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

(i)

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 expressio 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;

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 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

10

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

12

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 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 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

Table of Contents

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);

Table of Contents

- 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.