SK TELECOM CO LTD
Form 20-F
April 27, 2018
Table of Contents

As filed with the Securities and Exchange Commission on April 27, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from to

Commission file number 1-14418

SK Telecom Co., Ltd.

(Exact name of Registrant as specified in its charter)

SK Telecom Co., Ltd.

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

SK T-Tower

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

(Address of principal executive offices)

Ms. Min Joo Kim

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

Telephone No.: 82-2-6100-2114

Facsimile No.: 82-2-6100-7830

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

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

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

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

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

None

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

None

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

70,609,160 shares of common stock, par value 500 per share (not including 10,136,551 shares of common stock held by the company as treasury shares).

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

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

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

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

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

Large accelerated filer **Accelerated filer** **Non-accelerated filer** **Emerging growth company**

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

U.S. GAAP **International Financial Reporting Standards as issued by the International Accounting Standards Board** **Other**

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

Indicate by check mark which financial statement item the registrant has elected to follow. **Item 17** **Item 18**

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

CERTAIN DEFINED TERMS AND CONVENTIONS USED IN THIS ANNUAL REPORT

All references to Korea contained in this annual report shall mean The Republic of Korea. All references to the Government shall mean the government of The Republic of Korea. All references to we, us, or our shall mean SK Telecom Co., Ltd. and, unless the context otherwise requires, its consolidated subsidiaries. References to SK Telecom shall mean SK Telecom Co., Ltd., but shall not include its consolidated subsidiaries. All references to U.S. shall mean the United States of America.

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

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

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

The consolidated financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (the IASB). As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015 included in this annual report.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission (the SEC), which became effective on March 4, 2008, we are not required to provide a reconciliation to generally accepted accounting principles in the United States, or U.S. GAAP.

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

FORWARD-LOOKING STATEMENTS

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

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

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

our implementation of long-term evolution (LTE) technology, long-term evolution advanced (LTE-A) technology and the next-generation wireless technology, which we call 5G technology;

1

- our plans for capital expenditures in 2018 for a range of projects, including investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our Internet of Things (IoT) solutions and platform services business portfolio, including artificial intelligence solutions, investments in research and development of 5G technology, investments in businesses that can potentially leverage our future 5G network, and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth businesses, as well as initiatives related to our ongoing businesses in the ordinary course;

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

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

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

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

- the success of our various joint ventures and investments, including SK Hynix, Inc. (known as Hynix Semiconductor Inc. at the time of such acquisition, SK Hynix), a memory-chip maker;

- our ability to successfully attract and retain subscribers; and

- the growth of the telecommunications industry in Korea and other markets in which we do business and the effect that economic, political or social conditions have on our number of subscribers and results of operations.

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

Table of Contents

PART I

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

Item 1.A. *Directors and Senior Management*
Not applicable.

Item 1.B. *Advisers*
Not applicable.

Item 1.C. *Auditors*
Not applicable.

Item 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*
Not applicable.

Item 3. *KEY INFORMATION*

Item 3.A. *Selected Financial Data*
You should read the selected consolidated financial and operating data below in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report. The selected consolidated financial data set forth below as of and for each of the five years ended December 31, 2017 have been derived from our audited consolidated financial statements and related notes thereto, which have been prepared in accordance with IFRS as issued by the IASB.

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

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

Table of Contents

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(In billions of Won, except per share and number of shares data)				
STATEMENT OF INCOME DATA					
Operating Revenue and Other Income	17,552.0	17,158.3	17,167.6	17,220.3	16,677.0
Revenue	17,520.0	17,091.8	17,136.7	17,163.8	16,602.1
Other income	32.0	66.5	30.9	56.5	74.9
Operating Expense	16,327.4	15,854.9	15,672.2	15,612.4	15,098.6
Operating Profit	1,224.6	1,303.4	1,495.4	1,607.8	1,578.4
Profit before Income Tax	3,403.3	2,096.1	2,035.4	2,253.8	1,827.1
Profit from Continuing Operations	2,657.6	1,660.1	1,515.9	1,799.3	1,426.3
Profit from Discontinued Operation, net of income taxes					183.2
Profit for the Year	2,657.6	1,660.1	1,515.9	1,799.3	1,609.5
Basic Earnings per Share(1)	36,582	23,497	20,988	25,154	23,211
Diluted Earnings per Share(2)	36,582	23,497	20,988	25,154	23,211
Basic Earnings per Share from Continuing Operations(1)	36,582	23,497	20,988	25,154	20,708
Diluted Earnings per Share from Continuing Operations(2)	36,582	23,497	20,988	25,154	20,708
Dividends Declared per Share (Won)	10,000	10,000	10,000	9,400	9,400
Dividends Declared per Share (US$)(3)	9.4	8.3	8.6	8.6	8.9
Weighted Average Number of Shares	70,609,160	70,609,160	71,551,966	70,936,336	70,247,592

	As of December 31,				
	2017	2016	2015	2014	2013
	(In billions of Won)				
STATEMENT OF FINANCIAL POSITION DATA					
Working Capital (Deficit)(4)	(907.3)	(447.5)	(96.3)	(337.2)	(945.8)
Property and Equipment, Net	10,144.9	10,374.2	10,371.3	10,567.7	10,196.6
Total Assets	33,428.7	31,297.7	28,581.4	27,941.2	26,576.5
Non-current Liabilities(5)	8,290.4	8,737.1	7,950.8	7,272.7	6,340.7
Share Capital	44.6	44.6	44.6	44.6	44.6
Total Equity	18,029.2	16,116.4	15,374.1	15,248.3	14,166.6

	As of December 31,				
	2017	2016	2015	2014	2013
	(In billions of Won, except percentage data)				
OTHER FINANCIAL DATA					
Capital Expenditures(6)	2,715.9	2,490.5	2,478.8	3,008.0	2,879.1
Research and Development Expense	395.3	344.8	315.8	390.9	352.4
Depreciation and Amortization Expense	3,097.5	2,941.9	2,845.3	2,714.7	2,661.6
Net Cash Provided by Operating Activities	3,855.8	4,243.2	3,778.1	3,677.4	3,558.6

Net Cash Used in Investing Activities	(3,070.6)	(2,462.2)	(2,880.5)	(3,683.2)	(2,506.5)
Net Cash Provided by (Used in) Financing Activities	(826.6)	(1,044.8)	(964.6)	(559.4)	(573.2)
Margins (% of total sales):					
Operating Margin(7)	7.0%	7.6%	8.7%	9.3%	9.5%
Net Margin	15.2%	9.7%	8.8%	10.4%	9.7%

4

Table of Contents

	As of or for the year ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
SELECTED OPERATING DATA					
Population of Korea (in millions)(8)	51.8	51.7	51.5	51.3	51.1
Our Wireless Penetration(9)	58.3%	57.2%	55.6%	55.1%	53.5%
Number of Employees(10)	30,608	25,844	25,992	25,689	23,789
Our Wireless Subscribers (in thousands)(11)	30,195	29,595	28,626	28,279	27,352
Our LTE Subscribers (in thousands)(12)	22,865	21,078	18,980	16,737	13,487
Our LTE Penetration(13)	75.7%	71.2%	66.3%	59.2%	49.3%
Average Monthly Data Usage per Subscriber(14)	6.0GB	5.2GB	3.9GB	3.0GB	2.0GB
Average Monthly Churn Rate(15)	1.5%	1.5%	1.5%	2.0%	2.3%
Cell Sites	57,758	54,986	55,085	50,158	44,764

(1) Basic earnings per share is calculated by dividing profit attributable to owners of SK Telecom by the weighted average number of common shares outstanding during the period. Basic earnings per share from continuing operations is calculated by dividing profit from continuing operations attributable to owners of SK Telecom by the weighted average number of common shares outstanding during the period.

(2) Diluted earnings per share is calculated by dividing profit attributable to owners of SK Telecom adjusted for dilution by the potential dilutive weighted average number of common shares outstanding during the period, taking into account the conversion of outstanding convertible bonds. Diluted earnings per share from continuing operations is calculated by dividing profit from continuing operations attributable to owners of SK Telecom adjusted for dilution by the potential dilutive weighted average number of common shares outstanding during the period, taking into account the conversion of outstanding convertible bonds.

(3) The Dollar amounts shown for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 were translated at the rate of Won 1,067.4 to US$1.00, Won 1,203.7 to US$1.00, Won 1,169.3 to US$1.00, Won 1,090.9 to US$1.00 and Won 1,055.3 to US$1.00, respectively, the noon buying rates in effect at the end of the respective years.

(4) Working capital means current assets minus current liabilities.

(5) Our monetary assets and liabilities denominated in foreign currencies are valued at the exchange rates prevailing at the end of each reporting period. See note 4(19) of the notes to our consolidated financial statements.

(6) Consists of cash outflows for the acquisition of property and equipment.

(7) Operating revenue and other income and operating profit used in the calculation of these ratios exclude the operating revenue and other income and operating profit from discontinued operations.

(8) Population numbers reflect the number of registered residents as published by the Ministry of the Interior and Safety of Korea.

(9) Our wireless penetration is determined by dividing our wireless subscribers by total estimated population, as of the end of the period.

(10) Includes regular employees and temporary employees. See Item 6.D. Employees.

(11) Wireless subscribers include those subscribers who are temporarily deactivated, including (i) subscribers who voluntarily deactivate temporarily for a period of up to three months no more than twice a year and (ii) subscribers with delinquent accounts who may be involuntarily deactivated up to two months before permanent deactivation, which we determine based on various factors, including prior payment history. The number of subscribers as of December 31, 2017, 2016, 2015, 2014 and 2013 include 3.4 million subscribers, 3.2 million subscribers, 2.7 million subscribers, 2.1 million subscribers and 1.1 million subscribers, respectively, of mobile virtual network operators (MVNO) that lease our wireless networks.

(12) The number of LTE subscribers as of December 31, 2017, 2016 and 2015 include 0.5 million subscribers, 0.3 million subscribers and 0.1 million subscribers, respectively, of MVNOs that lease our LTE network.

(13) Our LTE wireless penetration is determined by dividing our LTE subscribers by our total wireless subscribers, as of the end of the period.

Table of Contents

(14) Average monthly data usage per LTE subscriber is determined by dividing the total GBs of data usage for the last month of the period by the average number of LTE subscribers for such month.

(15) The average monthly churn rate for a period is the number calculated by dividing the sum of voluntary and involuntary deactivations during the period by the simple average of the number of subscribers at the beginning and end of the period, then dividing that number by the number of months in the period. Churn includes subscribers who upgrade to a next-generation service, such as LTE, by terminating their service and opening a new subscriber account.

Exchange Rates

The following table sets forth, for the periods and dates indicated, certain information concerning the noon buying rate for translations of Won amounts into Dollars. We make no representation that the Won or Dollar amounts we refer to in this annual report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

Period	At End of Period	Average Rate[(1)]	High	Low
		(Won per US$1.00)		
2013	1,055.3	1,094.7	1,161.3	1,050.1
2014	1,090.9	1,052.3	1,117.7	1,008.9
2015	1,169.3	1,131.0	1,196.4	1,063.0
2016	1,203.7	1,159.3	1,242.6	1,090.0
2017	1,067.4	1,129.0	1,207.2	1,067.4
October	1,115.7	1,130.9	1,146.2	1,115.7
November	1,084.8	1,099.8	1,120.0	1,079.3
December	1,067.4	1,082.9	1,094.6	1,067.4
2018 (through April 20)	1,071.0	1,070.0	1,093.0	1,054.6
January	1,068.3	1,065.6	1,073.6	1,057.6
February	1,082.1	1,078.5	1,093.0	1,065.3
March	1,061.0	1,069.9	1,081.3	1,060.3
April (through April 20)	1,071.0	1,065.2	1,071.6	1,054.6

Source: Federal Reserve Bank of New York.

(1) The average rates for the annual periods were calculated based on daily noon buying rates for cable transfers in New York City certified for customs purposes by the Federal Reserve Bank of New York.

On April 20, 2018, the noon buying rate was Won 1,071.0 to US$1.00.

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

Not applicable.

Item 3.C. ***Reasons for the Offer and Use of Proceeds***
Not applicable.

Item 3.D. ***Risk Factors***
Risks Relating to Our Business

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

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

Table of Contents

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

The collective market share of our competitors amounts to approximately 51.8%, in terms of number of wireless subscribers, as of December 31, 2017. We also compete for subscriber activations with MVNOs, including MVNOs that lease our networks. MVNOs generally provide rate plans that are relatively cheaper than similar rate plans of the wireless network providers from which they lease their networks, including us. In addition, other companies may enter the telecommunications service market by acquiring the required licenses from the MSIT. For example, in October 2015, three companies applied for licenses to become Korea s fourth mobile network operator. Although the MSIT rejected the applications of all three companies in January 2016, the MSIT may continue its efforts to find an eligible applicant to be Korea s fourth mobile network operator in the future.

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

Our fixed-line telephone service competes with KT and LG U+, as well as other providers of voice over Internet protocol (VoIP) services. As of December 31, 2017, our market share of the fixed-line telephone and VoIP service market was 16.1% (including the services provided by SK Broadband Co., Ltd. (SK Broadband) and SK Telink Co., Ltd. (SK Telink)) in terms of number of subscribers compared to KT with 58.0% and LG U+ with 17.4%. In addition, our broadband Internet access and Internet protocol TV (IPTV) services provided through SK Broadband competes with other providers of such services, including KT, LG U+ and cable companies. As of December 31, 2017, our market share of the broadband Internet market was 25.7% in terms of number of subscribers compared to KT with 41.3% and LG U+ with 18.0%. As of December 31, 2017, our market share of the pay TV market (which includes IPTV, cable TV and satellite TV) was 13.4% compared to KT with 23.0% and LG U+ with 10.9% and the collective market share of other pay TV providers with 52.7%.

Continued competition from other wireless and fixed-line service providers has also resulted in, and may continue to result in, a substantial level of deactivations among our subscribers. Subscriber deactivations, or churn, may significantly harm our business and results of operations. In 2017, the monthly churn rate in our wireless telecommunications business ranged from 1.4% to 1.5%, with an average monthly churn rate of 1.5%, which remained unchanged from 2016. Intensification of competition in the future may cause our churn rates to increase, which in turn may cause us to increase our marketing expenses as a percentage of sales to attract and retain subscribers.

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

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

Table of Contents

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

The telecommunications industry has been characterized by continual improvement and advances in technology, and this trend is expected to continue. We and our competitors have continually implemented technology upgrades from our basic code division multiple access (CDMA) network to our wideband code division multiple access (WCDMA) network, and subsequently to LTE technology. We commenced commercial LTE services in July 2011 at the same time as LG U+, while KT commenced its commercial LTE services in January 2012. In June 2013, we commenced providing commercial LTE-A services using carrier aggregation technology which combines spectrum frequencies to improve data transmission speeds, and in June 2014, we launched wideband LTE-A services of up to 225 Mbps and expanded coverage nationwide in 2014.

In December 2014, we commenced tri-band LTE-A services, which bundled three different bandwidths to allow faster network service at speeds of up to 300 Mbps. In June 2017, we commenced five-band LTE-A services, which bundles five different bandwidths to allow even faster network service at speeds of up to 700 Mbps as well as enhanced tri-band LTE-A services utilizing 4x4 multiple input multiple output (MIMO) technology providing for data transmission speeds of up to 900 Mbps. KT and LG U+ have also launched similar LTE-A services around the same time as us. The more successful operation of an LTE network or development of improved LTE technology by a competitor, including better market acceptance of a competitor s LTE services, could materially and adversely affect our existing wireless telecommunications businesses as well as the returns on future investments we may make in our LTE network or our other businesses. Additionally, in order to promote the growth of our IoT solutions business, we deployed new networks nationwide, namely our high-speed LTE-M network in March 2016 and our low-cost Low Power Wide Area Network based on LoRa technology (our LoRa network) in July 2016. We believe that these new networks will support the active development and provision of diverse IoT solutions at a lower cost. For a more detailed description of our backbone networks, see Item 4.B. Business Overview Cellular Services Digital Wireless Network.

Our business could also be harmed if we fail to implement, or adapt to, future technological advancements in the telecommunications sector in a timely manner, such as the implementation of 5G technology. In addition to introducing new technologies and offerings, we must phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, our results of operations could be adversely affected.

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

We have made, and intend to continue to make, capital investments to develop, launch and enhance our wireless service. In 2017, 2016 and 2015, we spent Won 1,131.8 billion, Won 1,104.0 billion and Won 1,022.7 billion, respectively, in capital expenditures to build and enhance our LTE network. We plan to make further capital investments related to our wireless services in the future, including services that can potentially leverage our future 5G network. Our wireless technology-related investment plans are subject to change, and will depend, in part, on market demand for LTE and future 5G services, the competitive landscape for provision of such services and the development of competing technologies. There may not be sufficient demand for services based on our latest wireless technologies, as a result of competition or otherwise, to permit us to recoup or profit from our wireless technology-related capital investments.

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

condition and cash flows.

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

Rate Regulation. Under the MDDIA (described in more detail below), wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving subsidies. On June 22, 2017, the State Affairs Planning Advisory Committee of Korea announced that it would encourage wireless telecommunications service providers, including us, to increase the

Table of Contents

applicable discount rate offered to subscribers from 20% to 25%, which change was adopted in September 2017, and to offer additional discounts to low income customers, which change was adopted in December 2017. We believe these Government measures will adversely affect our revenues and our results of operations. In addition, we may be required to provide other rate discounts in the future to comply with the Government s public policy guidelines or suggestions, and such measures may have a material adverse effect on our results of operations.

When the former President Park Geun-hye took office in February 2013, she announced that the Government would work toward reducing telecommunications service charges and promoting transparency in the decision making of telecommunications service providers. Accordingly, the Government set detailed policy objectives to (1) gradually reduce and abolish initial subscription fees by 2015, (2) expand MVNO and mobile VoIP service, (3) intensify regulations on handset subsidies and (4) construct a data-based rate system. Pursuant to these policy objectives, we ceased charging initial subscription fees to new subscribers starting in November 2014. Similarly, the Government has periodically reviewed the rates charged by wireless telecommunications service providers and has, from time to time, suggested rate reductions. Although these suggestions were not binding, we have implemented some rate reductions in response to such recommendations. The Government may suggest other rate reductions in the future and any further rate reductions we make in response to such suggestion may adversely affect our results of operations.

In furtherance of the above policy objectives, the Government also enacted the MDDIA, which became effective on October 1, 2014. The MDDIA was enacted for the purpose of establishing a transparent and fair distribution practice for mobile devices, and it limits the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers. Pursuant to the MDDIA, wireless telecommunications service providers are prohibited from (i) unfairly providing discriminatory subsidies based on criteria such as type of subscription, subscription plan and characteristics of the subscriber and (ii) entering into a separate agreement with subscribers imposing obligations to use a specific subscription plan as a condition for providing subsidies. The MDDIA also prohibited providing subsidies exceeding a maximum limit established by the KCC for the purchase of mobile phone models that were launched within the last 15 months, which prohibition expired in September 2017. The expiration of the ceiling on handset subsidies may have a material adverse effect on our results of operations as we believe it may lead to an increase in our marketing expenses and affect consumer behavior and our competitors in ways we cannot fully predict. See Item 5. Operating and Financial Review and Prospects Item 5.A. Operating Results Overview New Rate Regulations.

Selection of Technology Standards. The Government also plays an active role in the selection of technology to be used by telecommunications operators in Korea. For example, the Government adopted the WCDMA and CDMA2000 technologies as the only standards available in Korea for implementing third generation services. The MSIT may impose similar restrictions on the choice of technology used in future telecommunications services, including 5G technology, and it is possible that technologies promoted by the Government in the future may not provide the best commercial returns for us.

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

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

Interconnection. Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Our interconnection arrangements, including the interconnection rates we pay and interconnection rates we charge, affect our revenues and operating results. The MSIT determines the basic framework for interconnection arrangements, including policies relating to interconnection rates in Korea. The KCC, which determined such basic framework under the previous Government, changed the basic framework for interconnection arrangements several times. We cannot assure you that we will not be adversely affected by the MSIT s interconnection policies and future changes to such policies. See Item 4.B. Business Overview Interconnection Domestic Calls.

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

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

The Government endeavors to promote competition in the Korean telecommunications markets through measures designed to prevent a dominant service provider from exercising its market power and deterring the emergence and development of viable competitors. We have been designated by the MSIT as the dominant network service provider in respect of our wireless telecommunications business. As such, we are subject to additional regulations to which certain of our competitors are not subject. For example, under current Government regulations, we must obtain prior approval from the MSIT to raise our existing rates or introduce new rates. On June 24, 2016, the Government proposed a bill to the National Assembly to change the approval requirement to a simple reporting requirement, which is the requirement for our competitors. However, the bill is still under review by the relevant sub-committee and there is no assurance as to whether such bill will be passed. See Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation. The MSIT could also require us to charge higher usage rates than our competitors for future services or to take certain actions earlier than our competitors, as when the KCC required us to introduce number portability earlier than our competitors, KT and LG U+.

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

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

As of December 31, 2017, we held a 20.1% equity interest in SK Hynix, which is listed on the KRX KOSPI Market and is one of the world s largest memory-chip makers by revenue. As of December 31, 2017, the fair value of our holding in SK Hynix was Won 11,176.7 billion. We received dividend payments of Won 87.7 billion in 2017, Won

73.1 billion in 2016 and Won 43.8 billion in 2015 related to such shareholding.

From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged downturns, which often occur in connection with a deterioration of global economic conditions, and is subject to intense competition. For example, SK Hynix and its subsidiaries, on a consolidated basis, incurred net losses of Won 158.8 billion and Won 56.0 billion in 2012 and 2011, respectively, primarily due to increased supply and weak

Table of Contents

demand for semiconductor products. Although the memory semiconductor industry has recovered since then and SK Hynix has been reporting net profits since 2013, the industry is subject to cyclical fluctuations and we expect that there may be future downturns in the industry. Accordingly, SK Hynix s operating results would be adversely affected if it fails to compete successfully or decrease manufacturing costs at an adequate level. Our share of any net losses incurred by SK Hynix would be reflected in our income statement as share of losses related to investments in associates.

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

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

We continue to seek opportunities to develop new businesses that we believe are complementary to our existing product and service portfolio and expand our global business through selective acquisitions. Accordingly, we are often engaged in evaluating potential transactions and other strategic alternatives, some of which may be significant in size. For example, while we have not made any decision in connection therewith, we are currently considering the potential acquisition of ADT CAPS, a security systems company in Korea. In recent years, we acquired interests in NSOK Co., Ltd. (NSOK) (formerly, Neosnetworks Co., Ltd.), a provider of residential and small business electronic security and other related alarm monitoring services, Iriver Ltd. (Iriver), a manufacturer of digital audio players and other portable media devices and Shopkick Inc. (Shopkick), the developer of shopkick, a mobile shopping application that checks in and rewards customers that arrive at a participating retail store, in order to penetrate the mobile commerce market in the United States. In 2016, we acquired a 46.2% interest in SM Mobile Communications Co., Ltd. (SM Mobile Communications) for Won 12.1 billion, which was subsequently merged into Iriver, and in 2017, we acquired S.M. Life Design Company Japan Inc. (SM Life Design) for Won 30.0 billion, in light of potential synergies that may be achieved through the entertainment business. For a more detailed description of our recent investments in new businesses, see Item 5.B. Liquidity and Capital Resources Capital Requirements Investments in New Businesses and Global Expansion and Other Needs.

In addition, in some cases we are unable to successfully complete our planned acquisitions. For example, in November 2015, SK Broadband entered into a merger agreement with CJ HelloVision, which was subsequently terminated due to the Korea Fair Trade Commission s failure to approve the proposed merger. While we are hoping to benefit from a range of synergies from our recent or future acquisitions as well as develop new growth engines for our business, we may not be able to successfully complete or integrate such acquisitions or new businesses and may fail to realize the expected benefits in the near term, or at all. In addition, when we enter into new businesses with partners through joint ventures or other strategic alliances, we and those partners may have disagreements with respect to strategic directions or other aspects of business, or may otherwise be unable to coordinate or cooperate with each other, any of which could materially and adversely affect our operations in such businesses. Our business may be negatively impacted if we fail to successfully integrate or realize the anticipated benefits of such transactions.

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

According to data published by the MSIT and the historical population data published by the Ministry of the Interior and Safety, the penetration rate for the Korean wireless telecommunications industry as of December 31, 2017 was approximately 121.0%, which is relatively high compared to many industrialized countries. Therefore, we expect that the penetration rate for wireless telecommunications service in Korea will remain relatively stable. As a result of the already high penetration rate in Korea for wireless telecommunications services coupled with our leading market share, we expect our subscriber growth rate to decrease. Slowed growth in the penetration rate without a commensurate increase in revenues through the introduction of new services and increased use of our services by existing subscribers would likely have a material adverse effect on our financial condition, results of operations and cash flows.

Table of Contents

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

One of the principal limitations on a wireless network s subscriber capacity is the amount of spectrum available for use by the network. We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our CDMA services, 20 MHz of bandwidth in the 2.1 GHz spectrum for our WCDMA services, 20 MHz of bandwidth in the 2.1 GHz spectrum, 20 MHz of bandwidth in the 800 MHz spectrum, 35 MHz of bandwidth in the 1.8 GHz spectrum and 60 MHz of bandwidth in the 2.6 GHz spectrum for our LTE services, as well as 27 MHz of spectrum in the 2.3 GHz band for our wireless broadband Internet (WiBro) services.

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

We plan to participate in frequency bandwidth auctions expected to be held by the MSIT in June 2018 in order to acquire bandwidths that are complementary to our existing network and to prepare for the future commercialization of our 5G service. We may be required to pay a substantial amount to acquire bandwidth capacity in order to meet increasing bandwidth demand and we may not be successful in acquiring the necessary bandwidth to meet such demand, which may adversely affect our financial condition and results of operations.

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

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

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

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

Certain of our debt instruments contain financial and other covenants with which we are required to comply on an annual and semi-annual basis. The financial covenants with respect to SK Telecom s debt instruments include, but are not limited to, a maximum net debt-to-EBITDA ratio of 2.75 and a minimum interest coverage ratio of 4.00, each as determined on a separate financial statement basis. The debt arrangements also contain negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

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

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

As a network-based wireless telecommunications provider, we have had, and expect to continue to have, significant capital expenditure requirements as we continue to build out, maintain and upgrade our networks. We spent Won 2,715.9 billion for capital expenditures in 2017. We expect to spend a slightly higher amount for capital expenditures in 2018 compared to 2017 for a range of projects, including investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our IoT solutions and platform services business portfolio, including artificial intelligence solutions, investments in research and development of 5G technology, investments in businesses that can potentially leverage our future 5G network, and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth businesses, as well as initiatives related to our ongoing businesses in the ordinary course. If we acquire new bandwidths in the frequency bandwidth auction to be held by the MSIT in June 2018, we would be required to spend additional amounts on capital expenditures in connection with building out our networks on such new bandwidths.

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

As of December 31, 2017, we had Won 2,198.4 billion in contractual payment obligations due in 2018, which mostly involve repayment of debt obligations and payments related to frequency licenses. See Item 5.B. Liquidity and Capital Resources Contractual Obligations and Commitments.

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

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

We purchase wireless network equipment from a small number of suppliers. To date, we have purchased substantially all of the equipment for our networks from Samsung Electronics Co., Ltd. (Samsung Electronics), Ericsson-LG Co., Ltd. (Ericsson-LG) and Nokia Siemens Networks B.V. We believe Samsung Electronics

13

currently manufactures approximately half of the wireless handsets sold to our subscribers. Although other manufacturers sell the equipment we require, sourcing such equipment from other manufacturers could result in unanticipated costs in the maintenance and enhancement of our wireless networks. Inability to obtain the equipment needed for our networks in a timely manner may have an adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

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

Our business involves the storage and transmission of large amounts of confidential information, and cybersecurity breaches expose us to a risk of loss of this information, which may lead to improper use or disclosure of such information, ensuing potential liability and litigation, any of which could harm our reputation and adversely affect our business. For example, in July 2011, there was a leak of personal information of subscribers of websites operated by SK Communications Co., Ltd. (SK Communications), our consolidated subsidiary. Various lawsuits were filed against SK Communications alleging that the leak was caused by its poor management of subscribers personal information. With respect to the eight lawsuits for which final judgments have been rendered, the relevant courts have rendered judgments in favor of SK Communications. As of March 31, 2018, five of the lawsuits, seeking damages of approximately Won 12.6 million in aggregate, were pending at various appellate courts and the Supreme Court of Korea.

Our cybersecurity measures may also be breached due to employee error, malfeasance or otherwise. Instituting appropriate access controls and safeguards across all our information technology infrastructure is challenging. Furthermore, outside parties may attempt to fraudulently induce employees to disclose sensitive information in order to gain access to our data or our customers data or accounts, or may otherwise obtain access to such data or accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our cybersecurity occurs or the market perception of the effectiveness of our cybersecurity measures is harmed, we may incur significant legal and financial exposure, including legal claims and regulatory fines and penalties, damage to our reputation and a loss of confidence of our customers, which could have an adverse effect on our business, financial condition and results of operations.

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

Labor disputes may disrupt our operations.

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

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

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

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

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

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

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

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

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

15

Table of Contents

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

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

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

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

the secondary market price of our ADSs.

For historical exchange rate information, see Item 3.A. Selected Financial Data Exchange Rates.

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

The Telecommunications Business Act currently sets a 49.0% limit on the aggregate foreign ownership of our issued shares. Under the Telecommunications Business Act, as amended, a Korean entity, such as SK Holdings Co., Ltd. (SK Holdings), is deemed to be a foreign entity if its largest shareholder (determined by aggregating the shareholdings of such shareholder and its related parties) is a foreigner and such shareholder (together with the shareholdings of its related parties) holds 15.0% or more of the issued voting stock of the Korean entity. As of December 31, 2017, SK Holdings owned 20,363,452 shares of our common stock, or 25.22%, of our issued shares. If SK Holdings were considered to be a foreign shareholder, then its shareholding in us would be included in the calculation of our aggregate foreign shareholding and our aggregate foreign shareholding (based on our foreign ownership level as of December 31, 2017, which we believe was 41.4%) would exceed the 49.0% ceiling on foreign shareholding. As of December 31, 2017, the two largest foreign shareholders of SK Holdings each held a 3.5% stake therein.

If our aggregate foreign shareholding limit is exceeded, the MSIT may issue a corrective order to us, the breaching shareholder (including SK Holdings if the breach is caused by an increase in foreign ownership of SK Holdings) and the foreign shareholder which owns in the aggregate 15.0% or more of SK Holdings. Furthermore, if SK Holdings is considered a foreign shareholder, it will be prohibited from exercising its voting rights with respect to the shares held in excess of the 49.0% ceiling, which may result in a change in control of us. In addition, the MSIT will be prohibited from granting us licenses or permits necessary for entering into new telecommunications businesses until our aggregate foreign shareholding is reduced to below 49.0%. For a description of further actions that the MSIT could take, see Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements.

Risks Relating to Korea

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

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

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices, increases in interest rates globally and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated significantly. See Item 3.A. Selected Financial Data Exchange Rates. Furthermore, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index (known as the KOSPI) and large amounts

16

of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

- adverse conditions or uncertainty in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainty in the wake of a referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union (Brexit);

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

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, euro, Chinese yuan or Japanese yen exchange rates and the overall impact of Brexit on the value of the Korean Won), interest rates, inflation rates or stock markets;

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

- declines in consumer confidence and a slowdown in consumer spending;

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

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

- social and labor unrest;

- decreases in the market prices of Korean real estate;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.

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

North Korea s economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although a bilateral summit between the two Koreas was held on April 27, 2018 and there has been an announcement in March 2018 of a potential summit between the United States and North Korea, there can be no assurance that the level of tension affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on our business, results of operations and financial condition and the market value of our common shares and ADSs.

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

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

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

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

Under the Korean Foreign Exchange Transactions Act, if the Government deems that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Ministry of Strategy and Finance (the MOSF) for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange.

Risks Relating to Securities

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

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

As of December 31, 2017, SK Holdings owned 25.22% of our total issued common shares and has not agreed to any restrictions on its ability to dispose of our shares. See Item 7.A. Major Shareholders. We can make no prediction as to the timing or amount of any sales of our common shares. We cannot assure you that future sales of our common shares, or the availability of our common shares for future sale, will not adversely affect the prevailing market value of our common shares or ADSs from time to time.

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

Under the deposit agreement, holders of our common shares may deposit those shares with the ADR depositary s custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the ADR depositary and receive our common shares. However, under the terms of the deposit agreement, as amended, the depositary bank is required to obtain our prior consent to any such deposit if, after giving effect to such deposit, the total

Table of Contents

number of our common shares represented by ADSs, which was 8,804,190 shares as of March 31, 2018, exceeds a specified maximum, subject to adjustment under certain circumstances. In addition, the depositary bank or the custodian may not accept deposits of our common shares for issuance of ADSs under certain circumstances, including (1) if it has been determined by us that we should block the deposit to prevent a violation of applicable Korean laws and regulations or our articles of incorporation or (2) if a person intending to make a deposit has been identified as a holder of at least 3.0% of our common shares. See Item 10.B. Memorandum and Articles of Association Description of American Depositary Shares. It is possible that we may not give the consent. Consequently, an investor who has surrendered his or her ADSs and withdrawn the underlying shares may not be allowed to deposit the shares again to obtain ADSs.

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

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

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

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

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

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

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

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

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

Table of Contents

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

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies, which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the SEC and listed on the New York Stock Exchange (the NYSE), we are subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the NYSE. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information available could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

Item 4. *INFORMATION ON THE COMPANY*

Item 4.A. *History and Development of the Company*

As Korea s first wireless telecommunications service provider, we have a recognized history of leadership and innovation in the domestic telecommunications sector. Today, we remain Korea s leading wireless telecommunications services provider and have continued to pioneer the commercial development and implementation of state-of-the-art wireless technologies. We had 30.2 million wireless subscribers, including MVNO subscribers leasing our networks, as of December 31, 2017, representing a market share of 48.2%, the largest market share among Korean wireless telecommunications service providers. We believe we are also a leader in developing new products and services that reflect the increasing convergence of telecommunications technologies, as well as the growing synergies between the telecommunications sector and other industries, and are well-positioned to become Korea s leading platform service provider through our next-generation growth businesses in IoT solutions, media and e-commerce and other innovative products offered through our platform services, including artificial intelligence solutions.

In February 2012, we acquired an equity stake in SK Hynix, one of the world s largest memory-chip makers by revenue, for an aggregate purchase price of Won 3.4 trillion, and became its largest shareholder. As of December 31, 2017, we held a 20.1% equity interest in SK Hynix.

On March 31, 2018, we had a market capitalization of approximately Won 18.9 trillion (US$17.7 billion, as translated at the noon buying rate of March 31, 2018) or approximately 1.2% of the total market capitalization on the KRX KOSPI Market, making us the nineteenth largest company listed on the KRX KOSPI Market based on market capitalization on that date. Our ADSs, each representing one-ninth of one share of our common stock, have traded on the NYSE since June 27, 1996.

We established our telecommunications business in March 1984 under the name Korea Mobile Telecommunications Co., Ltd. We changed our name to SK Telecom Co., Ltd., effective March 21, 1997. In January 2002, we merged with Shinsegi Telecom Co., Ltd. (Shinsegi), which was then the third-largest wireless telecommunications service provider in Korea. Our registered office is at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 04539, Korea and our telephone number is +82-2-6100-2114.

Korean Telecommunications Industry

Established in March 1984, we became the first wireless telecommunications service provider in Korea. We remained the sole provider of wireless telecommunications services until April 1996, when Shinsegi commenced cellular service. The Government began to introduce competition into the fixed-line and wireless telecommunications services markets in the early 1990 s. During this period, the Government allowed new competitors to enter the fixed-line sector, sold a controlling stake in us to the SK Group, and granted a cellular license to our first competitor, Shinsegi. In October 1997, three additional companies began providing wireless telecommunications services under Government licenses to provide wireless telecommunications services. In 2000 and 2001, the Korean wireless telecommunications market experienced significant consolidation. In January 2002, Shinsegi was merged into us. Additionally, two of the other wireless telecommunications services providers merged.

There are currently three mobile network operators in Korea: our company, KT and LG U+. As of December 31, 2017, the market share of the Korean wireless telecommunications market, in terms of number of subscribers, of KT and LG U+ was approximately 31.2% and 20.6%, respectively (compared to our market share of 48.2%), each including MVNO subscribers leasing the respective networks. As of December 31, 2017, MVNOs had a combined market share of 12.0%, of which MVNOs leasing our networks represented 5.5%, MVNOs leasing KT s networks represented 5.6% and MVNOs leasing LG U+ s networks represented 0.9%.

Telecommunications industry growth in Korea has been among the most rapid in the world, with fixed-line penetration being under five lines per 100 population in 1978 and increasing to 47.9 lines per 100 population as of December 31, 2006 before decreasing to 29.0 lines per 100 population as of December 31, 2017, and wireless penetration increasing from 7.0 subscribers per 100 population in 1996 to 121.0 subscribers per 100 population as of December 31, 2017. The table below sets forth certain subscription and penetration information regarding the Korean telecommunications industry as of the dates indicated:

	As of December 31,				
	2017	2016	2015	2014	2013
	(In thousands, except for per population amounts)				
Population of Korea[1]	51,779	51,696	51,529	51,328	51,141
Wireless Subscribers	62,651	60,287	57,937	56,310	54,681
Wireless Subscribers per 100 Population	121.0	116.6	112.4	109.7	106.9
Telephone Lines in Service	15,039	15,746	16,341	16,939	17,620
Telephone Lines per 100 Population	29.0	30.5	31.7	33.0	34.5

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

Since the introduction of short text messaging in 1998, Korea s wireless data market has grown rapidly. This growth has been driven, in part, by the rapid development of wireless Internet service since its introduction in 1999 and the implementation of LTE technology providing for fast data transmission speeds and large data transmission capacity. As of December 31, 2017, approximately 57.1 million Korean wireless subscribers owned Internet-enabled handsets capable of accessing wireless Internet services, including 48.6 million subscribers that own smartphones that have direct access to the Internet using mobile Internet technology. The table below sets forth certain penetration information regarding the number of Internet-enabled handsets, smartphones and wireless subscribers in Korea as of the dates indicated:

	As of December 31,				
	2017	2016	2015	2014	2013
	(In thousands, except for percentage data)				
Number of Wireless Internet-Enabled Handsets	57,089	55,085	53,737	52,833	50,858
Number of Smartphones	48,607	46,418	43,668	40,560	37,517

Total Number of Wireless Subscribers	62,651	60,287	57,937	56,310	54,681
Penetration of Wireless Internet-Enabled Handsets	91.1%	91.4%	92.8%	93.8%	93.0%
Penetration of Smartphones	77.6%	77.0%	75.4%	72.0%	66.9%

In addition to its well-developed wireless telecommunications sector, Korea has one of the largest Internet markets in the Asia Pacific region. From the end of 2005 to the end of 2017, the number of broadband Internet access subscribers increased from approximately 12.2 million to approximately 21.2 million. In connection with such growth in broadband Internet usage, the number of IPTV subscribers has also increased rapidly. The table below sets forth certain information regarding broadband Internet access subscribers and IPTV subscribers as of the dates indicated:

	As of December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
	(In thousands)				
Number of Broadband Internet Access Subscribers[1]	21,225	20,556	20,025	19,199	18,738
Number of IPTV Subscribers	15,381	11,850	10,991	9,670	8,738

22

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

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

Overview

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

- cellular services, which include wireless voice and data transmission services, sales of wireless devices, IoT solutions and platform services;
- fixed-line telecommunication services, which include fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV) and business communications services;
- e-commerce services, which include 11st, our open marketplace business, and other commerce solutions; and
- other businesses.

Our Business Strategy

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

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

Maintain our leadership in the wireless services business by offering customer-oriented products and services. We plan to maintain our leadership in the wireless services business by accurately analyzing the needs of our subscribers and providing products and services that meet such needs. We plan to strengthen our customer relationships by engaging our subscribers to integrate our service offerings in various aspects of their daily lives such as T map, our interactive navigation service which we provide to all users free of charge and oksusu, our mobile IPTV service with a wide range of unique media offerings. We also provide bundled subscriptions to our wireless and fixed-line service offerings, and we believe such bundled subscriptions contribute to increased customer retention and acquisition of new subscribers for both our wireless and fixed-line services due to convenience. In addition, we believe our T Membership program, our membership service, also contributes to our subscriber retention with the breadth of membership benefits we provide through our membership partners.

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

Develop our technological capabilities to support our future 5G network. We aim to research and develop cutting-edge 5G technologies that will be adopted as the technological standard for 5G and to acquire the necessary bandwidth to launch 5G services. In addition, we aim to collaborate with various partners to identify new business opportunities that can potentially leverage our future 5G network.

Cellular Services

We offer wireless voice and data transmission services, sell wireless devices and provide IoT solutions and innovative platform services through our cellular services segment. Our wireless voice and data transmission services are offered through our backbone networks that collectively can be accessed by approximately 99.0% of the Korean population. We had 30.2 million wireless subscribers, including MVNO subscribers leasing our networks, as of December 31, 2017, representing a market share of 48.2%, the largest market share among Korean wireless telecommunications service providers. The table below sets forth the number of subscribers, including subscribers of MVNOs that lease our wireless networks, using our various digital wireless networks as of the dates indicated:

	As of December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
	(in thousands)				
Network					
LTE	22,865	21,078	18,980	16,737	13,487
WCDMA	5,842	6,491	7,008	8,020	9,909
CDMA	1,488	2,026	2,638	3,521	3,957
Total	30,195	29,595	28,626	28,278	27,353

In 2017, 2016 and 2015, our cellular services segment revenue was Won 13,262.1 billion, Won 13,004.9 billion and Won 13,269.3 billion, respectively, representing 75.7%, 76.1% and 77.4%, respectively, of our consolidated revenue.

Wireless Services

We offer wireless voice transmission and data transmission services to our subscribers through our backbone networks. Our wireless telecommunications services are available to our subscribers receiving service under the SK Telecom brand. In addition, customers can obtain wireless telecommunications services that operate on our network from MVNOs that lease our wireless networks. We derive revenues from our wireless telecommunications service principally through monthly plan-based fees as described in Rate Plans below.

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

Through service agreements with various foreign wireless telecommunications service providers, we offer cellular global roaming services, branded as our T-Roaming service. Global roaming services allow subscribers traveling abroad to make and receive calls using their regular mobile phone numbers. In addition, we provide global roaming service to foreigners traveling to Korea. In such cases, we generally receive a fee from the traveler s local wireless telecommunications service provider.

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

Table of Contents

In addition, we provide interconnection service to connect our networks to domestic and international fixed-line and other wireless networks. See Item 4.B. Business Overview Interconnection.

Wireless Device Sales

We offer several categories of wireless devices, including smartphones and basic phones, tablets and other Internet access devices and wearable devices that are sold through an extensive distribution network, which consists of authorized exclusive dealers and independent retailers, as well as branch offices and stores directly operated by us through our wholly-owned subsidiary, PS&Marketing Co., Ltd. (PS&Marketing). As of December 31, 2017, approximately 23.0 million, or 76.1%, of our subscribers (including MVNO subscribers leasing our networks) owned smartphones that have direct access to the Internet compared to approximately 21.9 million subscribers, or 73.9%, as of December 31, 2016. We purchase a substantial majority of our wireless devices from Samsung Electronics, Apple and LG Electronics.

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

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

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

IoT Solutions

Through our IoT solutions business, we provide a home monitoring service platform for residential customers and network access and enhanced services to support telemetry-type applications, which are characterized by machine-to-machine (M2M) wireless connections, to business customers. In order to promote the growth of our IoT solutions business, we deployed networks nationwide that are designed to support IoT devices, namely our high-speed LTE-M network in March 2016 and our low-cost Low Power Wide Area Network based on LoRa technology in July 2016. In 2018, we expect to increase the battery efficiency of our IoT devices by launching our LTE Cat.M1 technology and further enhance our competitiveness in this business.

In May 2015, we launched Smart Home, a mobile application-based home monitoring service for residential customers. Smart Home is a paid subscription service available not only to our wireless and fixed-line service subscribers but also to subscribers of our competitors wireless and fixed-line services. Through partnerships with more than 35 construction companies, we provided built-in Smart Home services to more than 14,000 homes as of December 31, 2017. Through Smart Home, users can control and monitor their home environment from their mobile devices and enhance the safety and convenience of their daily lives. We have also partnered with more than 70 electronics and appliance manufacturers, including Samsung Electronics and LG Electronics, to develop a wide range of appliances, electronic devices, door security, heating and lighting systems that are compatible with our Smart Home service.

We also provide network access and customized IoT solutions to our business customers. Our M2M services support devices that are used in a variety of market segments, including retail, utilities, security, automotive, agriculture and data analytics. For example, in 2016, we partnered with Renault Samsung Motors, SsangYong Motor, Jaguar Land Rover and Kia Motors to integrate T-map with their in-vehicle navigation systems, and we expect to further expand our connected car technologies over the next few years. In addition, we provide enhanced solutions to businesses in order to connect with and monitor their equipment, such as fleet management devices used to monitor city-operated rental bicycles and utility monitoring devices for smart grid applications.

Platform Services

Through our platform services business, we seek to provide innovative products and services that meet our customers evolving needs in an increasingly connected world. For example, we provide location-based services such as T map, which we provide to our and our competitors wireless subscribers free of charge. T map uses GPS technology to transmit driving directions, real-time traffic updates and emergency rescue assistance to wireless devices. As of December 31, 2017, there were approximately 10.4 million monthly average users of our T map service. As discussed in IoT Solutions , in 2016, we integrated our T map services with our automotive IoT solutions. In September 2017, we also integrated NUGU, described in more detail below, into our T map service enabling users to use voice commands to operate their mobile devices while driving.

In addition, we provide T phone service, which provides our customers with a number of convenient call functions, including a function to block spam calls and a function called T114 that informs customers of the phone numbers of stores, hospitals and other facilities closest to the customer s current location.

We also offer artificial intelligence solutions through our platform services business. For example, in September 2016, we launched NUGU, the first intelligent virtual assistant service launched in Korea with Korean language capabilities based on advanced voice recognition technologies. NUGU currently offers a wide range of services including music streaming, connectivity with Smart Home and other IoT solutions for the home, ordering food, and informational and other personal assistance services, and we plan to continually enhance its functionalities through software updates. Through cloud-based deep-learning technology, NUGU is designed to evolve on its own as it collects more data about its users over time. We have integrated NUGU into our T map service as discussed above as well as our B tv service as further discussed in Fixed-line Telecommunication Services Advanced Media Platform (including IPTV). We continue to explore ways in which we can leverage our NUGU technology to enhance our existing products and services.

Rate Plans

We offer our wireless telecommunications services on both a postpaid and prepaid basis. Approximately 93.4% of our subscribers received our wireless telecommunications services on a postpaid basis as of December 31, 2017. Postpaid accounts primarily represent retail subscribers under contract with SK Telecom under which a subscriber is billed in advance a monthly fixed rate in return for a monthly network service allowance and usage for outgoing voice calls and wireless data services beyond the allowance is billed in arrears, where payment of the total amount of the bill is due at the end of the month. The standard contract period for our rate plans is 24 months, although our subscribers have the option to enter into shorter term contracts or no fixed-term contract at all. We provide various subsidies and discounts, including handset subsidies, depending on the length of the contract and the subscriber s chosen rate plan. Our prepaid service enables individuals to obtain wireless telecommunications services without a fixed-term contract by paying for all services in advance according to expected usage. We do not charge our customers for incoming calls, although we do receive interconnection charges from KT and other companies for calls from the fixed-line network terminating on our networks and interconnection revenues from other wireless network operators. See Item 4.B. Business Overview Interconnection.

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

Basic Rate Plans. We offer various postpaid account plans for smartphones and basic phones that are designed to meet a wide range of subscriber needs and interests. As of December 31, 2017, approximately 15 million subscribers have subscribed to Band Data plans, which are our representative smartphone rate plans featuring unlimited domestic voice minutes and text messaging and a fixed data transmission allowance per month as well as free access to live TV on oksusu, our mobile IPTV service, that range from Won 29,900 to Won 69,000 per month. Our Voice Free plans are available for our basic phones and feature a fixed allowance of voice minutes and 50 text messages per month with rates that range from Won 19,000 to Won 94,000 per month. We also offer a standard rate plan for Won 11,000 per month, through which the subscriber is charged per usage amount, other than on text message usage up to 50 messages per month.

In addition, we provide a variety of differentiated rate plans for our customer segments such as our T Global rate plans for foreigners featuring unlimited domestic voice minutes and text messaging, a fixed allowance of international voice minutes and data transmission per month and our Weekend Ting rate plans for teenagers featuring more data transmission allowance on weekends. We also provide T Signature rate plans for customers seeking unlimited wireless data usage for fixed rates and a multitude of other premium benefits such as mobile device insurance coverage and mobile device upgrades.

For our T Pocket-Fi device, we provide a fixed monthly data transmission allowance of 10 GB for Won 15,000 per month and 20 GB for Won 22,500 per month. With respect to the wearable devices that we offer, we offer targeted rate plans for smart watches that range from Won 10,000 to Won 11,000 per month, and the Cookiz rate plans for our T kids phone-Joon devices that range from Won 8,000 to Won 18,000 per month.

Data Add-on Rate Plans. We offer a variety of optional add-on rate plans that are designed to meet a wide range of subscriber needs with respect to increased data usage that followed the widespread use of smartphones and faster transmission speeds made possible by LTE technology. For example, we offer data plans that offer unlimited data based on time, place and occasion such as our Subway Free plan, which offers unlimited wireless data usage on subway platforms and inside subways and our Commuter Free plan, which offers unlimited wireless data usage during rush hour, each for a fixed rate of Won 9,000 per month. For certain rate plan subscribers, we also offer a daily allowance of 1 GB of oksusu access and a monthly allowance of 8,000 points to purchase media content on oksusu through our oksusu Safe plan for Won 5,000 or Won 8,000 per month, depending on the subscribers basic rate plan. Safe Option Premium offers an additional daily data transmission allowance of 50 MB to subscribers who have used the maximum data transmission on their existing plan without incurring additional data transmission fees for a fixed rate of Won 8,000 per month. We also offer T Data Coupons, through which subscribers can purchase a fixed amount of data for a fixed price and can also be sent as gifts to family and friends that need additional data allowance. We believe that our data add-on rate plan offerings have contributed to the increase in data usage to 6.0 GB of average monthly data usage per LTE subscriber as of December 31, 2017 from 5.2 GB as of December 31, 2016.

Roaming Plans. We provide fixed-rate international roaming plans such as our T Roaming Data OnePass plans which provide data roaming services at different speeds depending on usage amount for Won 9,000 to Won 15,000 per day and are available in up to 160 countries, depending on the specific plan chosen. With respect to international calls placed by a subscriber, unless the subscriber uses one of our fixed-rate international roaming plans, we bill the subscriber the international rate charged by the Korean international telephone service provider through which the call is routed. We remit to that provider the international charge less our usage charges. See Item 4.B. Business Overview Interconnection.

Digital Wireless Network

We offer wireless voice and data transmission services throughout Korea using digital wireless networks, primarily consisting of our LTE network, WCDMA network, CDMA network, Wi-Fi network and LoRa network. We continually upgrade and increase the capacity of our wireless networks to keep pace with advancements in technology, the growth of our subscriber base and the increased usage of voice and wireless data services by our subscribers.

LTE Network. LTE technology has become widely accepted globally as the standard fourth generation technology and enables data to be transmitted at speeds faster than our CDMA and WCDMA networks. We commenced commercial wireless telecommunications services based on LTE technology in July 2011 and expanded the coverage area of our LTE services to nationwide by the end of April 2012. We launched our LTE multi-carrier service in the 1.8 GHz spectrum in July 2012. In June 2013, we commenced providing commercial LTE-A services at speeds of up to 150 Mbps using carrier aggregation technology which combines spectrum frequencies to improve data transmission speed and capacity, and in June 2014, we launched wideband LTE-A services at speeds of up to 225 Mbps and expanded coverage nationwide in 2014. In December 2014, we commenced tri-band LTE-A services, which bundled three different bandwidths to allow faster network service at speeds of up to 300 Mbps. In June 2017, we commenced five-band LTE-A services, which bundles five different bandwidths to allow even faster network service at speeds of up to 700 Mbps as well as enhanced tri-band LTE-A

Table of Contents

services utilizing 4x4 MIMO technology providing data transmission speeds of up to 900 Mbps. With these developments in LTE technology, our LTE penetration increased to 75.7% as of December 31, 2017 compared to 49.3% as of December 31, 2013. We continue to deploy improved LTE-A technology to increase the maximum data transmission speed of our services. In March 2016, we also launched our LTE-M services at speeds of up to 10 Mbps for M2M connections relating to our IoT solutions. Our continued upgrades to our LTE technology enables even faster data transmission speeds, as shown below.

Wireless network technology (Date of commencement of services)	**Maximum download speed for data transmission**	**Maximum upload speed for data transmission**
LTE (July 2011)	75 Mbps	37.5 Mbps
LTE-A (June 2013)	150 Mbps	75 Mbps
Wideband LTE-A (June 2014)	225 Mbps	112.5 Mbps
Tri-band LTE-A (December 2014)	300 Mbps	150 Mbps
Five-band LTE-A (June 2017)	700 Mbps	350 Mbps
Tri-band LTE-A with 4x4 MIMO (June 2017)	900 Mbps	450 Mbps

We believe that our advanced LTE technology and dense network infrastructure enable us to provide the fastest LTE data transmission network nationwide. In December 2017, the MSIT announced that our LTE network provided the fastest upload and download speeds among the three mobile network operators, KT, LG U+ and us. The nationwide average download speed of our LTE network was 163.9 Mbps compared to 131.0 Mbps for KT s LTE network and 105.3 Mbps for LG U+ s LTE network.

The faster data transmission speed of our LTE network has allowed us to offer significantly improved wireless data transmission services, providing our subscribers with faster wireless access to multimedia content. We have been building new access networks and evolved packet cores for our LTE network, while we utilize our existing WCDMA network for other parts of our LTE network. For more information about our capital expenditures relating to our LTE network, see Item 5.B. Liquidity and Capital Resources.

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

WCDMA technology enables us to offer significantly faster and higher-quality voice and data transmission and supports more sophisticated wireless data transmission services than is possible through our CDMA network. We commenced provision of our WCDMA services on a limited basis in Seoul at the end of 2003. Since then, we expanded our WCDMA network nationwide and implemented various technologies to improve data transmission speeds within our WCDMA network.

Wi-Fi Network. Wi-Fi technology enables our subscribers with Wi-Fi-capable devices such as smartphones, laptops and tablet computers to access mobile Internet. We started to build Wi-Fi access points in 2010 and, as of December 31, 2017, we had more than 142,000 Wi-Fi access points in public areas such as shopping malls, restaurants, coffee shops, subways and airports where, generally, the demand for high-speed wireless Internet service is high. While each Wi-Fi access point typically has a radius of approximately 20-30 meters, some of our Wi-Fi hot zones, which have multiple Wi-Fi access points, including those installed at public transportation facilities and amusement parks, have much wider service areas. We also have a WiBro network that we use as a backhaul for our

Wi-Fi network.

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

Table of Contents

Network Infrastructure

The principal components of our wireless networks are:

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

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

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

As of December 31, 2017, our LTE, WCDMA, CDMA and WiBro networks had an aggregate of 57,758 cell sites.

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

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

Marketing, Distribution and Customer Service

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

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

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

Table of Contents

members such as discounts with our membership partners for dining, shopping, entertainment and travel, access to our online membership shopping mall and invitations to various promotional events. Although our competitors also have similar membership programs, we believe that our T Membership program has a competitive advantage over our competitors membership programs due to our large subscriber base and breadth of membership benefits.

Distribution. We use a combination of an extensive network, including branch offices and stores, directly operated by us through our subsidiary, PS&Marketing, more than 3,700 authorized exclusive dealers and an extensive network of independent retailers in order to increase subscriber growth while reducing subscriber acquisition costs.

As part of our initiative to provide a differentiated customer service experience, we operate T Premium Stores that allow our potential and existing subscribers to experience certain of our services such as services that are available through our IoT solutions and platform services. As of December 31, 2017, we operated more than 320 T Premium Stores and we intend to further expand the number of T Premium Stores in 2018.

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

Currently, authorized dealers are entitled to an initial commission for each new subscriber registered by the dealer, as well as an average ongoing commission calculated as a percentage of that subscriber s monthly plan-based rate for the first four years. In order to strengthen our relationships with our exclusive dealers, we offer a dealer financing plan, pursuant to which we provide to each authorized dealer a loan of up to Won 4.0 billion with a repayment period of up to three years. As of December 31, 2017, we had an aggregate of Won 61.9 billion outstanding in loans to authorized dealers.

Customer Service. We provide high-quality customer service directly through our two subsidiaries, Service Ace Co., Ltd. and Service Top Co., Ltd., rather than rely on outsourcing. Network O&S Co., Ltd. operates our switching stations and related transmission and power facilities and offers quality customer service primarily to our business customers. We have held the top position with respect to our telecommunications service and retail sales service in Korea s leading three customer satisfaction indices, the National Customer Satisfaction Index, the Korean Customer Satisfaction Index and the Korean Standard Service Quality Index, for 20 years, 20 years and 18 years, respectively.

Fixed-line Telecommunication Services

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

	As of December 31,		
	2017	**2016**	**2015**
Fixed-Line Telephone (including VoIP)[(1)]	4,322,767	4,494,766	4,672,195
Broadband Internet	5,439,272	5,207,495	5,036,057

IPTV(2)	4,370,416	3,967,603	3,489,077

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

(2) Includes subscribers to SK Broadband s B tv service and video-on-demand only service subscribers.

In 2017, 2016 and 2015, our fixed-line telecommunication services segment revenue was Won 2,724.2 billion, Won 2,651.2 billion and Won 2,494.5 billion, respectively, representing 15.5%, 15.5% and 14.6%, respectively, of our consolidated revenue.

Table of Contents

Fixed-line Telephone Services

Our fixed-line telephone services comprise local, domestic long distance, international long distance and VoIP services. VoIP is a technology that transmits voice data through an Internet Protocol network. As of December 31, 2017, we had approximately 4.3 million fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink). Our fixed-line telephone services are primarily offered under the B phone brand name. SK Telink also provides affordable international calling services under the brand name 00700.

Broadband Internet Access Services

Our broadband Internet access network covered more than 80% of households in Korea as of December 31, 2017. As of December 31, 2017, we had approximately 5.4 million broadband Internet access subscribers. We offer broadband Internet access products with various throughput speeds, including band Giga, which is up to 10 times faster than data transmission speeds on networks utilizing fiber-to-the-home, or FTTH, technology and allows for data transmission at a maximum speed of 1 Gbps.

Advanced Media Platform (including IPTV)

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

We have offered video-on-demand services since 2006 and launched real-time IPTV services in 2009. We currently offer IPTV services under the brand name B tv with access to our standard 56 live high definition channels and to as many as 219 channels depending on the subscription service, as well as video-on-demand service providing a wide range of media content, including recent box office movie releases, popular U.S. and other foreign TV shows and various children s TV programs. We also offer B tv UHD, which is an ultra-high definition IPTV service and has a resolution that is four times as high as the standard high definition broadcasting service in the IPTV industry. As of December 31, 2017, we had approximately 4.4 million IPTV subscribers. In January 2018, we launched Btv NUGU, which is an all-in-one set top box that incorporates NUGU voice recognition technology and can search for and play media content as well as connect to our Smart Home service through voice commands.

In January 2016, we launched oksusu, a mobile IPTV service that is a combination of the services we previously provided as B tv mobile and hoppin and provides subscribers access to a wide variety of media contents, including various television programs, movies and other video contents that can be downloaded to wireless devices. Oksusu subscribers have access to more than 90 live TV channels, a wide range of sports contents and popular U.S. and other foreign TV shows, among other contents. We are also collaborating with media content developers to provide original media content for our oksusu service. As of December 31, 2017, we had approximately 8.6 million subscribers to oksusu.

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

Business Communications Services

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

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

Rate Plans

For our residential customers, we offer both bundled rate plans for a combination of our fixed-line service offerings as well as individual rate plans for each separate service offering. Bundled rate plans are offered at a discount compared to subscribing to the same services through individual rate plans. Approximately 84% of subscribers to our fixed-line services subscribe to two or more of our services through our bundled rate plans. Bundled rate plans for a combination of fixed-line telephone, broadband Internet access and IPTV services range from Won 32,000 to Won 60,750 per month.

Our Unlimited Home Phone plan for subscribers to our fixed-line telephone service features unlimited domestic land-to-land voice minutes for a fixed rate and range from Won 7,000 to Won 10,500 per month depending on whether or not the subscriber opts for a contract and if so, the length of the contract period. We offer individual fixed-rate plans for our broadband Internet access service that range from Won 20,000 to Won 50,000 per month depending on the data throughput speed and existence and length of a contract. We offer individual fixed-rate plans for our IPTV service that range from Won 6,000 to Won 28,000 per month depending on the number of channels provided and existence and length of a contract. In addition, subscribers can purchase individual videos on demand or subscribe to certain paid content on a periodic basis.

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

Marketing, Distribution and Customer Service

We focus on bringing our fixed-line telephone, broadband Internet and advanced media platform services (including IPTV) to residential users, and various business communications services to corporate users. We market our fixed-line telecommunications products and services under the B brand. Our B brand signifies the centrality of Broadband to our business and also seeks to emphasize our commitment to providing the Best quality products and services to our customers that go Beyond expectations, leading to a Bravo response. Our B brand also strengthens our shared identity with our wireless service s T brand.

We currently outsource a significant portion of our retail sales force needs. We market our services and provide after-sales service support to customers through more than 90 customer centers and a network of more than 250 authorized exclusive dealers located thro