
Unsecured corporate bonds		2038	3.02		90,000	90,000
Unsecured corporate bonds	Operating and refinancing fund	2023	2.33		-	150,000
Unsecured corporate bonds		2038	2.44		50,000	50,000
Unsecured corporate bonds	Operating fund	2024	2.09		120,000	120,000
Unsecured corporate bonds		2029	2.19		50,000	50,000
Unsecured corporate bonds		2039	2.23		50,000	50,000
Unsecured corporate bonds	Operating and refinancing fund	2024	1.49		60,000	60,000
Unsecured corporate bonds		2029	1.50		120,000	120,000
Unsecured corporate bonds		2039	1.52		50,000	50,000
Unsecured corporate bonds		2049	1.56		50,000	50,000
Unsecured corporate bonds	Operating fund	2024	1.76		70,000	70,000
Unsecured corporate bonds		2029	1.79		40,000	40,000
Unsecured corporate bonds		2039	1.81		60,000	60,000
Unsecured corporate bonds	Operating and refinancing fund	2023	1.64		-	170,000

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18. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2023 and 2022 are as follows, Continued:

(In millions of won and thousands of U.S. dollars)

	Purpose	Maturity	Annual interest rate (%)	December 31, 2023	December 31, 2022
Unsecured corporate bonds	Operating fund	2025	1.75	130,000	130,000
Unsecured corporate bonds		2030	1.83	50,000	50,000
Unsecured corporate bonds		2040	1.87	70,000	70,000
Unsecured corporate bonds	Refinancing fund	2025	1.40	140,000	140,000
Unsecured corporate bonds		2030	1.59	40,000	40,000
Unsecured corporate bonds		2040	1.76	110,000	110,000
Unsecured corporate bonds		2024	1.17	80,000	80,000
Unsecured corporate bonds		2026	1.39	80,000	80,000
Unsecured corporate bonds		2031	1.80	50,000	50,000
Unsecured corporate bonds		2041	1.89	100,000	100,000
Unsecured corporate bonds		2024	2.47	90,000	90,000
Unsecured corporate bonds		2026	2.69	70,000	70,000
Unsecured corporate bonds		2041	2.68	40,000	40,000
Unsecured corporate bonds		2025	3.80	240,000	240,000
Unsecured corporate bonds		2027	3.84	70,000	70,000
Unsecured corporate bonds		2042	3.78	40,000	40,000
Unsecured corporate bonds		2025	4.00	300,000	300,000
Unsecured corporate bonds		2027	4.00	95,000	95,000
Unsecured corporate bonds		2024	4.79	100,000	100,000
Unsecured corporate bonds		2025	4.73	110,000	110,000
Unsecured corporate bonds		2027	4.74	60,000	60,000
Unsecured corporate bonds		2032	4.69	40,000	40,000
Unsecured corporate bonds		2026	3.65	110,000	-
Unsecured corporate bonds		2028	3.83	190,000	-
Unsecured corporate bonds		2026	3.72	80,000	-
Unsecured corporate bonds		2028	3.80	200,000	-
Unsecured corporate bonds		2030	3.96	70,000	-
Unsecured corporate bonds		2026	4.54	115,000	-
Unsecured corporate bonds		2028	4.68	100,000	-
Unsecured corporate bonds		2030	4.72	50,000	-
Unsecured corporate bonds		2033	4.72	30,000	-
Unsecured corporate bonds(*1)	Operating fund	2023	2.93	-	80,000
Unsecured corporate bonds(*1)	Refinancing fund	2024	2.09	160,000	160,000
Unsecured corporate bonds(*1)	Operating and refinancing fund	2024	1.71	100,000	100,000
Unsecured corporate bonds(*1)		2026	1.86	50,000	50,000
Unsecured corporate bonds(*1)	Refinancing fund	2023	1.48	-	100,000
Unsecured corporate bonds(*1)	Operating and refinancing fund	2025	1.64	100,000	100,000

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18. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2023 and 2022 are as follows, Continued:

(In millions of won and thousands of U.S. dollars)

	Purpose	Maturity	Annual interest rate (%)	December 31, 2023	December 31, 2022
Unsecured corporate bonds(*1)	Refinancing fund	2025	1.41	160,000	160,000
Unsecured corporate bonds(*1)		2024	1.69	100,000	100,000
Unsecured corporate bonds(*1)		2025	2.58	100,000	100,000
Unsecured corporate bonds(*1)		2032	2.92	50,000	50,000
Unsecured corporate bonds(*1)	Operating and refinancing fund	2025	4.21	50,000	-
Unsecured corporate bonds(*1)		2026	4.28	100,000	-
Unsecured corporate bonds(*1)		2028	4.37	90,000	-
Unsecured corporate bonds(*1)	Facility fund	2026	4.87	100,000	-
Unsecured corporate bonds(*1)		2028	5.00	60,000	-
Unsecured global bonds	Operating fund	2027	6.63	515,760 (USD 400,000)	506,920 (USD 400,000)
Unsecured global bonds		2023	3.75	-	633,650 (USD 500,000)
Unsecured global bonds(*1)	Refinancing fund	2023	3.88	-	380,190 (USD 300,000)
Unsecured global bonds(*1)		2028	4.88	386,820 (USD 300,000)	-
Floating rate notes(*2)	Operating fund	2025	SOFR rate + 1.17	386,820 (USD 300,000)	380,190 (USD 300,000)
Convertible bonds(*3)	Operating fund	2028	-	3,868 (USD 3,000)	-
Convertible bonds(*3)		2028	-	3,868 (USD 3,000)	-
Convertible bonds(*3)		2028	-	2,579 (USD 2,000)	-
Convertible bonds(*3)		2028	-	10,444 (USD 8,100)	-
Convertible bonds(*3)		2028	-	20,824 (USD 16,150)	-
Convertible bonds(*3)		2028	-	9,993 (USD 7,750)	-
Convertible bonds(*3)		2028	-	10,315 (USD 8,000)	-
				8,351,291	8,385,950
Less: discounts on bond				(25,648)	(19,256)
				8,325,643	8,366,694
Less: current portions of bonds				(1,219,344)	(1,842,599)
				<u>₩ 7,106,299</u>	<u>6,524,095</u>

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18. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2023 and 2022 are as follows, Continued:

(*1) Unsecured corporate bonds were issued by SK Broadband Co., Ltd., a subsidiary of the Parent Company.

(*2) Interest rates applied are SOFR rate 5.38% as of December 31, 2023 and LIBOR rate (3 month) 4.75% + 0.91% as of December 31, 2022.

(*3) Convertible bonds were issued by SAPEON Inc., a subsidiary of the Parent Company, and the conditions for issuing convertible bonds and changes are as follows:

1) As of December 31, 2023, the conditions for issuing convertible bonds are as follows:

(In millions of won and thousands of U.S. dollars)

	Series				
	1	2	3	4	5
Total amount of convertible bonds authorized	3,868 (USD 3,000)	3,868 (USD 3,000)	2,579 (USD 2,000)	10,444 (USD 8,100)	20,824 (USD 16,150)
Coupon rate	0% (However, if not converted, 4% from January 1, 2025, to three years from the issue date, and 8% thereafter until the maturity of the convertible bonds)				
Repayment of interest and principal	Lump-sum repayment at maturity with accrued interest added to the issued amount				
Convertible period	Until the maturity date or the mandatory conversion date				
Type of shares to be issued upon conversion	Registered common stock or securities identical to subsequent investments				
Conversion ratio	100%				
Conversion price (In U.S. dollars)	USD 410.22 per share				
Early redemption right	Exercisable from January 1, 2025, in case of non-fulfillment of certain conditions				

(In millions of won and thousands of U.S. dollars)

	Series	
	6	7
Total amount of convertible bonds authorized	9,993 (USD 7,750)	10,315 (USD 8,000)
Coupon rate	0%(However, if not converted, 4% from January 1, 2025, to three years from the issue date, and 8% thereafter until the maturity of the convertible bonds)	
Repayment of interest and principal	Lump-sum repayment at maturity with accrued interest added to the issued amount	
Convertible period	Until the maturity date or the mandatory conversion date	
Type of shares to be issued upon conversion	Registered common stock or securities identical to subsequent investments	
Conversion ratio	100%	
Conversion price (In U.S. dollars)	USD 410.22 per share	
Early redemption right	Exercisable from January 1, 2025, in case of non-fulfillment of certain conditions	

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18. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2023 and 2022 are as follows, Continued:

(*3) Convertible bonds were issued by SAPEON Inc., a subsidiary of the Parent Company, and the conditions for issuing convertible bonds and changes are as follows, Continued

The conversion rights of the aforementioned convertible bonds are classified as equity

2) The carrying amount of changes in the liability component (present value of non-convertible bonds) of the convertible bonds for the year ended December 31, 2023 are as follows

(In millions of won and thousands of U.S. dollars)

	<u>2023</u>
Beginning balance	-
Issuance of convertible bonds	54,284 (USD 41,932)
Amortization based on effective interest rate	4,951 (USD 4,007)
Ending balance	<u>59,235</u> (USD 45,939)

The liability component of convertible bonds (present value of non-convertible bonds) is measured at amortized cost using the effective interest rate.

19. Long-term Payables – other

(1) As of December 31, 2023 and 2022, details of long-term payables – other which consist of payables related to the acquisition of frequency usage rights are as follows (See note 17):

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Long-term payables – other	₩ 1,290,225	1,690,470
Present value discount on long-term payables – other	(29,772)	(52,129)
Current portion of long-term payables – other	(367,770)	(398,874)
Carrying amount as of December 31	<u>₩ 892,683</u>	<u>1,239,467</u>

(2) The sum of portions repaid among the principal of long-term payables – other for the years ended December 31, 2023 and 2022 amounts to ₩400,245 million and ₩400,245 million, respectively. The repayment schedule of the principal amount of long-term payables – other as of December 31, 2023 is as follows:

(In millions of won)

	<u>Amount</u>
Less than 1 year	₩ 369,150
1 ~ 3 years	738,300
3 ~ 5 years	182,775
	<u>₩ 1,290,225</u>

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20. Provisions

Changes in provisions for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023						As of December 31, 2023	
	Beginning balance	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for restoration	₩ 115,089	8,041	(2,397)	(714)	5	120,024	37,073	82,951
Emission allowance	2,186	2,404	(635)	(2,773)	-	1,182	1,182	-
Other provisions	1,823	-	(1,005)	(108)	(492)	218	-	218
	₩ 119,098	10,445	(4,037)	(3,595)	(487)	121,424	38,255	83,169

(In millions of won)

	2022							As of December 31, 2022	
	Beginning balance	Increase	Utilization	Reversal	Other	Business combination	Ending balance	Current	Non-current
Provision for restoration	₩ 114,731	6,823	(5,679)	(1,767)	(10)	991	115,089	36,998	78,091
Emission allowance	1,885	2,719	-	(2,418)	-	-	2,186	2,186	-
Other provisions	10,379	4,071	(9,509)	(3,080)	(38)	-	1,823	499	1,324
	₩ 126,995	13,613	(15,188)	(7,265)	(48)	991	119,098	39,683	79,415

21. Defined Benefit Liabilities (Assets)

(1) Details of defined benefit liabilities (assets) as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		December 31, 2023	December 31, 2022
Present value of defined benefit obligations	₩	1,121,679	1,038,320
Fair value of plan assets		(1,292,416)	(1,214,007)
Defined benefit assets(*)		(170,737)	(175,748)
Defined benefit liabilities		-	61

(*) Since the Group entities neither have legally enforceable right nor intention to settle the defined benefit obligations of Group entities with defined benefit assets of other Group entities, defined benefit assets of Group entities have been separately presented from defined benefit liabilities.

(2) Principal actuarial assumptions as of December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
Discount rate for defined benefit obligations	3.71% ~ 4.79%	5.09% ~ 5.71%
Expected rate of salary increase	2.00% ~ 5.27%	2.00% ~ 8.37%

Discount rate for defined benefit obligation is determined based on market yields of high-quality corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of salary increase is determined based on the Group's historical promotion index, inflation rate and salary increase ratio.

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21. Defined Benefit Liabilities (Assets), Continued

(3) Changes in present value of defined benefit obligations for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Beginning balance	₩ 1,038,320	1,035,016
Current service cost	132,465	134,847
Interest cost	54,032	32,572
Remeasurement		
- Demographic assumption	810	(28,222)
- Financial assumption	(24,953)	(84,532)
- Adjustment based on experience	18,814	2,369
Business combinations(*1)	-	29,357
Benefit paid	(99,396)	(79,117)
Others(*2)	1,587	(3,970)
Ending balance	₩ <u>1,121,679</u>	<u>1,038,320</u>

(*1) Includes liabilities acquired from the acquisition of SK m&service Co., Ltd. by PS&Marketing Corporation, a subsidiary of the Parent Company for the year ended December 31, 2022.

(*2) Others include changes in liabilities due to employee's transfers among affiliates for the years ended December 31, 2023 and 2022.

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21. Defined Benefit Liabilities (Assets), Continued

(4) Changes in fair value of plan assets for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Beginning balance	₩ 1,214,007	1,040,286
Interest income	62,058	32,910
Remeasurement	(2,140)	(18,622)
Contributions	108,224	215,254
Benefit paid	(90,452)	(83,123)
Business combinations(*1)	-	26,618
Others(*2)	719	684
Ending balance	₩ <u>1,292,416</u>	<u>1,214,007</u>

(*1) Includes liabilities acquired from the acquisition of SK m&service Co., Ltd. by PS&Marketing Corporation, a subsidiary of the Parent Company for the years ended December 31, 2022.

(*2) Others include changes in assets due to the employee's transfers among affiliates for the years ended December 31, 2023 and 2022.

The Group's expected contributions to the defined benefit plan for the year ended December 31, 2024, amounts to ₩150,608 million.

(5) Total cost of defined benefit plan, which is recognized in profit or loss for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Current service cost	₩ 132,465	134,847
Net interest income	(8,026)	(338)
	₩ <u>124,439</u>	<u>134,509</u>

Costs related to the defined benefit plan except for the amounts transferred to construction in progress are included in labor expenses and research and development expenses.

(6) Details of plan assets as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Equity instruments	₩ 72,619	17,716
Debt instruments	162,374	174,385
Short-term financial instruments, etc.	1,057,423	1,021,906
	₩ <u>1,292,416</u>	<u>1,214,007</u>

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21. Defined Benefit Liabilities (Assets), Continued

(7) Sensitivity analysis

As of December 31, 2023, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

(In millions of won)

		<u>0.5% Increase</u>	<u>0.5% Decrease</u>
Discount rate	₩	(37,694)	40,345
Expected salary increase rate		40,624	(38,319)

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan but provides approximate values of sensitivity for the assumptions used.

A weighted average duration of defined benefit obligations as of December 31, 2023 and 2022 are 7.27 years and 7.53 years, respectively.

(8) Defined contribution plan

The amount recognized as an expense for defined contribution plans are ₩20,404 million and ₩15,529 million for the years ended December 31, 2023 and 2022, respectively.

22. Derivative Instruments

(1) Currency and interest rate swap contracts under cash flow hedge accounting as of December 31, 2023 are as follows:

(In millions of won and thousands of U.S. dollars)

<u>Borrowing date</u>	<u>Hedging Instrument (Hedged item)</u>	<u>Hedged risk</u>	<u>Financial institution</u>	<u>Duration of contract</u>
Jul. 20, 2007	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)	Foreign currency risk	Morgan Stanley and four other banks	Jul. 20, 2007 ~ Jul. 20, 2027
Mar. 4, 2020	Floating-to-fixed cross-currency interest rate swap (U.S. dollar-denominated bonds face value of USD 300,000)	Foreign currency risk and Interest rate risk	Citibank	Mar. 4, 2020 ~ Jun. 4, 2025
Jun. 28, 2023	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)	Foreign currency risk	Citi bank, Shinhan Bank, Korea Development Bank and J.P. Morgan	Jun. 28, 2023 ~ Jun. 28, 2028

As of December 31, 2023, the changes in fair value of derivatives designated as hedging instrument, which are all effective in hedging, were recognized in full in other comprehensive income.

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22. Derivative Instruments, Continued

- (2) SK Broadband Co., Ltd., a subsidiary of the Parent Company, entered into Total Return Swap(TRS) contract amounting to ₩270,000 million and ₩64,000 million with beneficiary certificates as underlying asset with IGIS Professional Investment Type Private Real Estate Investment Trust No. 156 and Hana Professional Alternative Investment Type Private Real Estate Investment Trust No. 62, respectively. The contracts consist of the settlement of the difference resulting from the change in the value of the real estate on the maturity date of the contract and the settlement of the difference between the dividend and the standard dividend during the contract period. SK Broadband Co., Ltd. has an obligation to guarantee fixed rate of returns to the other party to each contract. SK Broadband Co., Ltd. recognized long-term derivative financial assets of ₩21,027 million and ₩20,631 million for TRS as of December 31, 2023 and 2022, respectively. Long-term derivative financial assets were measured using the discounted present value methods for estimated future cash flows.
- (3) In relation to the business acquisition by SK Broadband Co., Ltd. for the year ended December 31, 2020 the Parent Company has entered into a shareholders' agreement with the shareholders of the acquirees. Pursuant to the agreement, when certain conditions are met within a period of time subsequent to the merger, the shareholders of the acquirees can exercise their drag-along rights and require the Parent Company to sell its shares in SK Broadband Co., Ltd. Should the shareholders exercise their drag-along rights, the Parent Company also can exercise its call options over the shares held by those shareholders. The Group recognized a long-term derivative financial liability of ₩295,876 million (₩302,593 million as of December 31, 2022) for the rights prescribed in the shareholders' agreement as of December 31, 2023.

The fair value of SK Broadband Co., Ltd.'s common stock was estimated using 5-year projected cash flows discounted at 6.2% per annum. The fair value of the derivative financial liability was determined by using the Binomial Model based on various assumptions including the price of common stock and its price fluctuations. The significant unobservable inputs used in the fair value measurement and inter-relationship between significant unobservable inputs and fair value measurement are as follows:

<u>Significant unobservable inputs</u>	<u>Correlations between inputs and fair value measurements</u>
Fair value of SK Broadband Co., Ltd.'s common stock	The estimated fair value of derivative financial liabilities would decrease (increase) if the fair value of common stock would increase (decrease)
Volatility of stock price	The estimated fair value of derivative financial liabilities would decrease (increase) if the volatility of stock price increase (decrease)

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22. Derivative Instruments, Continued

- (4) The Parent Company has entered into the agreement with Newberry Global Limited, whereby the Group has been granted subscription right and contingent subscription right to acquire Newberry series-C redeemable convertible preferred stock for the year ended December 31, 2020. The Parent Company recognized derivative financial assets of ₩13,136 million and ₩8,083 million as of December 31, 2022, respectively, for subscription right and contingent subscription right. There is no balance for derivative financial assets as of December 31, 2023, as the exercise period expired without the exercise of subscription rights and contingent subscription rights for the year ended December 31, 2023.
- (5) The Parent Company has entered into the agreement with HAEGIN Co., Ltd., whereby the Parent Company has been granted contingent subscription right to acquire HAEGIN Co., Ltd.'s common stock for the year ended December 31, 2022. The Parent Company is able to exercise the right in accordance with the agreement when certain conditions are met and recognized long-term derivative financial assets of ₩2,323 million for the contingent subscription right as of December 31, 2023. The fair value of HAEGIN Co., Ltd.'s common stock was estimated using 5-year projected cash flows discounted at 13.0% per annum. Meanwhile, if the fair value of HAEGIN Co., Ltd.'s common stock, significant unobservable input used in the fair value measurement, increases (decreases), the estimated fair value of derivative financial asset would increase (decrease). If the volatility of stock price, significant unobservable input used in the fair value measurement, increases (decreases), the estimated fair value of derivative financial asset would increase (decrease).

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22. Derivative Instruments, Continued

- (6) The fair value of derivative financial instruments to which the Group applies cash flow hedging is recorded in the consolidated financial statements as long-term derivative financial assets and long-term derivative financial liabilities. As of December 31, 2023, details of fair values of the derivative assets and liabilities are as follows:

(In millions of won and thousands of U.S. dollars)

Hedging instrument (Hedged item)	Cash flow hedge	Fair value
Non-current assets:		
Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)	₩ 80,426	80,426
Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)	35,784	35,784
	₩ 116,210	116,210
Non-current liabilities:		
Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)	₩ (9,212)	(9,212)
	₩ (9,212)	(9,212)

As of December 31, 2023, the changes in fair value of derivatives designated as hedging instrument, which are all effective in hedging, were recognized in full in other comprehensive income.

- (7) The fair value of derivatives held for trading is recorded in the consolidated financial statements as derivative financial assets, long-term derivative financial assets and long-term derivative financial liabilities. As of December 31, 2023, details of fair values of the derivative assets and liabilities are as follows:

(In millions of won)

	Held for trading	Fair value
Current assets:		
Contract for difference settlement	₩ 8,974	8,974
Non-current assets:		
Contingent subscription right	2,323	2,323
Contract for difference settlement	21,027	21,027
	₩ 32,324	32,324
Non-current liabilities:		
Drag-along and call option rights	₩ (295,876)	(295,876)
	₩ (295,876)	(295,876)

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23. Share Capital and Capital Surplus and Others

(1) Details of share capital as of December 31, 2023 and 2022 are as follows:

(In millions of won, except for share data)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Number of authorized shares	670,000,000	670,000,000
Par value (in won)	₩ 100	100
Number of issued shares	218,833,144	218,833,144
Share capital:		
Common share(*1)	₩ 30,493	30,493

(*1) In 2002 and 2003, The Parent Company retired treasury shares with reduction of its retained earnings before appropriation. As a result, the Group's issued shares have decreased without change in share capital.

(2) There were no changes in share capital of the Parent Company for the years ended December 31, 2023 and 2022.

(3) Details of shares outstanding as of December 31, 2023 and 2022 are as follows:

(In shares)

	<u>December 31, 2023</u>			<u>December 31, 2022</u>		
	<u>Issued shares</u>	<u>Treasury shares</u>	<u>Outstanding shares</u>	<u>Issued shares</u>	<u>Treasury shares</u>	<u>Outstanding shares</u>
Shares outstanding	218,833,144	6,133,414	212,699,730	218,833,144	801,091	218,032,053

(4) Details of capital surplus and others as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Paid-in surplus	₩ 1,771,000	1,771,000
Treasury shares (Note 24)	(301,981)	(36,702)
Hybrid bonds (Note 25)	398,509	398,759
Share option (Note 26)	9,818	2,061
Others(*)	(13,705,990)	(13,702,235)
	₩ <u>(11,828,644)</u>	<u>(11,567,117)</u>

(*) Others primarily consist of the excess of the consideration paid by the Group over the carrying amount of net assets acquired from entities under common control.

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24. Treasury Shares

(1) Treasury shares as of December 31, 2023 and 2022 are as follows:

(In millions of won, except for the number of shares)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Number of shares	6,133,414	801,091
Acquisition cost	₩ 301,981	36,702

(2) Changes in treasury shares for the years ended December 31, 2023 and 2022 are as follows:

(In shares)

	<u>2023</u>	<u>2022</u>
Treasury shares as of January 1	801,091	1,250,992
Acquisition(*1)	5,773,410	-
Disposal(*2)	(441,087)	(449,901)
Treasury shares as of December 31	<u>6,133,414</u>	<u>801,091</u>

(*1) The Parent Company acquired 5,773,410 of its treasury shares for ₩285,487 million in an effort to increase shareholder value by stabilizing its stock price for the years ended December 31, 2023.

(*2) The Parent Company distributed 441,087 treasury shares (acquisition cost: ₩20,208 million) as bonus payment to the employees, resulting in gain on disposal of treasury shares of ₩212 million for the year ended December 31, 2023. Also, the Parent Company distributed 449,901 treasury shares (acquisition cost: ₩20,612 million) as bonus payment to the employees, resulting in gain on disposal of treasury shares of ₩4,813 million for the year ended December 31, 2022.

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25. Hybrid Bonds

Hybrid bonds classified as equity as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	Type	Issuance date	Maturity (*1)	Annual interest rate(%)(*2)		December 31, 2023	December 31, 2022
Series 3 hybrid bonds	Unsecured subordinated bearer bond	June 5, 2023	June 5, 2083	4.95	₩	400,000	-
Series 2-1 hybrid bonds	Unsecured subordinated bearer bond	June 7, 2018	June 7, 2078	3.70		-	300,000
Series 2-2 hybrid bonds	Unsecured subordinated bearer bond	June 7, 2018	June 7, 2078	3.65		-	100,000
Issuance costs						(1,491)	(1,241)
					₩	<u>398,509</u>	<u>398,759</u>

The Parent Company redeemed previously issued hybrid bonds and issued new ones for the year ended December 31, 2023. As there is no contractual obligation to deliver financial assets to the holders of hybrid bonds, the Parent Company classified the hybrid bonds as equity.

These are subordinated bonds that rank before common shares in the event of a liquidation or reorganization of the Parent Company.

(*1) The Parent Company has a right to extend the maturity without any notice or announcement.

(*2) Annual interest rate is determined as yield rate of 5-year national bond plus premium. According to the step-up clause, additional premium of 0.25% and 0.75%, respectively, after 10 years and 25 years from the issuance date are applied.

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26. Share based payment Arrangement

26. 1 Share-based payment arrangement of the Parent Company

(1) The terms and conditions related to the grants of the share-based payment arrangement are as follows:

1) Share-based payment arrangement with cash alternatives

	Series				
	1-3	3	4	5	6
Grant date	March 24, 2017	February 22, 2019	March 26, 2019	March 26, 2020	March 25, 2021
Types of shares to be issued	Registered common shares of the Parent Company				
Grant method	Reissue of treasury shares, Cash settlement				
Number of shares (in share)	67,320	8,907	5,266	376,313	87,794
Exercise price (in won)	57,562	53,052	50,862	38,452	50,276
Exercise period	Mar. 25, 2021 ~ Mar. 24, 2024	Feb. 23, 2021 ~ Feb. 22, 2024	Mar. 27, 2021 ~ Mar. 26, 2024	Mar. 27, 2023 ~ Mar. 26, 2027	Mar. 26, 2023 ~ Mar. 25, 2026
Vesting conditions	4 years' service from the grant date	2 years' service from the grant date	2 years' service from the grant date	3 years' service from the grant date	2 years' service from the grant date

	Series	
	7-1	7-2
Grant date	March 25, 2022	
Types of shares to be issued	Registered common shares of the Parent Company	
Grant method	Reissue of treasury shares, Cash settlement	
Number of shares (in share)	295,275	109,704
Exercise price (in won)	56,860	56,860
Exercise period	Mar. 26, 2025 ~ Mar. 25, 2029	Mar. 26, 2024 ~ Mar. 25, 2027
Vesting conditions	2 years' service from the grant date	2 years' service from the grant date

(*) The remaining parts of 1-2st and 2nd share options were fully forfeited, and the 8th share option was canceled for the year ended December 31, 2023.

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26. Share based payment Arrangement, Continued

26. 1 Share-based payment arrangement of the Parent Company, Continued:

(1) The terms and conditions related to the grants of the share-based payment arrangement are as follows, Continued:

2) Cash-settled share-based payment arrangement

	Granted in 2021		Granted in 2022
	Share appreciation rights of SK Telecom Co., Ltd.(*)	Share appreciation rights of SK Square Co., Ltd.(*)	Share appreciation rights of SK Telecom Co., Ltd.
Grant date	January 1, 2021		January 1, 2022
Grant method		Cash settlement	
Number of shares (in share)	183,246	118,456	338,525
Exercise price (in won)	50,276		56,860
Exercise period	Jan. 1, 2023 ~ Mar. 28, 2024		Jan. 1, 2024 ~ Mar. 25, 2025
Vesting conditions	2 years' service from the grant date		2 years' service from the grant date

(*) Parts of the grant that have not met the vesting conditions have been forfeited for the year ended December 31, 2022.

3) Equity-settled share-based payment arrangement

The Parent Company newly established Performance Share Units ("PSU") for executives of the Parent Company and major subsidiaries as part of the compensation based on the growth of corporate value for the year ended December 31, 2023, and the details are as follows:

	PSU of SK Telecom Co., Ltd.
Grant date	March 28, 2023
Types of shares to be issued	Registered common shares of the Parent Company
Grant method	Reissue of treasury shares
Number of shares(*)	Fluctuates according to the share price on the expiration date and the cumulative increase rate of KOSPI200
Reference share price (in won)	47,280
Reference index (KOSPI200)	315
Maturity (exercise date)	The day in which the annual general meeting of shareholders is held after 3 years from the grant date
Vesting conditions	Full service in the year in which the grant date is included

(*) The initial amount granted is a total of ₩10,813 million, and the amount calculated according to the adjustment rate based on the share price on the expiration date and the cumulative increase rate of KOSPI200 will be paid in shares.

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26. Share based payment Arrangement, Continued

26. 1 Share-based payment arrangement of the Parent Company, Continued:

(2) Share compensation expense for share-based payment arrangements with cash alternatives recognized for the year ended December 31, 2023 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

(In millions of won)

	<u>Share compensation expense</u>
As of December 31, 2022	₩ 155,579
For the year ended December 31, 2023	2,171
In subsequent periods	504
	<u>₩ 158,254</u>

The liabilities recognized by the Parent Company in relation to the share-based payment arrangement with cash alternatives are ₩5,530 million and ₩4,221 million, respectively, which are included in accrued expenses as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the carrying amount of liabilities recognized by the Parent Company in relation to the cash-settled share-based payment arrangement are ₩1,133 million and ₩906 million, respectively.

Share compensation expenses recognized for equity-settled share-based payment arrangements are ₩6,267 million for the year ended December 31, 2023.

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26. Share based payment Arrangement, Continued

26. 1 Share-based payment arrangement of the Parent Company, Continued:

(3) The Parent Company used binomial option pricing model in the measurement of the fair value of the share options at the remeasurement date and the inputs used in the model are as follows:

1) Share-based payment arrangement with cash alternatives

(i) SK Telecom Co., Ltd.

(In won)

	Series						
	1-3	3	4	5	6	7-1	7-2
Risk-free interest rate	3.52%	3.49%	3.52%	3.14%	3.18%	3.15%	3.14%
Estimated option's life	7 years	5 years	5 years	7 years	5 years	7 years	5 years
Share price on the remeasurement date	50,100	50,100	50,100	50,100	50,100	50,100	50,100
Expected volatility	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%
Expected dividends yield	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%	6.60%
Exercise price	57,562	53,052	50,862	38,452	50,276	56,860	56,860
Per-share fair value of the option	63	310	1,157	11,648	3,400	2,466	1,974

(ii) SK Square Co., Ltd.

(In won)

	Series				
	1-3	3	4	5	6
Risk-free interest rate	2.07%	1.91%	1.78%	1.52%	1.55%
Estimated option's life	7 years	5 years	5 years	7 years	5 years
Share price (Closing price on the preceding day)	52,500	51,800	50,600	34,900	49,800
Expected volatility	13.38%	8.30%	7.70%	8.10%	25.70%
Expected dividends yield	3.80%	3.80%	3.90%	5.70%	4.00%
Exercise price	57,562	53,052	50,862	38,452	50,276
Per-share fair value of the option	3,096	1,720	1,622	192	8,142

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26. Share based payment Arrangement, Continued

26. 1 Share-based payment arrangement of the Parent Company, Continued:

(3) The Parent Company used binomial option pricing model in the measurement of the fair value of the share options at the remeasurement date and the inputs used in the model are as follows, Continued:

2) Cash-settled share-based payment arrangement

<i>(In won)</i>	<u>Granted in 2021</u>		<u>Granted in 2022</u>
	<u>Share appreciation rights of SK Telecom Co., Ltd.</u>	<u>Share appreciation rights of SK Square Co., Ltd.</u>	<u>Share appreciation rights of SK Telecom Co., Ltd.</u>
Risk-free interest rate	3.52%	3.52%	3.37%
Estimated option's life	3.25 years	3.25 years	3.25 years
Share price on the remeasurement date	50,100	52,600	50,100
Expected volatility	16.80%	30.90%	16.80%
Expected dividends yield	6.60%	0.00%	6.60%
Exercise price	50,276	50,276	56,860
Per-share fair value of the option	1,387	4,706	949

3) Equity-settled share-based payment arrangement

<i>(In won)</i>	<u>PSU of SK Telecom Co., Ltd.</u>
Risk-free interest rate	3.26%
Estimated option's life	3 years
Share price on the expected grant date	48,500
Expected volatility	18.67%
Expected dividends yield	4.90%
Per-share fair value of the option	27,525

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26. Share based payment Arrangement, Continued

26.2 Share-based payment arrangement by SAPEON Inc., a subsidiary of the Parent Company

(1) The terms and conditions related to the grants of the share-based payment arrangement are as follows:

	Series		
	1-1	1-2	2
Grant date	February 28, 2023		November 13, 2023
Types of shares to be issued	Registered common shares of SAPEON Inc.		
Grant method	Issuance of shares		
Number of shares (in share)	14,500	35,100	6,450
Exercise price (in U.S. dollars)	100.0		
Exercise period(*)	Jan. 4, 2024	Apr. 1, 2024	Feb. 1, 2025
	~ Jan. 4, 2032	~ Apr. 1, 2032	~ Feb. 1, 2033
Vesting conditions	2 years' service from the commencement date, 50%		
	3 years' service from the commencement date, 25%		
	4 years' service from the commencement date, 25%		

(*) The exercise periods vary as vesting periods for each share-based payment arrangement are different. The exercise period was disclosed based on the vesting period with the highest number of grants.

(2) Share compensation expense for share-based payment arrangements for the year ended December 31, 2023 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

(In millions of won)

	<u>Share compensation expense</u>
As of December 31, 2022	₩ -
For the year ended December 31, 2023	2,555
In subsequent periods	<u>1,312</u>
	<u>₩ 3,867</u>

(3) SAPEON Inc., a subsidiary of the Parent Company, used binomial option pricing model in the measurement of the fair value of the share options at grant date and the inputs used in the model are as follows:

(In U.S. dollars)

	1-1	1-2	2
Risk-free interest rate	4.18%	4.16%	4.67%
Estimated option's life	5.18 years	5.42 years	5.55 years
Underlying share price	107.8	107.8	118.1
Expected volatility	43.50%	43.00%	43.00%
Expected dividends yield	0.00%	0.00%	0.00%
Exercise price	100.0	100.0	100.0
Per-share fair value of the option	50.7	51.4	61.4

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27. Retained Earnings

(1) Retained earnings as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Appropriated:		
Legal reserve	₩ 22,320	22,320
Reserve for business expansion	9,831,138	9,631,138
Reserve for technology development	4,565,300	4,365,300
	<u>14,396,438</u>	<u>13,996,438</u>
Unappropriated	8,381,223	8,444,953
	<u>₩ 22,799,981</u>	<u>22,463,711</u>

(2) Legal reserve

The Korean Commercial Act requires the Parent Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to share capital.

28. Reserves

(1) Details of reserves, net of taxes, as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Valuation gain on FVOCI	₩ 176,208	173,281
Other comprehensive income of investments in associates and joint ventures	182,702	173,477
Valuation gain (loss) on derivatives	(1,488)	14,463
Foreign currency translation differences for foreign operations	29,794	30,012
	<u>₩ 387,216</u>	<u>391,233</u>

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28. Reserves, Continued

(2) Changes in reserves for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	Valuation gain on financial assets at FVOCI	Other comprehensive income of investments in associates and joint ventures	Valuation gain (loss) on derivatives	Foreign currency translation differences for foreign operations	Total
Balance as of January 1, 2022	₩ 633,240	53,770	33,918	14,310	735,238
Changes, net of taxes	(459,959)	119,707	(19,455)	15,702	(344,005)
Balance as of December 31, 2022	₩ 173,281	173,477	14,463	30,012	391,233
Changes, net of taxes	2,927	9,225	(15,951)	(218)	(4,017)
Balance as of December 31, 2023	₩ 176,208	182,702	(1,488)	29,794	387,216

(3) Changes in valuation gain on financial assets at FVOCI for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023	2022
Balance as of January 1	₩ 173,281	633,240
Amount recognized as other comprehensive income for the year, net of taxes	(18,883)	(490,959)
Amount reclassified to retained earnings, net of taxes	21,810	31,000
Balance as of December 31	₩ 176,208	173,281

(4) Changes in valuation gain (loss) on derivatives for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023	2022
Balance as of January 1	₩ 14,463	33,918
Amount recognized as other comprehensive income for the year, net of taxes	(18,725)	(25,630)
Amount reclassified to profit, net of taxes	2,774	6,175
Balance as of December 31	₩ (1,488)	14,463

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29. Other Operating Expenses

Details of other operating expenses for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Communication	₩ 32,238	31,881
Utilities	511,240	401,025
Taxes and dues	29,009	49,445
Repair	431,964	435,572
Research and development	369,507	340,864
Training	39,286	39,632
Bad debt for accounts receivable - trade	37,906	27,053
Travel	22,499	15,684
Supplies and other	130,330	113,839
	<u>₩ 1,603,979</u>	<u>1,454,995</u>

30. Other Non-Operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Other non-operating income:		
Gain on disposal of property and equipment and intangible assets	₩ 21,898	15,985
Others	28,468	39,913
	<u>₩ 50,366</u>	<u>55,898</u>
Other non-operating expenses:		
Loss on impairment of property and equipment and intangible assets	₩ 10,369	17,027
Loss on disposal of property and equipment and intangible assets	9,369	20,465
Donations	14,766	13,125
Bad debt for accounts receivable – other	5,256	3,011
Others	7,534	19,992
	<u>₩ 47,294</u>	<u>73,620</u>

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31. Finance Income and Costs

(1) Details of finance income and costs for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Finance income:		
Interest income	₩ 70,055	58,472
Gain on sale of accounts receivable – other	-	1,043
Dividends	43,014	2,552
Gain on foreign currency transactions	19,065	21,283
Gain on foreign currency translations	1,199	2,095
Gain relating to financial instruments at FVTPL	115,043	94,393
	<u>₩ 248,376</u>	<u>179,838</u>

(In millions of won)

	<u>2023</u>	<u>2022</u>
Finance costs:		
Interest expense	₩ 389,813	328,307
Loss on sale of accounts receivable – other	65,027	61,841
Loss on foreign currency transactions	21,693	19,485
Loss on foreign currency translations	1,227	3,814
Loss relating to financial instruments at FVTPL	49,641	41,597
Loss on disposal of investment assets	-	1,283
	<u>₩ 527,401</u>	<u>456,327</u>

(2) Details of interest income included in finance income for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Interest income on cash equivalents and financial instruments	₩ 44,921	27,991
Interest income on loans and others	25,134	30,481
	<u>₩ 70,055</u>	<u>58,472</u>

(3) Details of interest expenses included in finance costs for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Interest expense on borrowings	₩ 29,917	25,736
Interest expense on debentures	247,105	217,475
Others	112,791	85,096
	<u>₩ 389,813</u>	<u>328,307</u>

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31. Finance Income and Costs, Continued

(4) Finance income and costs by category of financial instruments for the years ended December 31, 2023 and 2022 are as follows. Bad debt expense (reversal of loss allowance) for accounts receivable – trade, loans and receivables are presented and explained separately in notes 6 and 36.

1) Finance income and costs

(In millions of won)

	2023	
	Finance income	Finance costs
Financial assets:		
Financial assets at FVTPL	₩ 127,001	114,668
Financial assets at FVOCI	39,681	-
Financial assets at amortized cost	69,373	22,795
Derivatives designated as hedging instrument	2,480	-
	<u>238,535</u>	<u>137,463</u>
Financial liabilities:		
Financial liabilities at FVTPL	6,717	-
Financial liabilities at amortized cost	3,124	389,938
	<u>9,841</u>	<u>389,938</u>
	<u>₩ 248,376</u>	<u>527,401</u>

(In millions of won)

	2022	
	Finance income	Finance costs
Financial assets:		
Financial assets at FVTPL	₩ 104,068	103,292
Financial assets at FVOCI	1,495	1,283
Financial assets at amortized cost	45,008	23,094
Derivatives designated as hedging instrument	-	146
	<u>150,571</u>	<u>127,815</u>
Financial liabilities:		
Financial liabilities at FVTPL	18,432	-
Financial liabilities at amortized cost	10,835	328,512
	<u>29,267</u>	<u>328,512</u>
	<u>₩ 179,838</u>	<u>456,327</u>

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31. Finance Income and Costs, Continued

(4) Finance income and costs by category of financial instruments for the years ended December 31, 2023 and 2022 are as follows. Bad debt expense (reversal of loss allowance) for accounts receivable – trade, loans and receivables are presented and explained separately in notes 6 and 36, Continued.

2) Other comprehensive income (loss), net of tax

(In millions of won)

	<u>2023</u>	<u>2022</u>
Financial assets:		
Financial assets at FVOCI	₩ (18,842)	(491,853)
Derivatives designated as hedging instrument	(11,520)	(21,548)
	<u>(30,362)</u>	<u>(513,401)</u>
Financial liabilities:		
Derivatives designated as hedging instrument	(5,940)	182
	<u>₩ (36,302)</u>	<u>(513,219)</u>

(5) Details of impairment losses for financial assets for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Accounts receivable – trade	₩ 37,906	27,053
Other receivables	5,256	3,011
	<u>₩ 43,162</u>	<u>30,064</u>

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32. Income Tax Expense

(1) Income tax expenses for the years ended December 31, 2023 and 2022 consist of the following:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Current tax expense:		
Current year	₩ 273,936	274,902
Current tax of prior years	(11,590)	73,477
	<u>262,346</u>	<u>348,379</u>
Deferred tax expense:		
Changes in net deferred tax assets	79,896	(60,058)
Income tax expense:	<u>₩ 342,242</u>	<u>288,321</u>

(2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2023 and 2022 is attributable to the following:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Profit before income tax	₩ 1,488,179	1,236,152
Income taxes at statutory income tax rate	382,517	329,580
Non-taxable income	(3,091)	(14,969)
Non-deductible expenses	15,725	24,679
Tax credit and tax reduction	(64,829)	(10,300)
Changes in unrecognized deferred taxes	14,354	21,057
Changes in tax rate	3,444	(42,307)
Income tax refund and others	(5,878)	(19,419)
Income tax expense	<u>₩ 342,242</u>	<u>288,321</u>

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32. Income Tax Expense, Continued

(3) Deferred taxes directly charged to (credited from) equity for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		<u>2023</u>	<u>2022</u>
Valuation gain on financial assets measured at fair value	₩	12,977	167,249
Share of other comprehensive gain (loss) of investment in associates and joint ventures		292	(2,972)
Valuation gain on derivatives		5,631	7,649
Remeasurement of defined benefit liabilities (assets)		(2,672)	(20,867)
Loss on disposal of treasury shares and others		(53)	(28,108)
	₩	<u>16,175</u>	<u>122,951</u>

(4) Details of the changes in deferred tax assets (liabilities) for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>			
	<u>Beginning</u>	<u>Deferred tax expense (income)</u>	<u>Directly charged to (credited from) equity</u>	<u>Ending</u>
Deferred tax assets (liabilities) related to temporary differences:				
Loss allowance	₩ 75,042	73	-	75,115
Accrued interest income	(7,903)	1,064	-	(6,839)
Financial assets measured at fair value	(10,171)	(5,332)	12,977	(2,526)
Investments in subsidiaries, associates and joint ventures	16,846	5,792	292	22,930
Property and equipment and intangible assets	(352,605)	(66,808)	-	(419,413)
Provisions	1,629	(310)	-	1,319
Retirement benefit obligation	30,619	(15,517)	(2,672)	12,430
Valuation gain on derivatives	12,768	1,271	5,631	19,670
Gain (loss) on foreign currency translation	20,633	34	-	20,667
Incremental costs to acquire a contract	(722,900)	4,689	-	(718,211)
Contract assets and liabilities	4,279	13,286	-	17,565
Right-of-use assets	(431,397)	41,534	-	(389,863)
Lease liabilities	428,648	(40,557)	-	388,091
Others	85,716	(81,397)	(53)	4,266
	<u>(848,796)</u>	<u>(142,178)</u>	<u>16,175</u>	<u>(974,799)</u>
Deferred tax assets related to unused tax loss carryforwards and tax credit carryforwards:				
Tax loss carryforwards	2,007	5,143	-	7,150
Tax credit	89,883	57,139	-	147,022
	<u>91,890</u>	<u>62,282</u>	<u>-</u>	<u>154,172</u>
	₩ <u>(756,906)</u>	<u>(79,896)</u>	<u>16,175</u>	<u>(820,627)</u>

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32. Income Tax Expense, Continued

(4) Details of the changes in deferred tax assets (liabilities) for the years ended December 31, 2023 and 2022 are as follows, Continued:

(In millions of won)

	2022				
	Beginning	Deferred tax expense (income)	Directly charged to (credited from) equity	Business combinations	Ending
Deferred tax assets (liabilities) related to temporary differences:					
Loss allowance	₩ 77,357	(2,315)	-	-	75,042
Accrued interest income	(166)	(5,057)	-	(2,680)	(7,903)
Financial assets measured at fair value	(157,828)	(19,592)	167,249	-	(10,171)
Investments in subsidiaries, associates and joint ventures	(31,817)	51,635	(2,972)	-	16,846
Property and equipment and intangible assets	(305,967)	(46,895)	-	257	(352,605)
Provisions	4,198	(2,569)	-	-	1,629
Retirement benefit obligation	52,332	(875)	(20,867)	29	30,619
Valuation gain on derivatives	6,336	(1,217)	7,649	-	12,768
Gain (loss) on foreign currency translation	21,378	(745)	-	-	20,633
Incremental costs to acquire a contract	(749,871)	26,971	-	-	(722,900)
Contract assets and liabilities	(2,201)	6,480	-	-	4,279
Right-of-use assets	(389,502)	(41,895)	-	-	(431,397)
Lease liabilities	381,537	47,111	-	-	428,648
Others	68,481	41,691	(28,108)	3,652	85,716
	<u>(1,025,733)</u>	<u>52,728</u>	<u>122,951</u>	<u>1,258</u>	<u>(848,796)</u>
Deferred tax assets related to unused tax loss carryforwards and tax credit carryforwards:					
Tax loss carryforwards	-	2,007	-	-	2,007
Tax credit	84,560	5,323	-	-	89,883
	<u>84,560</u>	<u>7,330</u>	<u>-</u>	<u>-</u>	<u>91,890</u>
₩	<u>(941,173)</u>	<u>60,058</u>	<u>122,951</u>	<u>1,258</u>	<u>(756,906)</u>

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32. Income Tax Expense, Continued

(5) Details of temporary differences, unused tax loss carryforwards and unused tax credits carryforwards which are not recognized as deferred tax assets (liabilities), in the consolidated statements of financial position as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		<u>December 31, 2023</u>	<u>December 31, 2022</u>
Loss allowance	₩	77,837	85,969
Investments in subsidiaries, associates and joint ventures		(480,667)	(434,253)
Other temporary differences		64,004	61,817
Unused tax loss carryforwards		174,589	229,410

The amount of unused tax loss carryforwards which are not recognized as deferred tax assets as of December 31, 2023 are expiring within the following periods:

(In millions of won)

		<u>Unused tax loss carryforwards</u>
Less than 1 year	₩	19,087
1 ~ 2 years		14,345
2 ~ 3 years		12,956
More than 3 years		128,201
	₩	<u>174,589</u>

33. Earnings per Share

Earnings per share is calculated to profit of the Parent Company per common share and dilutive potential common share, and details are as follows:

(1) Basic earnings per share

1) Basic earnings per share for the years ended December 31, 2023 and 2022 are calculated as follows:

(In millions of won, except for share data and basic earnings per share)

		<u>2023</u>	<u>2022</u>
Basic earnings per share attributable to owners of the Parent Company:			
Profit attributable to owners of the Parent Company	₩	1,093,611	912,400
Interest on hybrid bonds		(17,283)	(14,766)
Profit attributable to owners of the Parent Company on common shares		1,076,328	897,634
Weighted average number of common shares outstanding		217,264,615	217,994,490
Basic earnings per share (in won)	₩	<u>4,954</u>	<u>4,118</u>

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33. Earnings per Share, Continued

(1) Basic earnings per share, Continued

2) The weighted average number of common shares outstanding for the years ended December 31, 2023 and 2022 are calculated as follows:

(In shares)

	2023	
	Number of common shares	Weighted average number of common shares
Issued shares as of January 1, 2023	218,833,144	218,833,144
Treasury shares as of January 1, 2023	(801,091)	(801,091)
Acquisition of treasury shares	(5,773,410)	(1,154,633)
Disposal of treasury shares	441,087	387,195
	<u>212,699,730</u>	<u>217,264,615</u>

(In shares)

	2022	
	Number of common shares	Weighted average number of common shares
Issued shares as of January 1, 2022	218,833,144	218,833,144
Treasury shares as of January 1, 2022	(1,250,992)	(1,250,992)
Disposal of treasury shares	449,901	412,338
	<u>218,032,053</u>	<u>217,994,490</u>

(2) Diluted earnings per share

1) Diluted earnings per share for the years ended December 31, 2023 and 2022 are calculated as follows:

(In millions of won, except for share data and diluted earnings per share)

	2023	2022
Profit attributable to owners of the Parent Company on common shares	₩ 1,076,328	897,634
Adjusted weighted average number of common shares outstanding	217,452,721	218,108,742
Diluted earnings per share (in won)	₩ <u>4,950</u>	<u>4,116</u>

2) The adjusted weighted average number of common shares outstanding for the years ended December 31, 2023 and 2022 are calculated as follows:

(In shares)

	2023	2022
Outstanding shares as of January 1	218,032,053	217,582,152
Effect of treasury shares	(767,438)	412,338
Effect of share option	188,106	114,252
Adjusted weighted average number of common shares outstanding	<u>217,452,721</u>	<u>218,108,742</u>

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34. Dividends

(1) Details of dividends declared

Details of dividend declared in Parent company for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won, except for face value and share data)

Year	Dividend type	Number of shares outstanding	Face value (in won)	Dividend ratio	Dividends
2023	Cash dividends (Interim)	218,466,141	100	830%	₩ 181,327
	Cash dividends (Interim)	218,473,140	100	830%	181,333
	Cash dividends (Interim)	216,412,898	100	830%	179,623
	Cash dividends (Year-end)	212,699,730	100	1,050%	223,335
					₩ <u>765,618</u>
2022	Cash dividends (Interim)	218,002,830	100	830%	₩ 180,942
	Cash dividends (Interim)	218,032,053	100	830%	180,967
	Cash dividends (Interim)	218,032,053	100	830%	180,967
	Cash dividends (Year-end)	218,032,053	100	830%	180,967
					₩ <u>723,843</u>

(2) Dividends yield ratio

Dividends yield ratios for the years ended December 31, 2023 and 2022 are as follows:

(In won)

Year	Dividend type	Dividend per share	Closing price at year-end	Dividend yield ratio
2023	Cash dividends	3,540	50,100	7.07%
2022	Cash dividends	3,320	47,400	7.00%

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35. Categories of Financial Instruments

(1) Financial assets by category as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	December 31, 2023				
	Financial assets at FVTPL	Equity instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	Total
Cash and cash equivalents	₩ 313,340	-	1,141,638	-	1,454,978
Financial instruments	62,364	-	232,945	-	295,309
Long-term investment securities(*)	280,650	1,398,734	-	-	1,679,384
Accounts receivable – trade	-	-	1,990,849	-	1,990,849
Loans and other receivables	273,945	-	781,157	-	1,055,102
Derivative financial assets	32,324	-	-	116,210	148,534
	₩ 962,623	1,398,734	4,146,589	116,210	6,624,156

(*) The Group designated ₩1,398,734 million of equity instruments that are not held for trading as financial assets at FVOCI.

(In millions of won)

	December 31, 2022				
	Financial assets at FVTPL	Equity instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	Total
Cash and cash equivalents	₩ 245,982	-	1,636,309	-	1,882,291
Financial instruments	148,365	-	89,240	-	237,605
Long-term investment securities(*)	221,139	1,189,597	-	-	1,410,736
Accounts receivable – trade	-	-	1,984,772	-	1,984,772
Loans and other receivables	332,669	-	909,003	-	1,241,672
Derivative financial assets	54,009	-	-	267,151	321,160
	₩ 1,002,164	1,189,597	4,619,324	267,151	7,078,236

(*) The Group designated ₩1,189,597 million of equity instruments that are not held for trading as financial assets at FVOCI.

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35. Categories of Financial Instruments, Continued

(2) Financial liabilities by category as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	December 31, 2023			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives hedging instrument	Total
Accounts payable – trade	₩ -	139,876	-	139,876
Derivative financial liabilities	295,876	-	9,212	305,088
Borrowings	-	718,078	-	718,078
Debentures	-	8,325,643	-	8,325,643
Lease liabilities(*)	-	1,611,433	-	1,611,433
Accounts payable - other and others	-	4,539,838	-	4,539,838
	₩ 295,876	15,334,868	9,212	15,639,956

(In millions of won)

	December 31, 2022		
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Total
Accounts payable – trade	₩ -	89,255	89,255
Derivative financial liabilities	302,593	-	302,593
Borrowings	-	936,110	936,110
Debentures	-	8,366,694	8,366,694
Lease liabilities(*)	-	1,782,057	1,782,057
Accounts payable - other and others	-	5,505,465	5,505,465
	₩ 302,593	16,679,581	16,982,174

(*) Lease liabilities are not applicable on category of financial liabilities, but are classified as financial liabilities measured at amortized cost, considering the nature of measuring liabilities.

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36. Financial Risk Management

(1) Financial risk management

The Group is exposed to market risk, credit risk and liquidity risk. Market risk is the risk related to the changes in market prices, such as foreign exchange rates, interest rates and price fluctuations. The Group implements a risk management system to monitor and manage these specific risks.

The Group's financial assets consist of cash and cash equivalents, financial instruments, long-term investment securities, accounts receivable – trade and other, etc. Financial liabilities consist of accounts payable – trade and other, borrowings, debentures, lease liabilities and others.

1) Market risk

(i) Currency risk

The Group has currency risk due to revenue and expenses from its global operations. Major foreign currencies where the currency risk occur are USD, EUR and others. The Group determines the currency risk management policy after considering the nature of business and the presence of methods that mitigate the currency risk for each Group entities. The Group manages currency risk arising from business transactions by using currency forwards, etc. Currency risk occurs on forecasted transactions and recognized assets and liabilities which are denominated in a currency other than the functional currency of each group entity.

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2023 are as follows:

(In millions of won, thousands of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Won equivalent	Foreign currencies	Won equivalent
USD	74,608 ₩	96,200	1,025,369 ₩	1,322,111
EUR	5,391	7,691	132	188
Others		336		-
		₩ 104,227		₩ 1,322,299

In addition, the Group has entered into cross currency swaps to hedge against currency risk related to foreign currency debentures. (See note 22)

As of December 31, 2023, a hypothetical change in exchange rates by 10% would have increased (decreased) the Group's profit before income tax and equity as follows:

(In millions of won)

	Profit before income tax		Equity	
	If increased by 10%	If decreased by 10%	If increased by 10%	If decreased by 10%
USD	₩ 5,521	(5,521) ₩	5,521	(5,521)
EUR	750	(750)	750	(750)
Others	34	(34)	34	(34)
	₩ 6,305	(6,305) ₩	6,305	(6,305)

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36. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(ii) Interest rate risk

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

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

As of December 31, 2023, floating-rate borrowings and debentures amount to ₩90,000 million and ₩386,820 million, respectively, and the Group has entered into interest rate swaps to hedge interest rate risk related to the floating-rate debentures. Therefore, profit before income tax for the year ended December 31, 2023 would not have been affected by the changes in interest rates of floating-rate debentures.

If the interest rate increases (decreases) 1%p with all other variables held constant, profit before income tax and equity for the year ended December 31, 2023 would change by ₩900 million in relation to the floating-rate borrowings which have not entered into interest rate swaps.

As of December 31, 2023, the floating-rate long-term payables – other are ₩1,290,225 million. If the interest rate increases (decreases) 1%p with all other variables held constant, profit before income tax and equity for the year ended December 31, 2023 would change by ₩12,902 million in relation to the floating-rate long-term payables – other that are exposed to interest rate risk.

Interest rate benchmark reform and associated risks

In case of Korean CD rate, the alternative interest rate benchmark has selected as Korea Overnight Financing Repo Rate("KOFR") and as part of interest rate benchmark reform, the interest rate has been disclosed through Korea Securities Depository since November 26, 2021. KOFR is calculated using the overnight RP rate as collateral for government bonds and monetary stabilization bonds. However, unlike LIBOR, calculation of CD rate will not be suspended, thereby making it unclear when and how the transition to KOFR will take place.

SK TELECOM CO., LTD. and its Subsidiaries

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For the years ended December 31, 2023 and 2022

36. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

Non-derivative financial liabilities

The Parent Company's non-derivative financial liabilities subject to interest rate benchmark reform as of December 31, 2022 were floating-rate bonds indexed to USD LIBOR. The Group completed discussion with the counterparty about including the fallback clauses as of December 31, 2023.

Derivatives

Most of the Group's derivative instruments designated as cash flow hedge are governed by contracts based on the International Swaps and Derivatives Association("ISDA")'s master agreements. As part of interest rate benchmark reform, ISDA has included a new fallback clause regarding which alternative benchmark interest rate to be applied when the calculation of major IBOR is suspended in the master agreement. The master agreement is applied to derivative contracts executed after January 25, 2021, and the transaction parties are required to adhere to ISDA protocol to include the same fallback clause into derivative contracts executed before January 25, 2021. The Group has adhered to ISDA protocol for transition to the alternative benchmark interest rate and the fallback clause will be included when counterparties adhere to the protocol to include. The Group's counterparties have adhered to ISDA protocol and agreed to include the fallback clause.

(iii) Price fluctuations risk

As of December 31, 2023, the Group holds equity instruments in an active trading market, exposing it to price fluctuation risk. Assuming all other variables remain constant, the impact on the Group's profit before income tax and equity resulting from a 10% fluctuation in the per-share stock price of the equity securities for the year ended December 31, 2023 is as follows.

(In millions of won)

Profit before income tax		Equity	
If increased by 10%	If decreased by 10%	If increased by 10%	If decreased by 10%
₩ -	₩ -	85,006	(85,006)

SK TELECOM CO., LTD. and its Subsidiaries

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For the years ended December 31, 2023 and 2022

36. Financial Risk Management, Continued

(1) Financial risk management, Continued

2) Credit risk

The maximum credit exposure as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Cash and cash equivalents	₩ 1,454,773	1,882,093
Financial instruments	295,309	237,605
Investment securities	-	900
Accounts receivable – trade	1,990,849	1,984,772
Contract assets	129,771	132,221
Loans and other receivables	1,055,102	1,241,672
Derivative financial assets	148,534	321,160
	<u>₩ 5,074,338</u>	<u>5,800,423</u>

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk, the Group evaluates the credit worthiness of each customer or counterparty by considering the party's financial information, its own trading records and other factors. Based on such information, the Group establishes credit limits for each customer or counterparty.

(i) Accounts receivable – trade and contract assets

The Group establishes a loss allowance in respect of accounts receivable – trade and contract assets. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that are expected to occur. The collective loss allowance is determined based on historical data of collection statistics for similar financial assets. Details of changes in loss allowance for the year ended December 31, 2023 are included in note 6.

(ii) Debt investments

The credit risk arises from debt investments included in ₩295,309 million of financial instruments, and ₩1,055,102 million of loans and other receivables. To limit the exposure to this risk, the Group transacts only with financial institutions with credit ratings that are considered to be low credit risk.

Most of the Group's debt investments are considered to have a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term. Thus, the Group measured the loss allowance for the debt investments at an amount equal to 12-month expected credit losses.

Meanwhile, the Group monitors changes in credit risk at each reporting date. The Group recognized the loss allowance at an amount equal to lifetime expected credit losses when the credit risk on the debt investments is assumed to have increased significantly if it is more than 30 days past due.

SK TELECOM CO., LTD. and its Subsidiaries
Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

36. Financial Risk Management, Continued

(1) Financial risk management, Continued

2) Credit risk, Continued

(ii) Debt investments, Continued

The Group's maximum exposure to credit risk is equal to each financial asset's carrying amount. The gross carrying amounts of each financial asset except for the accounts receivable – trade and derivative financial assets as of December 31, 2023 are as follows.

(In millions of won)

	Financial assets at FVTPL	Financial assets at amortized cost		
		12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired
Gross amount	₩ 336,309	1,009,175	8,914	71,677
Loss allowance	-	(3,314)	(3,095)	(69,255)
Carrying amount	₩ 336,309	1,005,861	5,819	2,422

Changes in the loss allowance for the debt investments for the year ended December 31, 2023 are as follows:

(In millions of won)

	12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	Total
December 31, 2022	₩ 3,081	3,314	83,685	90,080
Remeasurement of loss allowance, net	1,105	3,049	1,102	5,256
Transfer to lifetime ECL – not credit impaired	(868)	868	-	-
Transfer to lifetime ECL – credit impaired	-	(4,136)	4,136	-
Amounts written off	(4)	-	(26,583)	(26,587)
Recovery of amounts written off	-	-	6,915	6,915
December 31, 2023	₩ 3,314	3,095	69,255	75,664

(iii) Cash and cash equivalents

The Group deposits ₩1,454,773 million of cash and cash equivalents as of December 31, 2023 (₩1,882,093 million as of December 31, 2022) at banks and financial institutions with credit ratings above the certain level. Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considered that its cash and cash equivalents have low credit risk based on the credit ratings of the counterparties assigned by external credit rating agencies.

SK TELECOM CO., LTD. and its Subsidiaries
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For the years ended December 31, 2023 and 2022

36. Financial Risk Management, Continued

(1) Financial risk management, Continued

3) Liquidity risk

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

Contractual maturities of financial liabilities as of December 31, 2023 are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Accounts payable - trade ₩	139,876	139,876	139,876	-	-
Borrowings(*)	718,078	739,791	417,056	322,735	-
Debentures(*)	8,325,643	9,532,468	1,493,063	5,800,210	2,239,195
Lease liabilities	1,611,433	1,899,929	386,202	1,026,475	487,252
Accounts payable – other and others(*)	4,539,838	4,614,608	3,642,356	972,202	50
	₩ 15,334,868	16,926,672	6,078,553	8,121,622	2,726,497

(*) The contractual cash flow is amount that includes interest payables.

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

As of December 31, 2023, periods in which cash flows from cash flow hedge derivatives are expected to occur are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years
Assets ₩	116,210	123,260	30,928	92,332
Liabilities	(9,212)	(10,610)	2,970	(13,580)
	106,998	112,650	33,898	78,752

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For the years ended December 31, 2023 and 2022

36. Financial Risk Management, Continued

(2) Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of its debt and equity structure. The overall strategy of the Group is the same as that of the Group as of and for the year ended December 31, 2022.

The Group monitors its debt-equity ratio as a capital management indicator. This ratio is calculated as total liabilities divided by total equity from the consolidated financial statements.

Debt-equity ratio as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Total liabilities	₩ 17,890,828	19,153,066
Total equity	12,228,399	12,155,196
Debt-equity ratios	<u>146.31%</u>	<u>157.57%</u>

(3) Fair value

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2023 are as follows:

(In millions of won)

	<u>December 31, 2023</u>				
	<u>Carrying amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets that are measured at fair value:					
FVTPL	₩ 962,623	-	649,649	312,974	962,623
Derivative hedging instruments	116,210	-	116,210	-	116,210
FVOCI	1,398,734	1,135,832	-	262,902	1,398,734
	<u>₩ 2,477,567</u>	<u>1,135,832</u>	<u>765,859</u>	<u>575,876</u>	<u>2,477,567</u>
Financial liabilities that are measured at fair value:					
FVTPL	295,876	-	-	295,876	295,876
Derivative hedging instruments	9,212	-	9,212	-	9,212
	<u>₩ 305,088</u>	<u>-</u>	<u>9,212</u>	<u>295,876</u>	<u>305,088</u>
Financial liabilities that are not measured at fair value:					
Borrowings	₩ 718,078	-	695,320	-	695,320
Debentures	8,325,643	-	8,052,193	-	8,052,193
Long-term payables – other	1,260,453	-	1,294,977	-	1,294,977
	<u>₩ 10,304,174</u>	<u>-</u>	<u>10,042,490</u>	<u>-</u>	<u>10,042,490</u>

SK TELECOM CO., LTD. and its Subsidiaries
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For the years ended December 31, 2023 and 2022

36. Financial Risk Management, Continued

(3) Fair value, Continued

2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2022 are as follows:

(In millions of won)

	December 31, 2022				
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value:					
FVTPL	₩ 1,002,164	44,431	727,014	230,719	1,002,164
Derivative hedging instruments	267,151	-	267,151	-	267,151
FVOCI	1,189,597	993,765	-	195,832	1,189,597
	<u>₩ 2,458,912</u>	<u>1,038,196</u>	<u>994,165</u>	<u>426,551</u>	<u>2,458,912</u>
Financial liabilities that are measured at fair value:					
FVTPL	₩ 302,593	-	-	302,593	302,593
Financial liabilities that are not measured at fair value:					
Borrowings	₩ 936,110	-	911,597	-	911,597
Debentures	8,366,694	-	7,813,420	-	7,813,420
Long-term payables – other	1,638,341	-	1,614,934	-	1,614,934
	<u>₩ 10,941,145</u>	<u>-</u>	<u>10,339,951</u>	<u>-</u>	<u>10,339,951</u>

The above information does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are reasonable approximation of fair values.

Fair value of the financial instruments that are traded in an active market (financial assets at FVOCI and financial assets at FVTPL) is measured based on the bid price at the end of the reporting date.

The Group uses various valuation methods for determination of fair value of financial instruments that are not traded in an active market. Derivative financial contracts and long-term liabilities are measured using the discounted present value methods. Other financial assets are determined using the methods such as discounted cash flow and market approach. Inputs used in such valuation methods include swap rate, interest rate, and risk premium, and the Group performs valuation using the inputs which are consistent with natures of assets and liabilities measured.

Interest rates used by the Group for the fair value measurement as of December 31, 2023 are as follows:

	Interest rate
Derivative instruments	2.18% ~ 6.25%
Borrowings and debentures	3.84% ~ 18.12%
Long-term payables – other	3.72% ~ 3.85%

SK TELECOM CO., LTD. and its Subsidiaries
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For the years ended December 31, 2023 and 2022

36. Financial Risk Management, Continued

(3) Fair value, Continued

3) There have been no transfers between Level 1 and Level 2 for the year ended December 31, 2023. The changes of financial instruments classified as Level 3 for the year ended December 31, 2023 are as follows:

(In millions of won)

		Balance as of January 1, 2023	Gain (loss) for the year	OCI	Acquisition	Disposal	Balance as of December 31, 2023
Financial assets							
FVTPL	₩	230,719	(41,556)	1,602	157,356	(35,147)	312,974
FVOCI		195,832	-	14,448	52,622	-	262,902
	₩	<u>426,551</u>	<u>(41,556)</u>	<u>16,050</u>	<u>209,978</u>	<u>(35,147)</u>	<u>575,876</u>
Financial liabilities							
FVTPL	₩	(302,593)	6,717	-	-	-	(295,876)

(4) Enforceable master netting agreement or similar agreement

Carrying amounts of financial instruments recognized to which offset agreements are applicable as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		December 31, 2023		
		Gross financial instruments recognized	Amount offset	Net financial instruments presented on the consolidated statements of financial position
Financial assets:				
Accounts receivable – trade and others	₩	194,374	(183,520)	10,854
Financial liabilities:				
Accounts payable – other and others	₩	190,630	(183,520)	7,110

(In millions of won)

		December 31, 2022		
		Gross financial instruments recognized	Amount offset	Net financial instruments presented on the consolidated statements of financial position
Financial assets:				
Accounts receivable – trade and others	₩	245,835	(236,921)	8,914
Financial liabilities:				
Accounts payable – other and others	₩	244,509	(236,921)	7,588

SK TELECOM CO., LTD. and its Subsidiaries

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For the years ended December 31, 2023 and 2022

37. Transactions with Related Parties

(1) List of related parties

Relationship	Company
Ultimate controlling entity	SK Inc.
Joint venture	UTC Kakao-SK Telecom ESG Fund
Associates	SK China Company Ltd. and 44 others
Others	The Ultimate controlling entity's subsidiaries and associates and others

As of December 31, 2023, the Group belongs to SK Group, a conglomerate as defined in the *Monopoly Regulation and Fair Trade Act* of the Republic of Korea. All of the other entities included in SK Group are considered related parties of the Group.

(2) Compensation for the key management

The Parent Company considers registered directors who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023	2022
Salaries	₩ 4,139	3,487
Defined benefits plan expenses	1,005	761
Share option	2,542	1,598
	₩ 7,686	5,846

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

SK TELECOM CO., LTD. and its Subsidiaries

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37. Transactions with Related Parties, Continued

(3) Transactions with related parties for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

Scope	Company	2023		
		Operating revenue and others	Operating expense and others (*1)	Acquisition of property and equipment and others
Ultimate Controlling Entity	SK Inc. (*2)	₩ 21,438	633,265	120,926
Associates	F&U Credit information Co., Ltd.	3,876	49,398	552
	SK USA, Inc.	-	5,384	-
	Daehan Kanggun BcN Co., Ltd.	12,972	-	-
	Others (*3)	8,806	15,962	865
		25,654	70,744	1,417
Others	SK Innovation Co., Ltd.	33,571	18,977	-
	SK Energy Co., Ltd.	4,113	540	-
	SK Geo Centric Co., Ltd.	835	2	-
	SK Networks Co., Ltd. (*4)	5,876	970,662	1
	SK Networks Service Co., Ltd.	5,471	72,274	8,393
	SK Ecoplant Co., Ltd.	2,547	-	-
	SK hynix Inc.	58,725	178	-
	SK Shieldus Co., Ltd.	59,974	147,333	26,021
	Content Wavve Corp.	14,524	87,263	176
	Eleven Street Co., Ltd.	72,683	34,053	-
	SK Planet Co., Ltd.	18,308	88,250	16,338
	SK RENT A CAR Co., Ltd.	14,023	20,231	-
	SK Magic Co., Ltd.	1,632	1,142	-
	Tmap Mobility Co., Ltd.	24,862	10,003	-
	Onestore Co., Ltd.	16,265	166	-
	Dreamus Company	6,202	77,452	284
	UNA Engineering Inc. (Formerly, UbiNS Co., Ltd.)	172	50,263	52,733
Happy Narae Co., Ltd.	1,472	35,461	92,375	
Others	52,039	21,884	13,292	
		393,294	1,636,134	209,613
		₩ 440,386	2,340,143	331,956

(*1) Operating expenses and others include lease payments by the Group.

(*2) Operating expenses and others include ₩218,019 million of dividends paid by the Parent Company.

(*3) Operating revenue and others include ₩8,806 million of dividends received which was deducted from the investment in associates.

(*4) Operating expenses and others include costs for handset purchases amounting to ₩915,339 million.

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37. Transactions with Related Parties, Continued

(3) Transactions with related parties for the years ended December 31, 2023 and 2022 are as follows,
Continued:

(In millions of won)

Scope	Company	2022		
		Operating revenue and others	Operating expense and others (*1)	Acquisition of property and equipment and others
Ultimate Controlling Entity	SK Inc.(*2)	₩ 22,162	662,247	114,895
Associates	F&U Credit information Co., Ltd.	3,490	49,227	265
	HanaCard Co., Ltd. (*3)	8,932	1,820	22
	Daehan Kanggun BcN Co., Ltd.	20,290	-	-
	Others(*4)	13,795	5,608	80
		46,507	56,655	367
Others	SK Innovation Co., Ltd.	27,524	19,598	-
	SK Energy Co., Ltd.	4,585	710	-
	SK Geo Centric Co., Ltd.	925	1	-
	SK Networks Co., Ltd.(*5)	4,312	904,320	288
	SK Networks Service Co., Ltd.	6,110	71,432	7,891
	SK Ecoplant Co., Ltd.	3,330	112	-
	SK hynix Inc.	60,933	75	-
	SK Shieldus Co., Ltd.	39,455	147,731	35,854
	Content Wavve Corp.	6,797	108,760	229
	Eleven Street Co., Ltd.	71,972	31,589	-
	SK Planet Co., Ltd.	19,753	95,261	17,481
	SK RENT A CAR Co., Ltd.	14,992	15,891	-
	SK Magic Co., Ltd.	2,204	1,071	-
	Tmap Mobility Co., Ltd.	22,011	4,973	892
	Onestore Co., Ltd.	17,181	24	-
	Dreamus Company	7,235	85,193	649
	UNA Engineering Inc. (Formerly, UbiNS Co., Ltd.)	283	46,222	53,897
Happy Narae Co., Ltd.	1,637	24,727	143,188	
Others	40,058	29,610	20,555	
		351,297	1,587,300	280,924
		₩ 419,966	2,306,202	396,186

(*1) Operating expenses and others include lease payments by the Group.

(*2) Operating expenses and others include ₩272,524 million of dividends paid by the Parent Company.

(*3) HanaCard Co., Ltd. was excluded from the related parties due to the disposal of the Group's shares in the entity for the year ended December 31, 2022, and the transactions above occurred before the disposal.

(*4) Operating revenue and others include ₩13,700 million of dividends deducted from the investment in associates as a result of receipt by the Group.

(*5) Operating expenses and others include costs for handset purchases amounting to ₩844,157 million.

SK TELECOM CO., LTD. and its Subsidiaries
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37. Transactions with Related Parties, Continued

(4) Account balances with related parties as of December 31, 2023 and 2022 are as follows:

(In millions of won)

Scope	Company	December 31, 2023		
		Receivables	Payables	
		Loans	Accounts receivable – trade, etc.	Accounts payable – other, etc.
Ultimate Controlling Entity	SK Inc.	₩ -	1,535	106,546
Associates	F&U Credit information Co., Ltd.	-	325	4,417
	Daehan Kanggun BcN Co., Ltd.(*1)	22,147	4,701	-
	Others	-	3,910	3,476
		<u>22,147</u>	<u>8,936</u>	<u>7,893</u>
Others	SK Innovation Co., Ltd.	-	8,697	28,646
	SK Networks Co., Ltd.	-	120	156,316
	Mintit Co., Ltd.	-	17,036	-
	SK hynix Inc.	-	8,022	2,251
	Happy Narae Co., Ltd.	-	101	5,686
	SK Shieldus Co., Ltd.	-	12,723	14,784
	Content Wavve Corp.	-	1,476	2
	Incross Co., Ltd.	-	2,239	943
	Eleven Street Co., Ltd.	-	6,138	6,103
	SK Planet Co., Ltd.	-	9,981	18,833
	SK RENT A CAR Co., Ltd.	-	866	33,365
	UNA Engineering Inc. (Formerly, UbiNS Co., Ltd.)	-	1	10,764
	Others(*2)	-	15,082	30,184
		<u>-</u>	<u>82,482</u>	<u>307,877</u>
		₩ <u>22,147</u>	<u>92,953</u>	<u>422,316</u>

(*1) As of December 31, 2023, the Parent Company recognized loss allowance for the entire balance of loans to Daehan Kanggun BcN Co., Ltd.

(*2) During the year ended December 31, 2022, SK Telecom Innovation Fund, L.P., a subsidiary of the Parent Company, entered into a convertible loan agreement for USD 13,000,000 with id Quantique SA, classified as an other related party. SK Telecom Innovation Fund, L.P. acquired shares of id Quantique SA amounting to USD 26,731,250, including common shares converted from the entire balance of loan for the year ended December 31, 2023

SK TELECOM CO., LTD. and its Subsidiaries

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37. Transactions with Related Parties, Continued

(4) Account balances with related parties as of December 31, 2023 and 2022 are as follows, Continued:

(In millions of won)

Scope	Company	December 31, 2022			
		Loans	Receivables Accounts receivable – trade, etc.	Payables Accounts payable – other, etc.	
Ultimate Controlling Entity	SK Inc.	₩	-	2,383	103,141
Associates	F&U Credit information Co., Ltd.		-	64	5,682
	SK USA, Inc.		-	-	1,519
	Wave City Development Co., Ltd.(*1)		-	901	-
	Daehan Kanggun BcN Co., Ltd.(*2)		22,147	3,199	-
	Others		-	-	65
			<u>22,147</u>	<u>4,164</u>	<u>7,266</u>
Others	SK Innovation Co., Ltd.		-	9,726	33,091
	SK Networks Co., Ltd.		-	488	113,943
	Mintit Co., Ltd.		-	35,058	3
	SK hynix Inc.		-	15,494	311
	Happy Narae Co., Ltd.		-	31	31,979
	SK Shieldus Co., Ltd.		-	14,035	17,447
	Content Wavve Corp.		-	349	19,244
	Incross Co., Ltd.		-	3,774	16,152
	Eleven Street Co., Ltd.		-	6,797	13,026
	SK Planet Co., Ltd.		-	8,190	43,238
	SK RENT A CAR Co., Ltd.		-	1,291	22,895
	UNA Engineering Inc. (Formerly, UbiNS Co., Ltd.)		-	-	21,179
	Others(*3)		16,475	13,996	41,890
			<u>16,475</u>	<u>109,229</u>	<u>374,398</u>
		₩	<u>38,622</u>	<u>115,776</u>	<u>484,805</u>

(*1) As of December 31, 2022, the Parent Company recognized loss allowance amounting to ₩379 million for accounts receivable – trade.

(*2) As of December 31, 2022, the Parent Company recognized loss allowance for the entire balance of loans to Daehan Kanggun BcN Co., Ltd.

(*3) During the year ended December 31, 2022, SK Telecom Innovation Fund, L.P., a subsidiary of the Parent Company, entered into a convertible loan agreement for USD 13,000,000 with id Quantique SA, classified as other related party.

(5) The Group has granted SK REIT Co., Ltd. The right of first offer regarding the disposal of real estate owned by the Group. Whereby, the negotiation period is within 3 to 5 years from June 30, 2021, date of agreement, and the Group has been granted the right by SK REIT Co., Ltd. to lease the real estate in preference to a third party if SK REIT Co., Ltd. purchases the real estate from the Group.

(6) The details of additional investments and disposal of associates and joint ventures for the year ended December 31, 2023 are as presented in note 12.

SK TELECOM CO., LTD. and its Subsidiaries

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For the years ended December 31, 2023 and 2022

38. Commitments and Contingencies

(1) Collateral assets and commitments

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases on buildings in the amount of ₩1,228 million as of December 31, 2023.

(2) Legal claims and litigations

As of December 31, 2023, the Group is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. In connection with those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation, nor is it expected any of these claims or litigation will have a material impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

(3) Accounts receivable from sale of handsets

The sales agents of the Parent Company sell handsets to the Parent Company's subscribers on an installment basis. The Parent Company entered into comprehensive agreements to purchase accounts receivable from handset sales with retail stores and authorized dealers and to transfer the accounts receivable from handset sales to special purpose companies which were established with the purpose of liquidating receivables, respectively.

The accounts receivable from sale of handsets amounting to ₩291,747 million and ₩357,467 million as of December 31, 2023 and 2022, respectively, which the Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

(4) Obligation relating to spin-off

The Parent Company carried out the spin-off of its business of managing investments in semiconductor, New Information and Communication Technologies("ICT") and other businesses and making new investments on November 1, 2021. The Parent Company has obligation to jointly and severally reimburse the Parent Company's liabilities incurred prior to the spin-off with SK Square Co., Ltd., the spin-off company, in accordance with Article 530-9 (1) of Korean Commercial Act.

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

38. Commitments and Contingencies, Continued

(5) Commitment of the acquisition and disposal of shares

The Board of Directors of the Parent Company resolved the acquisition and disposal of certain shares in order to strengthen the strategic alliance with Hana Financial Group Inc. ("HFG") at the Board of Directors' meeting held on July 22, 2022. In accordance with the resolution, as of July 27, 2022, the Parent Company disposed of its entire common shares of HanaCard Co., Ltd. (39,902,323 shares) and entire common shares of Finng Co., Ltd. (6,370,000 shares) to HFG for ₩330,032 million and ₩5,733 million, respectively. Through the agreement with HFG, the Parent Company is obligated to acquire HFG's common shares from July 27, 2022 to January 31, 2024, after depositing ₩330,032 million in a specific money trust, and the Parent Company completed the acquisition of the shares for the year ended December 31, 2022. As a part of the aforementioned transaction, as of July 27, 2022, the Parent Company disposed of its entire common shares of SK Square Co., Ltd. (767,011 shares) to HanaCard Co., Ltd. for ₩31,563 million, and HanaCard Co., Ltd. is obligated to acquire the Parent Company's common shares from July 27, 2022 to January 31, 2024, after depositing ₩68,437 million in a specific money trust, and completed the acquisition of the shares for the year ended December 31, 2022. The Parent Company, HFG, and HanaCard Co., Ltd. may not dispose of shares they have acquired under the aforementioned transaction until March 31, 2025.

(6) The acquisition cost of property and equipment and intangible assets to be incurred in subsequent periods under arrangements is ₩44,202 million as of December 31, 2023.

(7) According to the covenant for bond issuance and borrowings, the Group is required to maintain specific financial ratios, such as the debt ratio, at certain levels. The funds obtained must be used for specified purposes only, and regular reporting to lenders is mandated. Additionally, the contracts include clauses that restrict both provision of additional collateral of assets held by the Group and disposal of certain assets.

SK TELECOM CO., LTD. and its Subsidiaries
Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

39. Statements of Cash Flows

(1) Adjustments for income and expenses from operating activities for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Interest income	₩ (70,055)	(58,472)
Dividends	(43,014)	(2,552)
Gain on foreign currency translations	(1,199)	(2,095)
Gain on sale of accounts receivable - other	-	(1,043)
Gain (loss) relating to investments in associates and joint ventures, net	(10,928)	81,707
Gain on disposal of property and equipment and intangible assets	(21,898)	(15,985)
Gain relating to financial instruments at FVTPL	(115,043)	(94,393)
Interest expense	389,813	328,307
Loss on foreign currency translations	1,227	3,814
Loss on sale of accounts receivable – other	65,027	61,841
Income tax expense	342,242	288,321
Expense related to defined benefit plan	124,439	134,509
Share option	18,889	84,463
Bonus paid by treasury shares	20,420	25,425
Depreciation and amortization	3,750,796	3,755,312
Bad debt for accounts receivables - trade	37,906	27,053
Impairment loss on property and equipment and intangible assets	10,369	17,027
Loss on disposal of property and equipment and intangible assets	9,369	20,465
Bad debt for accounts receivable - other	5,256	3,011
Loss relating to financial instruments at FVTPL	49,641	41,597
Loss on disposal of investment assets	-	1,283
Other income (expenses)	(16,919)	19,843
	<u>₩ 4,546,338</u>	<u>4,719,438</u>

SK TELECOM CO., LTD. and its Subsidiaries
Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

39. Statements of Cash Flows, Continued

(2) Changes in assets and liabilities from operating activities for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Accounts receivable - trade	₩ (46,531)	(60,546)
Accounts receivable - other	79,223	54,988
Advanced payments	3,986	(25,377)
Prepaid expenses	(2,262)	11,989
Inventories	(17,549)	39,633
Long-term accounts receivable - other	66,036	(74,729)
Contract assets	3,877	(13,400)
Guarantee deposits	(2,117)	6,245
Accounts payable - trade	50,442	(101,465)
Accounts payable - other	(188,318)	369,693
Withholdings	(3,714)	4,964
Contract liabilities	(19,620)	18,910
Deposits received	(1,744)	99
Accrued expenses	(73,734)	116,039
Provisions	(566)	(20)
Long-term provisions	(1,061)	(13,792)
Plan assets	(17,772)	(132,131)
Retirement benefits payment	(99,396)	(79,117)
Others	(3,343)	(3,877)
	<u>₩ (274,163)</u>	<u>118,106</u>

(3) Significant non-cash transactions for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<u>2023</u>	<u>2022</u>
Decrease in accounts payable – other relating to the acquisition of property and equipment and intangible assets	₩ (305,823)	(39,977)
Increase of right-of-use assets	345,761	720,932
Transfer from property and equipment to investment property	13,900	4,732

SK TELECOM CO., LTD. and its Subsidiaries
Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

39. Statements of Cash Flows, Continued

(4) Reconciliation of liabilities arising from financing activities for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023					
	January 1, 2023	Cash flows	Non-cash transactions			December 31, 2023
			Exchange rate changes(*)	Fair value changes	Other changes	
Total liabilities from financing activities:						
Short-term borrowings	₩ 142,998	(142,998)	-	-	-	-
Long-term borrowings	793,113	(75,050)	-	-	15	718,078
Debentures	8,366,693	(84,082)	36,701	-	6,331	8,325,643
Lease liabilities	1,782,057	(402,465)	-	-	231,841	1,611,433
Long-term payables – other	1,638,341	(400,245)	-	-	22,357	1,260,453
Derivative financial liabilities	-	-	-	(9,212)	-	(9,212)
Derivative financial assets	(267,151)	183,090	-	(32,149)	-	(116,210)
	₩ 12,456,051	(921,750)	36,701	(41,361)	260,544	11,790,185
Other cash flows from financing activities:						
Payments of cash dividends	₩	(773,806)				
Payments of interest on hybrid bonds		(17,283)				
Acquisition of treasury shares		(285,487)				
Proceeds of hybrid bonds		398,509				
Repayments of hybrid bonds		(400,000)				
Cash inflow from transactions with the non-controlling shareholders		160				
Cash outflow from transactions with the non-controlling shareholders		(21,333)				
		(1,099,240)				
	₩	(2,020,990)				

(*) The effect of changes in foreign exchange rates for financial liabilities at amortized cost.

SK TELECOM CO., LTD. and its Subsidiaries
Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

39. Statements of Cash Flows, Continued

(4) Reconciliation of liabilities arising from financing activities for the years ended December 31, 2023 and 2022 are as follows, Continued:

(In millions of won)

	2022						
	January 1, 2022	Cash flows	Non-cash transactions				December 31, 2022
			Exchange rate changes(*)	Fair value changes	Business combinations	Other changes	
Total liabilities from financing activities:							
Short-term borrowings	₩ 12,998	130,000	-	-	-	-	142,998
Long-term borrowings	394,187	398,529	-	-	-	397	793,113
Debentures	8,426,683	(189,878)	122,350	-	-	7,538	8,366,693
Lease liabilities	1,534,281	(401,054)	-	-	6,503	642,327	1,782,057
Long-term payables – other	2,009,833	(400,245)	-	-	-	28,753	1,638,341
Derivative financial liabilities	111	-	-	(111)	-	-	-
Derivative financial assets	(182,661)	768	-	(85,258)	-	-	(267,151)
	₩ 12,195,432	(461,880)	122,350	(85,369)	6,503	679,015	12,456,051
Other cash flows from financing activities:							
Payments of cash dividends	₩ (904,020)						
Payments of interest on hybrid bonds		(14,766)					
Cash inflow from transactions with the non-controlling shareholders		31,151					
Cash outflow from transactions with the non-controlling shareholders		(367)					
		(888,002)					
	₩ (1,349,882)						

(*) The effect of changes in foreign exchange rates for financial liabilities at amortized cost.

SK TELECOM CO., LTD. and its Subsidiaries
Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

40. Emissions Liabilities

(1) The quantity of emissions rights allocated free of charge for each implementation year as of December 31, 2023 are as follows:

(In tCO₂-eQ)

	Quantities allocated in 2021	Quantities allocated in 2022	Quantities allocated in 2023	Quantities allocated in 2024	Quantities allocated in 2025	Total
Emissions rights allocated free of charge(*)	1,385,433	1,602,751	1,443,977	1,300,465	1,300,465	7,033,091

(*) The changes in quantity due to additional allocation, cancellation of allocation and others are considered.

(2) Changes in emissions rights quantities the Group held are as follows:

(In tCO₂-eQ)

	Quantities allocated in 2021	Quantities allocated in 2022	Quantities allocated in 2023	Total
Beginning	-	-	306,575	306,575
Allocation at no cost	1,385,433	1,602,751	1,443,977	4,432,161
Purchase	-	213,609	-	213,609
Surrender or shall be surrendered	(1,421,570)	(1,515,595)	(1,657,664)	(4,594,829)
Borrowed	36,137	5,810	-	41,947
Ending	-	306,575	92,888	399,463

(3) As of December 31, 2023, the estimated annual greenhouse gas emissions quantities of the Group are 1,657,664 tCO₂-eQ.

SK TELECOM CO., LTD. and its Subsidiaries
Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

41. Non-current Assets Held for Sale

Non-current assets held for sale as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		<u>December 31, 2023</u>	<u>December 31, 2022</u>
Investments in associates	Daekyo Wipoongdangdang Contents Korea Fund	₩ 746	1,062
Long-term Investment securities	Digital Content Korea Fund	3,395	3,645
	InterVest Fund	-	107
	Central Fusion Content Fund	884	1,563
	P&I Cultural Innovation Fund	1,892	-
Inventories	-	505	-
Prepaid Expenses	-	1,489	-
Property and Equipment	-	1,604	-
		<u>₩ 10,515</u>	<u>6,377</u>

SK TELECOM CO., LTD. and its Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

42. Subsequent Events

(1) On January 25, 2024, the Board of Directors of the Parent Company approved the disposal of treasury shares and details of the transaction are as follows:

	<u>Information of disposal</u>
Number of treasury shares	498,135 Common shares
Price of the treasury shares (in won)	Per share ₩49,600
Aggregate disposal value	₩ 24,707 million
Disposal date	January 29, 2024
Purpose of disposal	Allotment of shares as bonus payment
Method of disposal	Over-the-counter

(2) The Board of Directors of the Parent Company approved the acquisition and retirement of treasury shares of the Parent Company at the Board of Directors' meeting held on July 26, 2023. The Parent Company acquired a total of 6,090,410 shares during the period from July 27, 2023 to January 26, 2024 through a trust agreement and 4,043,091 shares were retired on February 5, 2024.

Audit opinion on internal control over financial reporting

The accompanying independent auditor's report on internal control over financial reporting is attached as a result of auditing the internal control over financial reporting of SK Telecom Co., Ltd. and its subsidiaries (the "Group") and the consolidated financial statements of the Group for the year ended December 31, 2023 in accordance with the Article 8 of the *Act on External Audit of Stock Companies*.

Attachments:

1. Independent auditor's report on Internal Control over Financial Reporting
2. Management's Annual Report on Internal Control over Financial Reporting

Independent auditor's report on Internal Control over Financial Reporting

(Based on a report originally issued in Korean)

SK Telecom Co., Ltd.:
The Shareholders and Board of Directors

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting ("ICFR") of SK Telecom Co., Ltd. and its subsidiaries (the "Group") based on the Conceptual Framework for Designing and Operating ICFR ("ICFR Design and Operation Framework") established by the Operating Committee of ICFR in Korea (the "ICFR Committee") as of December 31, 2023.

In our opinion, the Group's ICFR has been effectively designed and operated, in all material respects, as of December 31, 2023, in accordance with the ICFR Design and Operation Framework.

We also have audited, in accordance with Korean Standards on Auditing ("KSA"), the consolidated statement of financial position as of December 31, 2023, the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policies, of the Group, and our report dated March 6, 2024 expressed an unqualified opinion thereon.

Basis for Opinion on ICFR

We conducted our audit in accordance with KSA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of ICFR section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of ICFR 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.

Responsibilities of Management and Those Charged with Governance for ICFR

Management is responsible for designing, operating, and maintaining effective ICFR, and for its assessing the effectiveness of ICFR, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting.

Those charged with governance are responsible for overseeing the Group's ICFR.

Auditor's Responsibilities for the Audit of ICFR

Our responsibility is to express an opinion of the Group's ICFR based on our audit. We conducted our audit in accordance with KSA. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective ICFR was maintained in all material respects.

An audit of the ICFR involves performing procedures to obtain audit evidence as to whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit also includes testing and evaluating the design and operation of ICFR based on obtaining an understanding of ICFR and the assessed risk.

ICFR definition and Inherent Limitations

A company's ICFR is implemented by those charged with governance, management, and other employees and is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("KIFRS"). A company's ICFR includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with KIFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that ICFR may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditor's report is Yoo, Jung Ho.



March 6, 2024

This report is effective as of March 6, 2024, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditor's report date to the time this report is used. Such events and circumstances could significantly affect the Group's ICFR and may result in modifications to this report.

Management's Annual Report on Internal Control over Financial Reporting

English translation of a Report Originally Issued in Korean

To Shareholders, the Board of Directors and Audit Committee of
SK Telecom Co., Ltd.

We, as the Chief Executive Officer ("CEO") and Internal Control over Financial Reporting ("ICFR") Officer of SK Telecom Co., Ltd. and its subsidiaries (the "Group"), assessed the status of the design and operation of the Group's ICFR for the year ending December 31, 2023.

The Group's management including the CEO and ICFR Officer is responsible for designing and operating ICFR. We, as the CEO and ICFR Officer (collectively, "We", "Our" or "Us"), evaluated whether the ICFR has been appropriately designed and is effectively operating to prevent and detect error or fraud which may cause material misstatement of the financial statements to ensure preparation and disclosure of reliable financial information.

We used the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting' established by the Operating Committee of Internal Control over Financial Reporting in Korea (the "ICFR Committee") as the criteria for design and operation of the Group's ICFR. We also conducted an evaluation of ICFR based on the 'Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting' established by the ICFR Committee.

Based on our assessment of ICFR operation, we concluded that the Group's ICFR has been appropriately designed and is operating effectively in all material respects as of December 31, 2023, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

February 20, 2024

/s/ Kim, Yang Seob
Internal Control over Financial Reporting Officer

/s/ Ryu, Young Sang
Chief Executive Officer