SK TELECOM CO LTD
Form 20-F
April 27, 2018
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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**

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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.

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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.

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	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%

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	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.

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(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.

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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.

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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

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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 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.

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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 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

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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

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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

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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

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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.

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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

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(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.

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.

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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.

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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 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.

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 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.

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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 throughout Korea. In addition, SK Telecom s direct retail stores and authorized dealers for wireless telecommunications services also market our fixed-line telephone, broadband Internet and advanced media platform services (including IPTV), which we believe has contributed to the increase in the number of subscribers to such services. We have contracts with our customer centers to sell our services exclusively. These centers receive a commission for each service contract and installation contract secured. In addition, we pay these centers for the maintenance and repair work that they perform for our subscribers. Customer and service centers often enter into sub-contracts with smaller distribution outlets within their area to increase their sales coverage and engage in telemarketing efforts. Authorized dealers are entitled to an initial commission for each new subscriber registered by the dealer.

Sales to business subscribers are handled through our in-house sales group. Our sales teams focus on securing contracts with large commercial complexes, allowing us to install our remote terminals at their premises. After installation, sales teams direct their attention to individual business clients within these premises. Sales teams that have secured contracts with business clients remain the primary contacts for all aspects of the client s needs, including further installation and customer and follow-up service.

E-Commerce Services

Our e-commerce services segment consists primarily of our marketplace business operated by our subsidiary, SK Planet. In 2017, 2016 and 2015, our e-commerce services segment revenue was Won 1,044.2 billion, Won 1,001.3 billion and Won 1,060.0 billion, respectively, representing 6.0%, 5.9% and 6.2%, respectively, of our consolidated revenue.

Marketplace. We operate 11st which is an online open marketplace that offers a wide range of products through an online and mobile platform. Individual consumers can buy a vast array of products such as clothes and accessories, beauty products, groceries, baby products, books, office supplies, furniture, home goods, outdoor and sporting goods, appliances, electronics, travel packages, entertainment tickets and local deals for restaurants and other services from small- to large-sized retailers that operate mini malls on the 11st platform.

As of December 31, 2017, the mobile version of 11st was the leading mobile commerce platform in terms of unique visitors according to Korean Click. The mobile version of 11st is continuing to grow with an increase in the percentage of annual gross merchandise volume, which represents the total annual monetary value of customer purchases of goods and services, net of estimated refunds, derived from the mobile platform to 61% in 2017 from 52% in 2016 and 41% in 2015.

We have expanded our online open marketplace business globally to Turkey, Malaysia and Thailand. In March 2013, Dogus Planet, a joint venture between SK Planet and Dogus Group, a Turkish conglomerate, launched n11.com in Turkey. In April 2015, Celcom Planet, a joint venture between SK Planet and Celcom Axiata, a Malaysian telecommunications service provider, launched 11street in Malaysia. Our online marketplaces in Turkey and Malaysia have rapidly grown into top tier players. In February 2017, SK Planet launched 11street in Thailand through a wholly-owned subsidiary.

We intend to continue our efforts to increase usage of the mobile version of 11st and enhance the convenience of our 11st mobile and web user interface and maintain our growth in overseas e-commerce markets.

Other Commerce Solutions. We provide other commerce solutions, which include the following:

- Syrup Wallet, a mobile wallet service that is the successor to our Smart Wallet service, allows users to conveniently manage membership card points and payment methods such as coupons, credit cards and gift vouchers on their mobile devices for both online and offline purchases and provides shopping information to users in certain shopping areas using advanced location-based technology;

- OK Cashbag, a loyalty points program which allows members to collect and redeem loyalty points at its partnering merchants and offers differentiated marketing services to such partnering merchants; and

- 11Pay, a convenient and secure payment service through which users can register their credit card to simplify payments for online and mobile purchases, including through 11st, our online open marketplace.

We have also expanded our commerce solutions business globally. In October 2014, a 95.2%-owned subsidiary of SK Planet acquired a 100.0% ownership interest in Shopkick, the developer of shopkick, a mobile shopping application that checks in and rewards customers that arrive at a participating retail store, for an aggregate purchase price of Won 230.9 billion and the assumption of Won 18.7 billion in current liabilities. As of December 31, 2017, shopkick had 24.9 million subscribers compared to 24.3 million subscribers as of December 31, 2016.

Other Businesses

We strive to continually diversify our products and services and develop new growth engines that we believe are complementary to our existing products and services, such as our portal service and other miscellaneous businesses, which we include in our others segment. In 2017, 2016 and 2015, our others segment revenue was Won 489.5 billion, Won 434.4 billion and Won 312.9 billion, respectively, representing 2.8%, 2.5% and 1.8%, respectively, of our consolidated revenue.

We offer a portal service under our Nate brand name through SK Communications. Nate can be accessed through its website, www.nate.com, or through its mobile application. Nate offers a wide variety of content and services, including Nate Search, an Internet search engine, Nate News, which provides a library of articles about current events, sports, entertainment and culture, Nate Pann, a user-generated content service as well as access to free e-mail accounts through Nate Mail.

We offer high-end audio devices under the brand name Astell&Kern that are manufactured by our subsidiary, Iriver. In 2016, two of Iriver s audio devices were selected as CES Innovation Awards Honorees in the Portable Media Player and Accessories category and High Performance Home Audio/Video category, respectively, and in 2017, an Iriver audio device was selected as an CES Innovation Awards Honoree in the Accessories category. In 2014 and 2017, we acquired equity interests in Iriver, a manufacturer of digital audio players and other portable media devices, and as of December 31, 2017, we had a 45.9% equity interest in Iriver.

In addition, we operate a security and network surveillance business through NSOK, a provider of residential and small business electronic security and other related alarm monitoring services. In 2014 and 2015, we acquired an 83.9% interest in NSOK for an aggregate of Won 64.0 billion, as part of our initiative to further develop our IoT solutions business. In October 2016, we acquired the remaining 16.1% interest in NSOK through SK Telink.

We also operate a mobile application marketplace, One Store in collaboration with KT, LG U+ and NAVER Corporation. Through this joint collaboration, we expect to increase the competitiveness of One Store to compete with Google Playstore, the leading mobile application marketplace in Korea. As of December 31, 2017, we held a 65.5% interest in One Store.

Interconnection

Our wireless and fixed-line networks interconnect with the public switched telephone networks operated by KT and SK Broadband and, through their networks, with the international gateways of KT and LG U+, as well as the networks of the other wireless telecommunications service providers in Korea. These connections enable our subscribers to make and receive calls from telephones outside our networks. Under Korean law, service providers are required to permit other service providers to interconnect to their networks. If a new service provider desires interconnection with the networks of an existing service provider but the parties are unable to reach an agreement within 90 days, the new service provider can appeal to the KCC.

Domestic Calls

Guidelines issued by the MSIT require that all interconnection charges levied by a regulated carrier take into account (i) the actual costs to that carrier of carrying a call or (ii) imputed costs. Starting in 2016, the MSIT determines interconnection rates applicable to each carrier based on changes in traffic volume, taking into account other factors such as research results, competition and trends in technology development.

Wireless-to-Fixed-line. According to our interconnection arrangement with KT, for a call from our wireless network to KT s fixed-line network, we collect the usage rate from our wireless subscriber and in turn pay KT the interconnection charges. Similarly, KT pays interconnection charges to SK Broadband for a call from KT s wireless network to SK Broadband s fixed-line network. The interconnection rate applicable to both KT and SK Broadband was Won 11.98 per minute, Won 11.98 per minute and Won 13.44 per minute for 2017, 2016 and 2015, respectively.

Fixed-line-to-Wireless. The MSIT determines interconnection arrangements for calls from a fixed-line network to a wireless network. For a call initiated by a fixed-line user to one of our wireless subscribers, the fixed-line network operator collects our usage fee from the fixed-line user and remits to us an interconnection charge. Interconnection with KT accounts for substantially all of our fixed-line-to-wireless interconnection revenue and expenses.

The interconnection rates paid by fixed-line network service providers to each wireless network service provider are set out below. Beginning in 2017, a single interconnection rate applies to all wireless telecommunications service providers, which will eliminate the cost benefit that KT and LG U+ had historically derived from the higher interconnection rates they had received.

	Rate per Minute (in Won)		
Applicable Year	**SK Telecom**	**KT**	**LG U+**
2013	26.27	26.98	27.04

2014	22.22	22.73	22.78
2015	19.53	19.92	19.96
2016	17.03	17.14	17.17
2017	14.56	14.56	14.56
2018	14.56	14.56	14.56

Wireless-to-Wireless. Interconnection charges also apply to calls between wireless telephone networks in Korea. Under these arrangements, the operator originating the call pays an interconnection charge to the operator terminating the call. The applicable interconnection rate is the same as the fixed-line-to-wireless interconnection rate set out in the table above.

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Our revenues from the wireless-to-wireless charge were Won 505.1 billion in 2017, Won 540.3 billion in 2016 and Won 582.6 billion in 2015. Our expenses from these charges were Won 512.2 billion in 2017, Won 548.1 billion in 2016 and Won 579.0 billion in 2015. The charges above were agreed among the parties involved and confirmed by the KCC.

International Calls and International Roaming Arrangements

With respect to international calls, if a call is initiated by our wireless subscribers, we bill the wireless subscriber for the international charges of KT, LG U+ or SK Broadband, and we receive interconnection charges from such operators. If an international call is received by our subscriber, KT, LG U+ or SK Broadband pays interconnection charges to us based on our imputed costs.

To complement the services we provide to our subscribers in Korea, we offer international voice and data roaming services. We charge our subscribers usage fees for global roaming service and, in turn, pay foreign wireless network operators fees for the corresponding usage of their network. For a more detailed discussion of our global roaming services, see Item 4.B. Business Overview Cellular Services Wireless Services above.

Competition

We operate in highly saturated and competitive markets, and we believe that our subscriber growth is affected by many factors, including the expansion and technical enhancement of our networks, the development and deployment of new technologies, the effectiveness of our marketing and distribution strategy, the quality of our customer service, the introduction of new products and services, competitive pricing of our rate plans, new market entrants and regulatory changes.

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, KT, LG U+ and us. Each of our competitors has substantial financial, technical, marketing and other resources to respond to our business offerings.

The following table shows the market share information, based on number of subscribers, as of December 31, 2017, for the following markets.

	Market Share (%)			
	SK Telecom	KT	LG U+	Others
Wireless Service(1)	48.2	31.2	20.6	
LTE Service(1)	45.3	30.6	24.1	
Fixed-Line Telephone (including VoIP)	16.1	58.0	17.4	8.5
Broadband Internet	25.7	41.3	18.0	15.0
IPTV(2)	13.4	23.0	10.9	52.7

(1) Includes MVNO subscribers that lease the wireless networks of the respective mobile network operator.

(2) Includes video-on-demand only service subscribers. Market share is expressed as a percentage of the pay TV market (which includes IPTV, cable TV and satellite TV).

Cellular Services

As of December 31, 2017, we had 30.2 million subscribers, representing a market share of approximately 48.2%, including MVNO subscribers leasing our networks. As of December 31, 2017, KT and LG U+ had 19.6 million and 12.9 million subscribers, respectively, representing approximately 31.2% and 20.6%, respectively, of the total number of wireless subscribers in Korea on such date, each including MVNO subscribers leasing its networks. As of December 31, 2017, we had 22.9 million LTE subscribers and KT and LG U+ had 15.4 million and 12.1 million LTE subscribers, respectively, each including MVNO subscribers leasing its networks.

In 2017, we had 5.8 million activations and 5.2 million deactivations. For 2017, our monthly churn rate ranged from 1.4% to 1.5%, with an average monthly churn rate of 1.5% for 2017, which remained unchanged from 2016. In 2017, we gained 39.2% of the total number of new wireless subscribers and subscribers that migrated to a different wireless telecommunications service provider, compared to KT with 33.1% and LG U+ with 27.6%.

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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. To date, thirteen MVNOs have commenced providing wireless telecommunications services using the networks leased from us. 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%.

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. For a description of the risks associated with the competitive environment in which we operate, see 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.

Prior to 2015, competition in the wireless telecommunications business had caused us to significantly increase our marketing and advertising expenses. Between 2012 and 2014, marketing expenses as a percentage of SK Telecom s revenue, on a separate basis, fluctuated heavily between 23.9% to 33.7%, depending on the competitive landscape. Such percentage was 24.3% in 2015, 23.9% in 2016 and 25.0% in 2017. We attribute such stabilization to the maturity of the LTE market and the implementation of the MDDIA, which prohibits wireless telecommunications service providers from unfairly providing discriminatory subsidies based on certain criteria and from 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, among other restrictions and requirements. However, the prohibition from providing handset subsidies exceeding the amount set by the KCC expired in September 2017 pursuant to the expiration of the three-year effective period of the relevant provision of the MDDIA. For a more detailed discussion of the MDDIA, see Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation.

We face competition from KT and LG U+ as well as other platform service providers in our other cellular service businesses. For example, our Smart Home service competes with KT s Giga IoT Home service and LG U+ s IoT@Home service.

Fixed-Line Telecommunication Services

Our fixed-line telephone service competes with KT and LG U+ as well as providers of other 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 and SK Telink) in terms of number of subscribers compared to KT with 58.0% and LG U+ with 17.4%.

We are the second largest provider of broadband Internet access services in Korea in terms of both revenue and subscribers, and our network covered more than 80% of households in Korea as of December 31, 2017. 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%.

Our IPTV service competes with other providers of such pay TV services, including KT, LG U+ and cable companies. 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 of 52.7%. With respect to our mobile IPTV business, we face competition from similar services provided by KT and LG U+. We also face increasing competition from global media streaming service providers such as Amazon

Video and Netflix, which launched its services in Korea in January 2016.

E-Commerce Services

The e-commerce industry is evolving rapidly and is intensely competitive, and we face a broad array of competitors domestically and increasingly, internationally. Our marketplace business, 11st, faces intense competition from various e-commerce providers, including online open marketplaces such as Gmarket, Auction and

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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.

Other Investments and Relationships

We have investments in several other businesses and companies and have entered into various business arrangements with other companies. Our principal investments fall into the following categories:

SK Hynix

As of December 31, 2017, we held a 20.1% equity interest in SK Hynix, one of the world s largest memory-chip makers by revenue. SK Hynix designs, manufactures and sells advanced memory semiconductor products, including DRAM and NAND flash products, used in various electronic devices. SK Hynix operates four wafer fabrication facilities in Korea and China.

As of December 31, 2017, the fair value of our holding in SK Hynix was Won 11,176.7 billion, constituting 33.4% of our total assets as of such date. 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. In 2017, 2016 and 2015, SK Hynix and its subsidiaries, on a consolidated basis, reported revenues of Won 30,109.4 billion, Won 17,198.0 billion and Won 18,798.0 billion, respectively, profit before income tax of Won 13,439.6 billion, Won 3,216.5 billion and Won 5,269.1 billion, respectively, and profit for the year of Won 10,642.2 billion, Won 2,960.5 billion and Won 4,323.6 billion, respectively. The increase in SK Hynix s revenues in 2017 was primarily due to increases in both volume and average selling prices of DRAM and NAND flash products. As of December 31, 2017, 2016 and 2015, SK Hynix and its subsidiaries, on a consolidated basis, reported total assets of Won 45,418.5 billion, Won 32,216.0 billion and Won 29,677.9 billion, respectively, and total equity of Won 33,820.1 billion, Won 24,023.5 billion and Won 21,387.7 billion, respectively. For a more detailed discussion of the risks relating to our shareholding in SK Hynix, see Item 3.D. Risk Factors Risks Relating to Our Business 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 ADSs as well as our results of operation.

Healthcare Business

We believe that the healthcare business is one of the new growth industries as society ages and medical and health technologies evolve and become integrated with ICT. In 2011, we began pursuing new opportunities in the healthcare business area by acquiring a 9.3% equity interest in NanoEnTek Inc. (NanoEnTek), a biotechnology and nanotechnology company manufacturing, among others, point-of-care diagnostics devices. In April 2014, we became the largest shareholder of NanoEnTek with a 26.0% equity interest. In January 2016, NanoEnTek acquired Bio Focus Co., Ltd., a manufacturer of in vitro diagnostic products. In 2016, NanoEnTek received approvals from the U.S. Food and Drug Administration and the China Food and Drug Administration to market certain of its devices in the United States and China. In the first quarter of 2013, we also acquired a 49.0% equity interest in X ian Tianlong Science and Technology Co., Ltd., a Chinese medical device manufacturer, which has since expanded its product portfolio with the development of a new diagnostic product and entry into new business areas.

KEB HanaCard

In February 2010, we purchased shares newly issued by Hana SK Card Co., Ltd. (which was subsequently merged into KEB Card Co., Ltd. and renamed KEB HanaCard Co., Ltd. (KEB HanaCard) in November 2014), a credit card services provider, for a total purchase price of Won 400.0 billion. As of December 31, 2017, we held 15.0% of the total outstanding shares of KEB HanaCard. KEB HanaCard offers certain credit card products that provide for discounts on some of our wireless network services and integrate T Membership benefits, among other features.

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Hana-SK Fintech Corporation

In order to provide an everyday finance platform, we entered into a joint venture agreement with Hana Financial Group in July 2016. Combining our leading mobile technology and big data analysis capabilities with Hana Financial Group s financial service, Hana-SK Fintech Corporation provides innovative mobile financial services such as mobile asset management, easy payment and overseas wire transfer services and launched the finance platform Finnq in the third quarter of 2017. We hold a 49.0% equity interest in the joint venture, and Hana Financial Group holds the remaining 51.0%.

Law and Regulation

Overview

Korea s telecommunications industry is subject to comprehensive regulation by the MSIT, which is responsible for information and telecommunications policies. The MSIT regulates and supervises a broad range of communications issues, including:

- entry into the telecommunications industry;
- scope of services provided by telecommunications service providers;
- allocation of radio spectrum;
- setting of technical standards and promotion of technical standardization;
- rates, terms and practices of telecommunications service providers;
- interconnection and revenue-sharing between telecommunications service providers;
- research and development of policy formulation for information and telecommunications; and
- competition among telecommunications service providers.

The MSIT is charged with regulating information and telecommunications and the KCC is charged with regulating the public interest aspects of and fairness in broadcasting.

Telecommunications service providers are currently classified into three categories: network service providers, value-added service providers, and specific service providers. We are classified as a network service provider because we provide telecommunications services with our own telecommunications networks and related facilities. As a network service provider, we are required to obtain a license from the MSIT for the services we provide. Our licenses permit us to provide cellular services, third generation wireless telecommunications services using WCDMA and WiBro technologies and fourth generation wireless telecommunications services using LTE technology.

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 and corrective orders issued in connection with any violation of 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. A network service provider that wants to cease its business or dissolve must notify its users 60 days prior to the scheduled date of cessation or dissolution and obtain MSIT approval.

In the past, the Government has stated that its policy was to promote competition in the Korean telecommunications market through measures designed to prevent the dominant service provider in any such market from exercising its market power in such a way as to prevent the emergence and development of viable competitors. While all network service providers are subject to MSIT regulation, we are subject to increased regulation because of our position as the dominant wireless telecommunications services provider in Korea.

Competition Regulation

The KCC is charged with ensuring that network service providers engage in fair competition and has broad powers to carry out this goal. If a network service provider is found to be in violation of the fair competition requirement, the KCC may take corrective measures it deems necessary, including, but not limited to, prohibiting further violations, requiring amendments to the articles of incorporation or to service contracts with customers, requiring the execution or performance of, or amendments to, interconnection agreements with other network service providers and prohibiting advertisements to solicit new subscribers. The KCC is required to consult with the Minister of the MSIT before it takes certain corrective measures.

In addition, we qualify as a market-dominating business entity under the Fair Trade Act. Accordingly, we are prohibited from engaging in any act of abusing our position as a market-dominating entity, such as unreasonably determining, maintaining or altering service rates, unreasonably controlling the rendering of services, unreasonably interfering with business activities of other business entities, hindering unfairly the entry of newcomers or substantially restricting competition to the detriment of the interests of consumers.

Because we are a member company of the SK Group, which is a large business group as designated by the FTC, we are subject to the following restrictions under the Fair Trade Act:

Restriction on debt guarantee among affiliates. Any affiliate within the SK Group may not guarantee the debts of another domestic affiliate, except for certain guarantees prescribed in the Fair Trade Act, such as those relating to the debts of a company acquired for purposes of industrial rationalization, bid deposits for overseas construction work or technology development funds.

Restriction on cross-investment. A member company of the SK Group may not acquire or hold shares in an affiliate belonging to the SK Group that owns shares in the member company.

Restrictions on circular investments. A member company of the SK Group may not acquire or hold shares which would constitute circular investments in an affiliate company which also forms part of the SK Group where circular investments refer to a cross-affiliate shareholding relationship under which three or more affiliate companies become connected through cross affiliate shareholdings by owning shares in other affiliates or by becoming an entity whose shares are owned by other affiliates.

Public notice of board resolution on large-scale transactions with specially related persons. If a member company of the SK Group engages in a transaction with a specially related person in the amount of 5.0% or more of the member company s capital or paid-in capital or for Won 5.0 billion or more, the transaction must be approved by a resolution of the member company s board of directors and the member company must publicly disclose the transaction.

Restrictions on investments by subsidiaries and sub-subsidiaries of holding companies. The Fair Trade Act prohibits subsidiaries of holding companies from investing in, or holding shares of common stock of, domestic affiliates that belong to the same large business group, unless such domestic affiliates are their own subsidiaries. Furthermore, any subsidiaries of a holding company s subsidiaries (sub-subsidiaries) are prohibited from investing in, or holding shares of common stock of, domestic affiliates that belong to the same large business group, unless all shares issued by the affiliates are held by the sub-subsidiary. Therefore, we and other subsidiaries of SK Holdings may not invest in any domestic affiliate that is also a member company of the SK

Group, except in the case where we invest in our own subsidiary or where another subsidiary of SK Holdings invests in its own subsidiary.

Public notice of the current status of a business group. Under the Fair Trade Act and the Enforcement Decree thereof, a member company of the SK Group must publicly disclose the general status of the SK Group, including the name, business scope and financial status of affiliates, information on the officers of affiliates, information on shareholding and cross-investments between member companies of the SK Group, information on transactions with certain related persons and, if a member company engages in a transaction with an affiliated company in the amount of 5.0% or more of the member company s quarterly sales or Won 5.0 billion or more, information on transactions with such affiliated company on a quarterly basis.

Rate Regulation. Most network service providers must report to the MSIT the rates and contractual terms for each type of service they provide. However, as the dominant network service provider for specific services (based on having the largest market share in terms of number of subscribers and meeting certain revenue thresholds), we must obtain prior approval of the MSIT on our rates and terms of service; provided, however, that such pre-approval of the MSIT is not required, if we are planning to reduce the rates for any type of services that we provide under the MSIT-approved contractual terms. The MSIT s policy is to approve rates if they are appropriate, fair and reasonable (that is, if the rates have been reasonably calculated, considering supply costs, profits, classification of costs and profits for each service, cost savings through changes in the way services are provided and the influence on fair competition, among others). The MSIT may order changes in the submitted rates if it deems the rates to be significantly unreasonable or against public policy. 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.

Furthermore, in 2007, the Government announced a road map highlighting revisions in regulations to promote deregulation of the telecommunications industry. In accordance with the road map and pursuant to the Combined Sales Regulation, promulgated in May 2007, telecommunications service providers are now permitted to bundle their services, such as wireless data transmission service, wireless voice transmission service, broadband Internet access service, fixed-line telephone service and IPTV service, at a discounted rate; provided, however, that we and KT, as market-dominating business entities under the Telecommunications Business Act, allow other competitors to employ the services provided by us and KT, respectively, so that such competitors can provide similar discounted package services. In September 2007, the regulations and provisions under the Telecommunications Business Act were amended to permit licensed transmission service providers to offer local, domestic long-distance and international telephone services, as well as broadband Internet access and Internet phone services, without additional business licenses.

Moreover, an MVNO system has been adopted and is in effect until its expiration on September 22, 2019 under the amended Telecommunications Business Act, which became effective on March 14, 2017. Under this system, the MSIT may designate and obligate certain wireless telecommunications services providers to allow an MVNO, at such MVNO s request, to use their telecommunication network facilities at a rate mutually agreed upon that complies with the standards set by the MSIT. We were designated as the only wireless telecommunications services provider obligated to allow the other wireless telecommunications services provider to use our telecommunications network facilities. To date, thirteen MVNOs have commenced providing wireless telecommunications services using the networks leased from us.

On October 1, 2014, the MDDIA, enacted for the purpose of establishing a transparent and fair mobile distribution practice, became effective. The MDDIA 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. See Item 5.A. Operating Results Overview New Rate Regulations.

In addition, under the MDDIA, 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 cannot provide assurance that we will not provide other rate discounts in the future to comply with the Government s public policy guidelines or suggestions, or that such measures will not have a material adverse effect on our results of operations.

Interconnection. Dominant network service providers such as ourselves that own essential infrastructure facilities or possess a certain market share are required to provide interconnection of their telecommunications network facilities to other service providers upon request. The MSIT sets and announces the standards for

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determining the scope, procedures, compensation and other terms and conditions of such provision, interconnection or co-use. We have entered into interconnection agreements with KT, LG U+ and other network service providers permitting these entities to interconnect with our network. We expect that we will be required to enter into additional agreements with new operators as the MSIT grants permits to additional telecommunications service providers.

Frequency Allocation. The MSIT has the discretion to allocate and adjust the frequency bandwidths for each type of service and may auction off the rights to certain frequency bandwidths. Upon allocation of new frequency bandwidths or adjustment of frequency bandwidths, the MSIT is required to give a public notice. The MSIT also regulates the frequency to be used by each radio station, including the transmission frequency used by equipment in our cell sites. All of our frequency allocations are for a definite term. We pay fees to the MSIT for our frequency usage that are determined based upon our number of subscribers, frequency usage by our networks and other factors. For 2017, 2016 and 2015, the fee amounted to Won 150.3 billion, Won 186.8 billion and Won 189.8 billion, respectively.

We currently use 10 MHz of bandwidth in the 800MHz 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 WiBro services. For more information regarding the license fees for the various bandwidths that we use, see Item 5.B. Liquidity and Capital Resources Capital Requirements Capital Expenditures and note 16 of the notes to our consolidated financial statements.

In April 2018, the MSIT announced that it plans to hold a frequency bandwidth auction in June 2018 to allocate bandwidths that are capable of utilizing 5G technology in preparation for the commercial launch of 5G networks in Korea. The MSIT plans to auction 280 MHz of bandwidth in the 3.5 GHz spectrum and 2.4 GHz of bandwidth in the 28 GHz spectrum. The MSIT announced that it expects to allocate such bandwidths in December 2018 in accordance with the results of the auction and that it will provide further details regarding the auction in May 2018.

For risks relating to the maintenance of adequate bandwidth capacity, see Item 3.D. Risk Factors Risks Relating to Our Business 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.

Mandatory Contributions and Obligations

Universal Service Obligation. All telecommunications service providers other than value-added service providers and regional paging service providers or any telecommunications service providers whose net annual revenue is less than an amount determined by the MSIT (currently set at Won 30.0 billion) are required to provide universal telecommunications services including local telephone services, local public telephone services, telecommunications services for remote islands and wireless communication services for ships and telephone services for handicapped and low-income citizens, or contribute toward the supply of such universal services. The MSIT designates universal services and the service provider who is required to provide each service. Currently, under the MSIT guidelines, we are required to offer free subscription and a discount of between 30.0% to 50.0% of our monthly fee for wireless telecommunications services to handicapped and low-income citizens.

In addition to such universal services for handicapped and low-income citizens, we are also required to make certain monetary contributions to compensate for other service providers costs for the universal services. The size of a service provider s contribution is based on its net annual revenue (calculated pursuant to the MSIT guidelines, which differ from our accounting practices). Our contribution amount for our fiscal year 2017 has not yet been determined. In 2016, our contribution amount was Won 13.6 billion for our fiscal year 2015. In 2015, our contribution amount was

Won 21.1 billion for our fiscal year 2014. As a wireless telecommunications services provider, we are not considered a provider of universal telecommunications services and do not receive funds for providing universal service. Other network service providers that do provide universal services make all or a portion of their contribution in the form of expenses related to the universal services they provide.

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Foreign Ownership and Investment Restrictions and Requirements

Because we are a network service provider, and the exception for the foreign shareholding limit under the amended Telecommunications Business Act, which became effective on August 13, 2013, does not apply to us, foreign governments, individuals, and entities (including Korean entities that are deemed foreigners, as discussed below) are prohibited from owning more than 49.0% of our voting stock. Korean entities whose largest shareholder is a foreign government or a foreigner (together with any of its related parties) that owns 15.0% or more of the outstanding voting stock of such Korean entities are also deemed foreigners. If this 49.0% ownership limitation is violated, certain of our foreign shareholders will not be permitted to exercise voting rights in excess of the limitation, and the MSIT may require other corrective action.

As of December 31, 2017, SK Holdings owned 20,363,452 shares of our common stock, or 25.22% of our issued shares. As of December 31, 2017, the two largest foreign shareholders of SK Holdings each held a 3.5% stake therein. If such foreign shareholders increase their shareholdings in SK Holdings to 15% or more and any such foreign shareholder constitutes the largest shareholder of SK Holdings, SK Holdings will be considered a foreign shareholder, and its shareholding in us would be included in the calculation of our aggregate foreign shareholding. If SK Holdings shareholding in us is included in the calculation of our aggregate foreign shareholding, then our aggregate foreign shareholding, assuming the foreign ownership level as of December 31, 2017 (which we believe was 41.4%), would reach 66.7%, exceeding the 49.0% ceiling on foreign shareholding.

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, SK Holdings 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%. If a corrective order is issued to us by the MSIT arising from the violation of the foregoing foreign ownership limit, and we do not comply within the prescribed period under such corrective order, the MSIT may:

- revoke our business license;

- suspend all or part of our business; or

- if the suspension of business is deemed to result in significant inconvenience to our customers or to be detrimental to the public interest, impose a one-time administrative penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years.

Additionally, the Telecommunications Business Act also authorizes the MSIT to assess monetary penalties of up to 0.3% of the purchase price of the shares for each day the corrective order is not complied with, as well as a prison term of up to one year or a penalty of Won 50 million. See Item 3.D. Risk Factors Risks Relating to Securities If SK Holdings causes us to breach the foreign ownership limitations on our common shares, we may experience a change of control.

We are required under the Foreign Exchange Transaction Act to file a report with a designated foreign exchange bank or with the MOSF, in connection with any issue of foreign currency denominated securities by us in foreign countries.

Issuances of US$30 million or less require the filing of a report with a designated foreign exchange bank, and issuances that are over US$30 million in the aggregate within one year from the filing of a report with a designated foreign exchange bank require the filing of a report with the MOSF.

The Telecommunications Business Act provides for the creation of a Public Interest Review Committee under the MSIT to review investments in or changes in the control of network service providers. The following events would be subject to review by the Public Interest Review Committee:

- the acquisition by an entity (and its related parties) of 15.0% or more of the equity of a network service provider;

- a change in the largest shareholder of a network service provider;

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agreements by a network service provider or its shareholders with foreign governments or parties regarding important business matters of such network service provider, such as the appointment of officers and directors and transfer of businesses; and

a change in the shareholder that actually controls a network service provider.

If the Public Interest Review Committee determines that any of the foregoing transactions or events would be detrimental to the public interest, then the MSIT may issue orders to stop the transaction, amend any agreements, suspend voting rights, or divest the shares of the relevant network service provider. Additionally, if a dominant network service provider (which would currently include us and KT), together with its specially related persons (as defined under the FSCMA), holds more than 5.0% of the equity of another dominant network service provider, the voting rights on the shares held in excess of the 5.0% limit may not be exercised.

Patents and Licensed Technology

Access to the latest relevant technology is critical to our ability to offer the most advanced wireless telecommunications services and to design and manufacture competitive products. In addition to active internal and external research and development efforts as described in Item 5.C. Research and Development, Patents and Licenses, etc., our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products. We own numerous patents and trademarks worldwide, and have applications for patents pending in many countries. Our patents are mainly related to LTE technology and wireless Internet applications. We have also acquired a number of patents related to WCDMA and CDMA technologies. There are no licensed patents that are material to our business.

We are not currently involved in any material litigation regarding patent infringement. For a description of the risks associated with our reliance on intellectual property, see Item 3.D. Risk Factors Risks Relating to Our Business Our business relies on technology developed by us, and our business will suffer if we are unable to protect our proprietary rights.

Seasonality of the Business

Our business is not affected by seasonality.

Item 4.C. *Organizational Structure*

Organizational Structure

We are a member of the SK Group, based on the definition of group under the Fair Trade Act. As of December 31, 2017, SK Group members owned in aggregate 25.22% of the shares of our issued common stock. The SK Group is a diversified group of companies incorporated in Korea with interests in, among other things, telecommunications, trading, energy, chemicals, engineering and leisure industries.

Significant Subsidiaries

For information regarding our subsidiaries, see note 1(2) of the notes to our consolidated financial statements.

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Item 4.D. *Property, Plants and Equipment*
The following table sets forth certain information concerning our principal properties as of December 31, 2017:

Location	Primary Use	Approximate Area in Square Feet
Seoul Metropolitan Area	Corporate Headquarters	988,447
	Regional Headquarters	607,249
	Customer Service Centers	107,277
	Training Centers	616,845
	Central Research and Development Center	482,719
	Others(1)	1,248,744
Busan	Regional Headquarters	363,282
	Others(1)	609,693
Daegu	Regional Headquarters	148,065
	Others(1)	335,186
Jeolla and Jeju Provinces	Regional Headquarters	265,614
	Others(1)	685,167
Chungcheong Province	Regional Headquarters	459,302
	Others(1)	855,398

(1) Includes cell sites.

In December 2004, we constructed a building with an area of approximately 82,624 square feet, of which we have full ownership, for use as our corporate headquarters. In addition, we own or lease various locations for cell sites and switching equipment. We do not anticipate that we will encounter material difficulties in meeting our future needs for any existing or prospective leased space for our cell sites. See Item 4.B. Business Overview Cellular Services Network Infrastructure.

We maintain a range of insurance policies to cover our assets and employees, including our directors and officers. We are insured against business interruption, fire, lightning, flooding, theft, vandalism, public liability and certain other risks that may affect our assets and employees. We believe that the types and amounts of our insurance coverage are in accordance with general business practices in Korea.

Item 4.E. *UNRESOLVED STAFF COMMENTS*
We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Exchange Act.

Item 5. *OPERATING AND FINANCIAL REVIEW AND PROSPECTS*
You should read the following discussion together with our consolidated financial statements and the related notes thereto which appear elsewhere in this annual report. We prepare our consolidated financial statements in accordance with IFRS as issued by the IASB. In addition, you should read carefully the section titled Critical Accounting

Policies, Estimates and Judgments as well as note 4 of the notes to our consolidated financial statements which provide summaries of certain critical accounting policies that require our management to make difficult, complex or subjective judgments relating to matters which are highly uncertain and that may have a material impact on our financial conditions and results of operations.

Item 5.A. ***Operating Results***

Overview

Our operations are reported in four segments: (1) cellular services, which include wireless voice and data transmission services, sales of wireless devices, IoT solutions and platform services, (2) fixed-line telecommunication services, which include fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV) and business communications services, (3) e-commerce services, which include our open marketplace platform, 11st, and other commerce solutions, and (4) other businesses, which include our portal service, our hardware business and other operations that do not meet the quantitative thresholds to be separately considered reportable segments.

In our cellular services segment, we earn revenue principally from our wireless voice and data transmission services through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by our wireless subscribers as well as interconnection fees paid to us by other telecommunications operators for use of our wireless network by their customers and subscribers. We also derive revenue from sales of wireless devices by PS&Marketing. Other sources of revenue include revenue from our IoT solutions and platform services, including artificial intelligence solutions, as well as other miscellaneous cellular services.

In our fixed-line telecommunication services segment, we earn revenue principally from our fixed-line telephone services and broadband Internet services and advanced media platform services (including IPTV) through monthly plan-based fees and usage charges as well as interconnection fees paid to us by other telecommunications operators for use of our fixed-line network by their customers and subscribers. In addition, we derive revenue from international calling services and our business communications services through customized fee arrangements with our business customers.

Our e-commerce services segment became a separate reportable segment as of January 1, 2016. In our e-commerce services segment, we derive revenue from our subsidiary SK Planet, which earns revenue principally through third-party seller fees earned (including commissions) for transactions in which it acts as a selling agent to the mini malls on 11st, its online open marketplace platform, as well as advertising revenue from 11st and its other commerce solutions. In March 2016, SK Planet effected a spin-off of its former platform and T Store businesses by establishing SK TechX Co., Ltd. (SK TechX) and One Store, respectively. As a result, the results of operations from SK Planet s former platform business and T store business were included in our e-commerce services segment prior to March 2016 but subsequently, such revenues are included in our others segment.

In our others segment, we earn revenue from our hardware businesses through sales of projection display devices and high-end audio devices, our security business operated by our subsidiary, NSOK, advertising revenue from our Nate portal service operated by our subsidiary, SK Communications, and sales commissions through our mobile application marketplaces. As discussed above, the results of operations from SK TechX and One Store are included in our others segment subsequent to the spin-offs from SK Planet in March 2016.

Our cellular service revenue and fixed-line telecommunications service revenue depend principally upon the number of our wireless subscribers, the rates we charge for our services, the frequency and volume of subscriber usage of our services and the terms of our interconnection with other telecommunications operators. Our e-commerce service revenue depends principally upon the gross merchandise volume, which is the total monetary value of customer purchases of goods and services, net of estimated refunds, of 11st and the number of merchants that utilize 11st to advertise and promote their products and services and the extent of such advertisement and promotion.

Among other factors, management uses operating profit of each reportable segment presented in accordance with K-IFRS (segment operating profit) in its assessment of the profitability of each reportable segment. The sum of segment operating profit for all four reportable segments differs from our operating profit presented in accordance with IFRS as issued by the IASB as segment operating profit does not include certain items such as donations, gain and loss from disposal of property and equipment and intangible assets and impairment loss on property and equipment and intangible assets. For a reconciliation of operating profit presented in accordance with IFRS as issued by the IASB and operating profit presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS. In addition to the information set forth below, see note 5 of the notes to our consolidated financial statements for more detailed information regarding each of our reportable segments.

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A number of recent developments have had or are expected to have a material impact on our results of operations, financial condition and capital expenditures. These developments include:

New Rate Regulations. Under the MDDIA, wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving handset subsidies. Handset subsidies are provided to subscribers who agree to use our service for a predetermined service period and purchase handsets on an installment basis. 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.

In 2017, the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA increased due to greater public awareness of the availability of such discounted rates as well as the increase in the applicable discount rate to 25%. In the fourth quarter of 2017, approximately 60% of our new subscribers elected to receive discounted rates in lieu of handset subsidies compared to 47% in the previous quarter. As of December 31, 2017, approximately one-third of our subscribers who elected to receive these discounted rates are receiving the increased 25% rate discount. We expect that these Government measures will adversely affect our revenues and results of operations as more subscribers elect to receive the 25% rate discount. On the other hand, we expect that this will also reduce our marketing expenses as the amount of handset subsidies paid to subscribers will decline and that this will also contribute to maintaining a stable churn rate.

With respect to handset subsidies, in October 2014, the Government started limiting the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers under the MDDIA. The prohibition from providing handset subsidies exceeding the amount set by the KCC (which was Won 330,000 from April 2015 to September 2017) expired in September 2017 pursuant to the expiration of the three-year effective period of the relevant provision of the MDDIA. Although the expiration of this provision may lead to increased handset subsidies provided to subscribers among us and our competitors, we do not expect that the impact will be significant as a greater number of subscribers elect to receive discounted rates in lieu of such subsidies due to the increase in the applicable discount rate to 25% in September 2017.

Failure to comply with the MDDIA may lead to suspension of our business or imposition of monetary penalties. For more information about the MDDIA and the penalties imposed for violating Government regulations, see Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation and Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings KCC Proceedings.

Decrease in Interconnection Fees. Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Charges for interconnection affect our revenues and operating results. The MSIT determines the basic framework for interconnection arrangements, including policies relating to interconnection rates in Korea. Under our interconnection agreements, we are required to make payments in respect of calls which originate from our networks and terminate in the networks of other Korean telecommunications operators, and the other operators are required to make payments to us in respect of calls which originate in their networks and terminate in our network. The MSIT has continued to gradually decrease the interconnection rates in Korea, which has led to a continued decrease in our interconnection revenue as well as interconnection expenses from 2012 to 2017 and any further reduction in interconnection rates by the MSIT may continue to impact our results of operations. Beginning in 2017, a single interconnection rate paid by fixed-line network service providers for fixed-line to wireless calls applies to all wireless telecommunications service providers.

For more information about our interconnection revenue and expenses, see Item 4.B. Business Overview Interconnection.

Decrease in Monthly Revenue per Subscriber. We measure monthly average per subscriber using two metrics: billing average monthly per subscriber (billing ARPU) and total average monthly revenue per subscriber (total ARPU). Billing ARPU is derived by dividing the sum of total SK Telecom revenues from voice service and data service for the period by the monthly average number of subscribers (excluding the number of MVNO subscribers leasing our networks) for the period, then dividing that number by the number of months in the period.

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Total ARPU is derived by dividing the sum of total SK Telecom revenues from voice service, data service, initial subscription fees and interconnection revenue, as well as other revenues, for the period by the monthly average number of subscribers (excluding the number of MVNO subscribers leasing our networks) for the period, then dividing that number by the number of months in the period.

Our billing ARPU decreased by 1.2% to Won 35,216 in 2017 from Won 35,636 in 2016, which represented a decrease of 1.3% from Won 36,118 in 2015. Our total ARPU decreased by 0.8% to Won 40,800 in 2017 from Won 41,126 in 2016, which represented a decrease of 2.6% from Won 42,221 in 2015. The decreases in billing ARPU and total ARPU in 2017 and 2016 were primarily due to a decrease in revenue attributable to an increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies. In addition, the decreases in billing ARPU and total ARPU in 2017 were also partially due to the increase in the applicable discount rate offered to subscribers not receiving handset subsidies from 20% to 25% in September 2017, offset in part by an increase in subscribers that subscribe to our unlimited data usage plans.

Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS

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 K-IFRS as adopted by the KASB, which we are required to file with the FSC and the Korea Exchange under the FSCMA.

K-IFRS requires operating profit, which is calculated as operating revenue less operating expense, to be separately presented on the consolidated statement of income. 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. The table below sets forth a reconciliation of our operating profit as presented in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB for each of the three years ended December 31, 2017 to the operating profit as presented in the consolidated statements of income prepared in accordance with K-IFRS.

	For the Year Ended December 31,		
	2017	2016	2015
	(In billions of Won)		
Operating profit pursuant to IFRS as issued by the IASB	1,224.6	1,303.4	1,495.4
Differences:			
Other income pursuant to IFRS that are classified as other non-operating income pursuant to K-IFRS			
Fee revenues	(1.4)	(0.6)	
Gain on disposal of property and equipment and intangible assets	(14.0)	(6.9)	(7.1)
Others	(16.6)	(59.1)	(23.8)
	(32.0)	(66.6)	(30.9)
Other operating expenses pursuant to IFRS that are classified as other non-operating expenses pursuant to K-IFRS			
Loss on impairment of property and equipment and intangible assets	54.9	24.5	35.8
Loss on disposal of property and equipment and intangible assets	60.1	63.8	21.4
Donations	112.6	96.6	72.5

Bad debt for accounts receivable other	5.8	40.3	15.3
Others	110.6	73.7	98.5
	344.0	298.9	243.5
Operating profit pursuant to K-IFRS	1,536.6	1,535.7	1,708.0

However, there is no impact on profit for the year or earnings per share for each of the three years ended December 31, 2017.

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Recently Issued International Financial Reporting Standards

We plan to adopt IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments in the year beginning on January 1, 2018 and IFRS 16, Leases in the year beginning on January 1, 2019. See note 4(28) of the notes to our consolidated financial statements for a summary of significant accounting standards that have been issued but not yet adopted.

IFRS 15 requires us to capitalize certain costs associated with commissions paid to sales agents to obtain new customer contracts, which we previously expensed. We pay commissions for each service contract to our direct retail stores and authorized dealers. Upon adoption of IFRS 15, we will recognize the commissions as prepaid expenses as these are the incremental costs of obtaining a contract and we will amortize such assets over the relevant expected service periods. In addition, IFRS 15 requires us to allocate the transaction price of each performance obligation in a contract in proportion to its stand-alone selling price when we provide a wireless telecommunications service contract together with a digital handset to a customer. We expect that this change will negatively impact our wireless service revenue, but positively impact our wireless device sales revenue. In connection with this, the difference between the revenue recognized for the wireless device sale and the transaction price will be recorded as a contract asset that will be amortized over the expected wireless service period to offset the relevant wireless service revenue.

We plan to adopt IFRS 15 by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as of January 1, 2018. We elected to apply IFRS 15 retrospectively only to contracts that were not completed as of January 1, 2018. The following table sets forth the expected financial impact of the adoption of IFRS 15 on our statement of financial position as of January 1, 2018 based on our evaluation to date.

	As of December 31, 2017 (Before adoption of IFRS 15)	Adjustments	As of January 1, 2018 (After adoption of IFRS 15)
		(In billions of Won)	
Current Assets	6,201.9	1,804.1	8,006.0
Accounts receivable trade, net	2,126.0	(4.3)	2,121.7
Prepaid expenses	197.0	1,695.7	1,892.7
Contract assets multiple performance obligations		112.2	112.2
Contract assets right of return		0.5	0.5
Others	3,878.9		3,878.9
Non-Current Assets	27,226.8	718.8	27,945.6
Long-term prepaid expenses	90.8	693.3	784.1
Long-term contract assets multiple performance obligations		30.4	30.4
Deferred tax assets	88.1	(4.9)	83.2
Others	27,047.9		27,047.9
Total Assets	33,428.7	2,522.9	35,951.6
Current Liabilities	7,109.1	12.5	7,121.6
Provisions	52.1	(0.2)	51.9
Contract liabilities		114.3	114.3

Receipts in advance	161.3	(161.3)	
Unearned revenue	175.7	(175.7)	
Withholdings	961.5	235.4	1,196.9
Others	5,758.5		5,758.5
Non-Current Liabilities	8,290.4	610.4	8,900.8
Long-term contract liabilities		19.1	19.1
Long-term unearned revenue	7.1	(7.1)	
Other non-current liabilities	44.1	(0.9)	43.2
Deferred tax liabilities	978.7	599.3	1,578.0
Others	7,260.5		7,260.5
Total Liabilities	15,399.5	622.9	16,022.4
Equity attributable to owners of the Parent Company	17,842.2	1,900.0	19,742.2
Share capital	44.6		44.6
Capital surplus and others	196.4		196.4
Retained earnings	17,835.9	1,900.0	19,735.9
Reserves	(234.7)		(234.7)
Non-controlling interests	187.0		187.0
Total Shareholders Equity	18,029.2	1,900.0	19,929.2

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Our preliminary assessment of the financial impact resulting from the adoption of IFRS 9 did not indicate any material impact on our consolidated financial statements if such adoptions were applied as of December 31, 2017. Our preliminary assessments in connection with IFRS 9 and 15 set forth herein are subject to change. The expected impact of the adoption of IFRS 16 on our consolidated results of operations and financial position is currently unknown or cannot be reasonably estimated.

Operating Results

The following table sets forth summary consolidated income statement information, including that expressed as a percentage of operating revenue and other income, for the periods indicated:

	For the year ended December 31,					
	2017		2016		2015	
	(In billions of Won, except percentages)					
Operating revenue and other income	17,552.0	100.0%	17,158.3	100.0%	17,167.6	100.0%
Revenue	17,520.0	99.8	17,091.8	99.6	17,136.7	99.8
Other income	32.0	0.2	66.5	0.4	30.9	0.2
Operating expenses	16,327.4	93.0	15,854.9	92.4	15,672.2	91.3
Operating profit	1,224.6	7.0	1,303.4	7.6	1,495.4	8.7
Profit before income tax	3,403.3	19.4	2,096.1	12.2	2,035.4	11.9
Income tax expense	745.7	4.2	436.0	2.5	519.5	3.0
Profit for the year	2,657.6	15.1	1,660.1	9.7	1,515.9	8.8
Attributable to:						
Owners of the Parent Company	2,599.8	14.8	1,676.0	9.8	1,518.6	8.8
Non-controlling interests	57.8	0.3	(15.9)	(0.1)	(2.7)	(0.0)

The following table sets forth additional information about our operations with respect to our reportable segments during the periods indicated:

	For the year ended December 31,					
	2017		2016		2015	
	Amount	Percentage of Total Revenue	Amount	Percentage of Total Revenue	Amount	Percentage of Total Revenue
	(In billions of Won, except percentages)					
Cellular Services Revenue						
Wireless Service(1)	10,639.0	60.7%	10,583.0	61.9%	10,720.5	62.6%
Cellular Interconnection	592.7	3.4	614.4	3.6	710.0	4.1
Wireless Device Sales	1,052.2	6.0	922.4	5.4	963.4	5.6
Miscellaneous(2)	978.2	5.6	885.1	5.2	875.4	5.1
Total Cellular Services Revenue	13,262.1	75.7	13,004.9	76.1	13,269.3	77.4
Fixed-line Telecommunication Services						

Revenue						
Fixed-line Telephone Service	316.8	1.8	357.8	2.1	420.6	2.5
Fixed-line Interconnection	116.1	0.7	134.1	0.8	57.1	0.3
Broadband Internet Service	1,641.6	9.4	1,472.8	8.6	1,308.8	7.6
International Calling Service	89.4	0.5	96.0	0.6	99.1	0.6
Miscellaneous(3)	560.3	3.1	590.5	3.4	608.9	3.6
Total Fixed-line Telecommunication Services Revenue	2,724.2	15.5	2,651.2	15.5	2,494.5	14.6
E-commerce Services Revenue(4)(6)	1,044.2	6.0	1,001.3	5.9	1,060.0	6.2
Other Revenue						
Portal Service(5)	44.0	0.3	54.2	0.3	71.8	0.4

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	For the year ended December 31,					
	2017		2016		2015	
	Amount	Percentage of Total Revenue	Amount	Percentage of Total Revenue	Amount	Percentage of Total Revenue
	(In billions of Won, except percentages)					
Miscellaneous[4][6]	445.5	2.5	380.2	2.2	241.1	1.4
Total Other Revenue	489.5	2.8	434.4	2.5	312.9	1.8
Total Revenue	17,520.0	100.0	17,091.8	100.0	17,136.7	100.0
Total Revenue Growth	2.5%		(0.3)%		(0.2)%	
Segment Operating Expense[7]						
Cellular Services	11,548.1	65.9	11,205.8	65.6	11,591.0	67.6
Fixed-line Telecommunication Services	2,556.7	14.6	2,518.8	14.7	2,386.2	13.9
E-commerce Services	1,312.0	7.5	1,366.5	8.0	1,066.7	6.3
Others	566.6	3.2	465.0	2.7	384.8	2.2
Total Segment Operating Expense	15,983.4	91.2	15,556.1	91.0	15,428.7	90.0
Segment Operating Profit						
Cellular Services	1,714.0	9.8	1,799.1	10.5	1,678.3	9.8
Fixed-line Telecommunication Services	167.5	0.9	132.4	0.8	108.3	0.6
E-commerce Services	(267.8)	(1.5)	(365.2)	(2.1)	(6.7)	(0.0)
Others	(77.1)	(0.4)	(30.6)	(0.2)	(71.9)	(0.4)
Total Segment Operating Profit	1,536.6	8.8%	1,535.7	9.0%	1,708.0	10.0%

(1) Wireless service revenue includes revenue from wireless voice and data transmission services principally derived through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by our wireless subscribers.

(2) Miscellaneous cellular services revenue includes revenue from our IoT solutions as well as other miscellaneous cellular services.

(3) Miscellaneous fixed-line telecommunication services revenue includes revenues from business communications services (other than fixed-line telephone service) provided by SK Broadband and VoIP services provided by SK Telink.

(4) E-commerce services revenue is derived from SK Planet s revenue, which includes revenues from 11st, our open marketplace platform, and other commerce solutions. As a result of the respective spin-offs from SK Planet, the results of operations from SK Planet s former platform business and T store business were included in our e-commerce services segment prior to March 2016 but subsequently, such revenues are included in our others segment.

(5) Portal service revenue includes revenues from Nate, our online portal service operated by SK Communications.

(6) Miscellaneous others revenue includes revenues from our hardware business, our security business operated by our subsidiary, NSOK, our marketing and sales solutions business operated by our subsidiary, M&Service, and our online open marketplace for mobile applications, among other operations. Additionally, as a result of the respective spin-offs from SK Planet, the results of operations from SK TechX and One Store are included in our others segment beginning March 2016 under miscellaneous others revenue.

(7) Segment operating expense means operating expense for each reportable segment presented in accordance with K-IFRS and therefore does not include certain expenses that are classified as other non-operating expenses under K-IFRS. For more information on the differences between our consolidated operating expense pursuant

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to K-IFRS and pursuant to IFRS as issued by the IASB, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

2017 Compared to 2016

Operating Revenue and Other Income. Our consolidated operating revenue and other income increased by 2.3% to Won 17,552.0 billion in 2017 from Won 17,158.3 billion in 2016, due to an increase in operating revenue, offset in part by a decrease in other income, as discussed below.

Our consolidated operating revenue increased by 2.5% to Won 17,520.0 billion in 2017 from Won 17,091.8 billion in 2016, primarily due to increases in cellular services revenue as well as revenue increases from our other three segments.

Our consolidated other income decreased by 51.9% to Won 32.0 billion in 2017 from Won 66.5 billion in 2016, primarily due to refunds received in 2016 in connection with the overturn of certain fines previously imposed on us by the FTC that we had paid compared to no such refunds in 2017.

The following sets forth additional information about our operating revenues with respect to each of our reportable segments.

Cellular services: The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, wireless device sales and miscellaneous cellular services, increased by 2.0% to Won 13,262.1 billion in 2017 from Won 13,004.9 billion in 2016. The increase in our cellular services revenue was due to increases in wireless device sales, miscellaneous cellular services revenue and wireless service revenue, partially offset by a decrease in cellular interconnection revenue.

Wireless device sales revenue increased by 14.1% to Won 1,052.2 billion in 2017 from Won 922.4 billion in 2016, primarily due to an increase in sales of handsets with relatively higher unit prices such as the Samsung Galaxy S8 and S8+, which were released in the second quarter of 2017, and the iPhone 8 and iPhone X, which were released in the fourth quarter of 2017.

Miscellaneous cellular services revenue increased by 10.5% to Won 978.2 billion in 2017 from Won 885.1 billion in 2016, primarily because of an increase in revenue from our IoT solutions business.

Wireless service revenue increased by 0.5% to Won 10,639.0 billion in 2017 from Won 10,583.0 billion in 2016, primarily attributable to an increase in the total number of wireless service subscribers and an increase in average monthly data usage to 6.0GB in 2017 from 5.2GB in 2016, despite the increase in the percentage of wireless service subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA and the increase in the applicable discount rate to 25% in September 2017 from 20%.

Cellular interconnection revenue decreased by 3.5% to Won 592.7 billion in 2017 from Won 614.4 billion in 2016. The decrease was primarily attributable to decreases in interconnection rates and land-to-mobile call volume.

Fixed-line telecommunications services: The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service and advanced media platform service (including IPTV), fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 2.8% to Won 2,724.2 billion in 2017 from Won 2,651.2 billion in 2016, primarily due to an increase in our broadband Internet service and advanced media platform service (including IPTV) revenue, partially offset by decreases in fixed-line telephone service revenue and miscellaneous fixed-line telecommunication services revenue.

Revenue from our broadband Internet service and advanced media platform service (including IPTV) increased by 11.5% to Won 1,641.6 billion in 2017 from Won 1,472.8 billion in 2016, primarily due to an increase in the number of IPTV subscribers to 4.4 million subscribers as of December 31, 2017 from 4.0 million subscribers as of December 31, 2016 and an increase in the number of premium subscriptions with higher monthly rates and purchases of premium video-on-demand content.

Fixed-line telephone service revenue decreased by 11.5% to Won 316.8 billion in 2017 from Won 357.8 billion in 2016, primarily due to a decrease in the number of fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink) to 4.3 million as of December 31, 2017 from 4.5 million as of December 31, 2016 and a decrease in residential calling volume as a result of shifting consumer preferences toward wireless communication.

Miscellaneous fixed-line telecommunication services revenue decreased by 5.1% to Won 560.3 billion in 2017 from Won 590.5 billion in 2016, primarily due to a decline in new contracts for business communications services provided by SK Broadband.

E-commerce services: The revenue of our e-commerce services segment, which is primarily composed of revenues from 11st, our open marketplace platform, increased by 4.3% to Won 1,044.2 billion in 2017 from Won 1,001.3 billion in 2016, primarily due to an increase in revenue from mobile 11st as there was an increase in sales of products through which we received relatively high third-party seller fees, despite the disparate impact of the spin-offs of SK Planet s former platform business and T store business on 2017 compared to 2016, where revenue from the spun-off entities was included in e-commerce services revenue prior to the spin-offs in 2016, but not in 2017.

Others: The revenue of our others segment, which is composed of revenue from our portal service and miscellaneous other revenue, increased by 12.7% to Won 489.5 billion in 2017 from Won 434.4 billion in 2016, due to an increase in miscellaneous other revenue. Miscellaneous other revenue increased by 17.2% to Won 445.5 billion in 2017 from Won 380.2 billion in 2016, primarily due to the disparate impact of the spin-offs of SK Planet s former platform business and T store business on 2017 compared to 2016, where revenue from the spun-off entities was included in miscellaneous other revenue for the full year in 2017, but only a part of 2016.

Operating Expense. Our consolidated operating expense increased by 3.0% to Won 16,327.4 billion in 2017 from Won 15,854.9 billion in 2016, primarily due to a 5.3% increase in depreciation and amortization to Won 3,097.5 billion in 2017 from Won 2,941.9 billion in 2016, a 2.0% increase in commissions to Won 5,486.3 billion in 2017 from Won 5,376.7 billion in 2016, a 5.2% increase in labor costs to Won 1,966.2 billion in 2017 from Won 1,869.8 billion in 2016 and a 19.2% increase in advertising expenses to Won 522.8 billion in 2017 from Won 438.5 billion in 2016, partially offset by a 8.3% decrease in network interconnection expenses to Won 875.0 billion in 2017 from Won 954.3 billion in 2016 and a 13.2% decrease in leased line expenses to Won 342.2 billion in 2017 from Won 394.4 billion in 2016.

The increase in depreciation and amortization was primarily due to the full year of amortization in 2017 of certain frequency bandwidth usage rights we acquired or re-licensed in 2016 compared to only partial year amortization in 2016 as well as the amortization of our sales management IT system software beginning in 2017.

The increase in commissions was attributable mainly to an increase in marketing costs relating to our wireless service, which was partially offset by a decrease in marketing costs relating to our e-commerce services, the impact of certain value-added tax refunds relating to discount coupons received in 2017 and the decrease in commissions following the establishment of Home & Service Co., Ltd. (Home & Service) as described below.

The increase in labor costs was primarily due to the additional personnel on payroll in connection with the establishment in June 2017 of our subsidiary, Home & Service, which provides in-home customer service primarily to our fixed-line telecommunication service subscribers. Prior to the establishment of Home & Service, we outsourced these services to a third party vendor and the related costs were classified as commissions.

The increase in advertising expenses was primarily due to an increase in advertising expenses by SK Planet and media and online advertising for B tv and oksusu, which was partially offset by a decrease in cellular services advertising.

The decrease in network interconnection expenses was mainly attributable to decreases in wireless-to-fixed-line and fixed-line-to-wireless interconnection rates.

The decrease in leased line expenses was primarily due to a decrease in the number of facilities that use leased lines due to the increase in facilities that opt to build their own network and a decrease in rates for leased lines.

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The following sets forth additional information about our segment operating expense with respect to each of our reportable segments, which do not include certain expenses that are classified as other non-operating expenses under K-IFRS. For more information on the difference between our consolidated operating expense pursuant to K-IFRS and pursuant to IFRS as issued by the IASB, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating expense for our cellular services segment increased by 3.1% to Won 11,548.1 billion in 2017 from Won 11,205.8 billion in 2016, attributable mainly to increases in marketing costs to attract subscribers that purchase handsets with high unit prices and increases in depreciation and amortization for the reasons described above, partially offset by decreases in network interconnection and leased line expenses for the reasons described above and a decrease in frequency bandwidth usage fees.

Fixed-line telecommunication services: The segment operating expense for our fixed-line telecommunication services segment increased by 1.5% to Won 2,556.7 billion in 2017 from Won 2,518.8 billion in 2016, primarily due to an increase in marketing costs to gain more subscribers to our ultra-high definition IPTV and high speed broadband Internet services and an increase in labor costs for the reasons described above.

E-commerce services: The segment operating expense for our e-commerce services segment decreased by 4.0% to Won 1,312.0 billion in 2017 from Won 1,366.5 billion in 2016, primarily due to a decrease in marketing costs and the impact of the value-added tax refunds described above.

Others: The segment operating expense for our others segment increased by 21.8% to Won 566.6 billion in 2017 from Won 465.0 billion in 2016, primarily due to the disparate impact of the spin-offs of SK Planet s former platform business and T store business on 2017 compared to 2016, where marketing costs of the spun-off entities was included in miscellaneous other revenue for the full year in 2017, but only a part of 2016.

Operating Profit. Our consolidated operating profit decreased by 6.0% to Won 1,224.6 billion in 2017 from Won 1,303.4 billion in 2016, as the increase in operating expense outpaced the increase in operating revenue and other income in 2017.

The following sets forth additional information about our segment operating profit with respect to each of our reportable segments. Our segment operating profit with respect to each of our reportable segments is based on K-IFRS and the sum of segment operating profit for all four reportable segments differs from our consolidated operating profit presented in accordance with IFRS as issued by the IASB. For a reconciliation of operating profit presented in accordance with IFRS as issued by the IASB and operating profit presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating profit of our cellular services segment decreased by 4.7% to Won 1,714.0 billion in 2017 from Won 1,799.1 billion in 2016, due to the greater increase in segment operating expense, as compared to the increase in segment operating revenue, for the various reasons described above. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating profit divided by revenue from such segment, expressed as a percentage) of our cellular services segment decreased to 12.9% in 2017 from 13.8% in 2016.

Fixed-line telecommunication services: The segment operating profit of our fixed-line telecommunication services segment increased by 26.5% to Won 167.5 billion in 2017 from Won 132.4 billion in 2016, primarily due to an increase in revenue from our IPTV business as described above. As a result, the segment operating margin of our fixed-line telecommunication services segment increased to 6.1% in 2017 from 5.0% in 2016.

E-commerce services: The segment operating loss of our e-commerce services segment decreased by 26.7% to Won 267.8 billion in 2017 from Won 365.2 billion in 2016, primarily due to the impact of the value-added tax refunds described above.

Others: The segment operating loss of our others segment increased by 151.6% to Won 77.0 billion in 2017 from Won 30.6 billion in 2016, primarily due to the disparate impact of the spin-offs of SK Planet s former platform business and T store business on 2017 compared to 2016.

Finance Income and Finance Costs. Our finance income decreased by 36.3% to Won 366.6 billion in 2017 from Won 575.1 billion in 2016, primarily due to a significant decrease in gain on disposal of long-term investment securities to Won 4.9 billion in 2017 from Won 459.3 billion in 2016, which primarily related to the sale of our 15.0% interest in Loen Entertainment in February 2016 and the sale of our 1.4% interest in POSCO in November 2016, which was partially offset by a significant increase in gain on valuation of derivatives to Won 223.9 billion in 2017, primarily relating to the valuation of redeemable convertible preferred shares issued by Bluehole Inc. (Bluehole) that we hold, from Won 4.1 billion in 2016.

Our finance costs increased by 32.7% to Won 433.6 billion in 2017 from Won 326.8 billion in 2016, primarily due to an increase in other finance costs to Won 35.9 billion in 2017, relating to management fees paid in connection with our investment in Bluehole s securities, from none in 2016 and an increase on loss of disposal of long-term investment securities to Won 36.0 billion in 2017 from Won 2.9 billion in 2016 primarily due to the disposal of our shares of Kakao Corporation, which we had obtained for our 15.0% interest in Loen Entertainment mentioned above, for Won 112.6 billion in cash in April 2017, through which we recognized a loss of Won 35.5 billion.

Gains (Losses) Related to Investments in Subsidiaries and Associates. Gains related to investments in subsidiaries and associates increased by 312.4% to Won 2,245.8 billion in 2017 from Won 544.5 billion in 2016, primarily due to an increase in share of profits of SK Hynix to Won 2,175.9 billion in 2017 from Won 572.1 billion in 2016. Such increase was primarily due to an increase in SK Hynix s profit for the year to Won 10,642.2 billion in 2017 from Won 2,960.5 billion in 2016.

Income Tax. Income tax expense increased by 71.0% to Won 745.7 billion in 2017 from Won 436.0 billion in 2016 primarily due to a 62.4% increase in profit before income tax to Won 3,403.3 billion in 2017 from Won 2,096.1 billion in 2016. Our effective tax rate in 2017 increased by 1.1% to 21.9% from 20.8% in 2016, primarily for the reasons set forth above. Our effective tax rates in 2017 and 2016 were lower than the statutory tax rate of 24.2%, primarily due to a tax refund in 2017 and changes in unrecognized deferred taxes in 2016.

Profit for the Year. Principally as a result of the factors discussed above, our profit for the year increased by 60.1% to Won 2,657.6 billion in 2017 from Won 1,660.1 billion in 2016. Profit for the year as a percentage of operating revenue and other income was 15.1% in 2017 compared to 9.7% in 2016.

2016 Compared to 2015

Operating Revenue and Other Income. Our consolidated operating revenue and other income decreased by 0.1% to Won 17,158.3 billion in 2016 from Won 17,167.6 billion in 2015, due to a decrease in operating revenue, offset in part by an increase in other income, as discussed below.

Our consolidated operating revenue decreased slightly by 0.3% to Won 17,091.8 billion in 2016 from Won 17,136.7 billion in 2015, primarily due to decreases in wireless service revenue, cellular interconnection revenue, fixed-line telephone service revenue and e-commerce services revenue, partially offset by increases in broadband Internet service and advanced media platform service revenue, miscellaneous revenue and fixed-line interconnection revenue, each as further discussed below.

Our consolidated other income increased by 115.2% to Won 66.5 billion in 2016 from Won 30.9 billion in 2015 primarily due to refunds received in 2016 in connection with the overturn of certain fines previously imposed on us by the FTC that we had paid.

The following sets forth additional information about our operating revenues with respect to each of our reportable segments.

Cellular services: The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, wireless device sales and miscellaneous cellular services, decreased by 2.0% to Won 13,004.9 billion in 2016 from Won 13,269.3 billion in 2015. The decrease in our cellular services revenue was due to decreases in our wireless service revenue, cellular interconnection revenue and wireless device sales.

Wireless service revenue decreased by 1.3% to Won 10,583.0 billion in 2016 from Won 10,720.5 billion in 2015, primarily attributable to an increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA due to greater public awareness of the availability of such discounted rates as well as the increase in the applicable discount rate to 20% in April 2015 from 12% in October 2014.

Cellular interconnection revenue decreased by 13.5% to Won 614.4 billion in 2016 from Won 710.0 billion in 2015. The decrease was primarily attributable to decreases in interconnection rates and land-to-mobile call volume in 2016.

Wireless device sales decreased by 4.3% to Won 922.4 billion in 2016 from Won 963.4 billion in 2015, primarily attributable to a decrease in the number of wireless devices sold in 2016 as a result of the maturity of the wireless device market.

Fixed-line telecommunications services: The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service and advanced media platform service (including IPTV), fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 6.3% to Won 2,651.2 billion in 2016 from Won 2,494.5 billion in 2015, due to increases in our broadband Internet service and advanced media platform service (including IPTV) revenue and fixed-line interconnection revenue, partially offset by decreases in fixed-line telephone service revenue, miscellaneous fixed-line telecommunication services revenue and international calling service revenue.

Revenue from our broadband Internet service and advanced media platform service (including IPTV) increased by 12.5% to Won 1,472.8 billion in 2016 from Won 1,308.8 billion in 2015, primarily due to an increase in the number of IPTV subscribers to 4.0 million subscribers as of December 31, 2016 from 3.5 million subscribers as of December 31, 2015 and an increase in the purchase of paid media content by IPTV subscribers. Fixed-line interconnection revenue increased by 134.9% to Won 134.1 billion in 2016 from Won 57.1 billion in 2015, primarily due to additional interconnection charges we received from KT and LG U+ as a result of certain changes to the methodology for calculating interconnection charges.

Fixed-line telephone service revenue decreased by 14.9% to Won 357.8 billion in 2016 from Won 420.6 billion in 2015, primarily due to a decrease in residential calling volume as a result of shifting consumer preferences toward wireless communication. Miscellaneous fixed-line telecommunication services revenue decreased by 3.0% to Won 590.5 billion in 2016 from Won 608.9 billion in 2015, primarily due to a decline in new contracts for business communications services provided by SK Broadband. International calling service revenue decreased by 3.1% to Won 96.0 billion in 2015 from Won 99.1 billion in 2015, primarily due to a decrease in international calling volume.

E-commerce services: The revenue of our e-commerce services segment, which is primarily composed of revenues from 11st, our open marketplace platform, decreased by 5.5% to Won 1,001.3 billion in 2016 from Won 1,060.0 billion in 2015, primarily due to the spin-offs of SK Planet s former platform business and T store business in March 2016 as revenues from these businesses were included in our e-commerce services segment prior to the spin-offs but excluded thereafter.

Others: The revenue of our others segment, which is composed of revenue from our portal service and miscellaneous other revenue, increased by 38.8% to Won 434.4 billion in 2016 from Won 312.9 billion in 2015, due to an increase in miscellaneous other revenue. Miscellaneous other revenue increased by 57.7% to Won 380.2 billion in 2016 from Won 241.1 billion in 2015, primarily due to the spin-offs of SK Planet s former platform business and T store business as revenues from these businesses were included in our others segment beginning in March 2016.

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Operating Expense. Our consolidated operating expense increased by 1.2% to Won 15,854.9 billion in 2016 from Won 15,672.2 billion in 2015, primarily due to a 3.3% increase in commissions to Won 5,376.7 billion in 2016 from Won 5,207.0 billion in 2015 and a 3.4% increase in depreciation and amortization to Won 2,941.9 billion in 2016 from Won 2,845.3 billion in 2015. Such increases were partially offset by a 6.0% decrease in cost of products that have been resold to Won 1,838.4 billion in 2016 from Won 1,955.9 billion in 2015.

The increase in commissions was attributable mainly to an increase in marketing costs relating to promotional activities for 11st, our open marketplace platform, which was partially offset by a decrease in marketing costs relating to our cellular services.

The increase in depreciation and amortization was primarily due to amortization of certain frequency bandwidth usage rights we acquired or re-licensed in 2016 as well as amortization of software.

The decrease in cost of products that have been resold was primarily due to a decrease in the number of wireless devices resold in 2016.

The following sets forth additional information about our segment operating expense with respect to each of our reportable segments, which do not include certain expenses that are classified as other non-operating expenses under K-IFRS. For more information on the difference between our consolidated operating expense pursuant to K-IFRS and pursuant to IFRS as issued by the IASB, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating expense for our cellular services segment decreased by 3.3% to Won 11,205.8 billion in 2016 from Won 11,591.0 billion in 2015, attributable mainly to a decrease in marketing costs due to the stabilized competitive environment due to the maturity of the LTE market and the implementation of the MDDIA as well as an increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA.

Fixed-line telecommunication services: The segment operating expense for our fixed-line telecommunication services segment increased by 5.6% to Won 2,518.8 billion in 2016 from Won 2,386.2 billion in 2015, primarily due to an increase in marketing costs to gain more subscribers to our ultra-high definition IPTV and high speed broadband Internet services and an increase in expenses paid to obtain certain rights to media content.

E-commerce services: The segment operating expense for our e-commerce services segment increased by 28.1% to Won 1,366.5 billion in 2016 from Won 1,066.7 billion in 2015, primarily due to an increase in marketing costs relating to promotional activities for 11st, our online open marketplace, which more than offset the impact of the exclusion of SK Planet s former platform and T store businesses from our e-commerce services segment beginning in 2016.

Others: The segment operating expense for our others segment increased by 20.8% to Won 465.0 billion in 2016 from Won 384.8 billion in 2015, primarily due to an increase in marketing costs relating to the impact of the inclusion of SK Planet s former platform and T store businesses in the others segment beginning in 2016.

Operating Profit. Our consolidated operating profit decreased by 12.8% to Won 1,303.4 billion in 2016 from Won 1,495.4 billion in 2015, due to the decrease in operating revenue and other income and the increase in operating expense.

The following sets forth additional information about our segment operating profit with respect to each of our reportable segments. Our segment operating profit with respect to each of our reportable segments is based on K-IFRS and the sum of segment operating profit for all four reportable segments differs from our consolidated operating profit presented in accordance with IFRS as issued by the IASB. For a reconciliation of operating profit presented in accordance with IFRS as issued by the IASB and operating profit presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating profit of our cellular services segment increased by 7.2% to Won 1,799.1 billion in 2016 from Won 1,678.3 billion in 2015, due to the greater decrease in segment

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operating expense, as compared to the decrease in segment revenue, for the reasons described above. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating profit divided by revenue from such segment, expressed as a percentage) of our cellular services segment increased to 13.8% in 2016 from 12.6% in 2015.

Fixed-line telecommunication services: The segment operating profit of our fixed-line telecommunication services segment increased by 22.1% to Won 132.4 billion in 2016 from Won 108.3 billion in 2015, primarily due to the increase in revenue from our IPTV service despite the increase in costs to expand our advanced media platform service business. As a result, the segment operating margin of our fixed-line telecommunication services segment increased to 5.0% in 2016 from 4.3% in 2015.

E-commerce services: The segment operating loss of our e-commerce services segment increased significantly to Won 365.2 billion in 2016 from Won 6.7 billion in 2015, primarily due to the increase in marketing costs relating to promotional activities for 11st described above.

Others: The segment operating loss of our others segment decreased by 57.4% to Won 30.6 billion in 2016 from Won 71.9 billion in 2015, primarily due to the inclusion of the results of operations from SK TechX and One Store in our others segment as described above.

Finance Income and Finance Costs. Our finance income increased by 453.5% to Won 575.1 billion in 2016 from Won 103.9 billion in 2015, primarily due to a significant increase in gain on disposal of long-term investment securities to Won 459.3 billion in 2016 from Won 10.8 billion in 2015 relating to the sale of our 15.0% interest in Loen Entertainment in February 2016 and the sale of our 1.4% interest in POSCO in November 2016.

Our finance costs decreased by 6.7% to Won 326.8 billion in 2016 from Won 350.1 billion in 2015 primarily due to a 75.7% decrease in impairment loss for available-for-sale financial assets to Won 5.3 billion in 2016 from Won 21.8 billion in 2015, primarily due to an increase in the fair value of certain of our available-for-sale financial assets, and a 2.4% decrease in interest expense to Won 290.5 billion in 2016 from Won 297.7 billion in 2015.

Gains (Losses) Related to Investments in Subsidiaries and Associates. Gains related to investments in subsidiaries and associates decreased by 30.7% to Won 544.5 billion in 2016 from Won 786.2 billion in 2015, primarily due to a 32.1% decrease in share of profits of SK Hynix to Won 572.1 billion in 2016 from Won 842.1 billion in 2015. Such decrease was primarily due to the 31.5% decrease in SK Hynix s profit for the year to Won 2,960.5 billion in 2016 from Won 4,323.6 billion in 2015.

Income Tax. Income tax expense decreased by 16.1% to Won 436.0 billion in 2016 from Won 519.5 billion in 2015 notwithstanding a 3.0% increase in profit before income tax to Won 2,096.1 billion in 2016 from Won 2,035.4 billion in 2015, primarily due to changes in the interpretation of certain tax regulations allowing for the use in 2016 of tax loss carryforwards incurred by SK Planet relating to its loss on disposal of shares of SK Communications. Our effective tax rate in 2016 decreased by 4.8% to 20.8% in 2016 from 25.5% in 2015, primarily for the reasons set forth above.

Profit for the Year. Principally as a result of the factors discussed above, our profit for the year increased by 9.5% to Won 1,660.1 billion in 2016 from Won 1,515.9 billion in 2015. Profit for the year as a percentage of operating revenue and other income was 9.7% in 2016 compared to 8.8% in 2015.

Inflation

We do not consider inflation in Korea to have had a material impact on our results of operations in recent years. According to data published by The Bank of Korea, annual inflation in Korea was 1.9% in 2017, 1.0% in 2016 and 0.7% in 2015.

Item 5.B. *Liquidity and Capital Resources*

Liquidity

We had a working capital deficit (current liabilities in excess of current assets) of Won 907.3 billion as of December 31, 2017 and Won 447.5 billion as of December 31, 2016. The working capital deficits as of

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December 31, 2016 and 2017 were primarily due to working capital needs in the ordinary course of business. We plan to fund our current liabilities with the cash flow generated by our operations, proceeds from the disposal of investment securities or property and equipment that are no longer deemed profitable and proceeds from additional borrowings, as necessary.

We had cash and cash equivalents, short-term financial instruments and short-term investment securities of Won 2,218.9 billion as of December 31, 2017 and Won 2,081.4 billion as of December 31, 2016. We had outstanding short-term borrowings of Won 130.0 billion as of December 31, 2017 and Won 2.6 billion as of December 31, 2016. As of December 31, 2017, we had credit lines with several local banks that provided for borrowing of up to Won 440.0 billion, of which Won 390.0 billion was available for borrowing.

Cash flows from operating activities and debt financing have been our principal sources of liquidity. We had cash and cash equivalents of Won 1,457.7 billion as of December 31, 2017 and Won 1,505.2 billion as of December 31, 2016. We believe that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt securities and bank borrowings.

	Year ended December 31,			Change			
	2017	2016	2015	2017 to 2016		2016 to 2015	
	(In billions of Won, except percentages)						
Net cash provided by operating activities	3,855.8	4,243.2	3,778.1	(387.4)	(9.1)%	465.1	12.3%
Net cash used in investing activities	(3,070.6)	(2,462.2)	(2,880.5)	(608.4)	24.7	418.3	(14.5)
Net cash used in financing activities	(826.6)	(1,044.8)	(964.6)	218.2	(20.9)	(80.2)	8.3
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies	(6.2)	0.2	1.5	(6.4)	N.A.	(1.3)	(86.7)
Net increase (decrease) in cash and cash equivalents	(41.4)	736.2	(67.0)	(777.6)	N.A.	803.2	N.A.
Cash and cash equivalents at beginning of period	1,505.3	768.9	834.4	736.4	95.8	(65.5)	(7.8)
Cash and cash equivalents at end of period	1,457.7	1,505.3	768.9	(47.6)	(3.2)	736.4	95.8

N.A. = Not available

Cash Flows from Operating Activities. Net cash provided by operating activities was Won 3,855.8 billion in 2017, Won 4,243.2 billion in 2016 and Won 3,778.1 billion in 2015. Profit for the year was Won 2,657.6 billion in 2017, Won 1,660.1 billion in 2016 and Won 1,515.9 billion in 2015. Net cash provided by operating activities in 2017 decreased by 9.1% from 2016 primarily due to an increase in outstanding accounts receivable at the year-end of 2017 compared to the year-end of 2016. Net cash provided by operating activities in 2016 increased by 12.3% from 2015 primarily due to the fulfillment of certain year-end cash payment obligations on the next business day after December 31, 2016, which was not a business day.

Cash Flows from Investing Activities. Net cash used in investing activities was Won 3,070.6 billion in 2017, Won 2,462.2 billion in 2016 and Won 2,880.5 billion in 2015. Cash inflows from investing activities were Won 456.8 billion in 2017, Won 1,140.7 billion in 2016 and Won 914.5 billion in 2015. Cash inflows in 2017 were primarily attributable to the collection of short-term loans of Won 216.7 billion and proceeds from disposals of long-term investment securities of Won 129.7 billion, mostly in connection with the disposal of our shares of Kakao Corporation for Won 112.6 billion in cash in April 2017. Cash inflows in 2016 were primarily attributable to proceeds from disposals of long-term investment securities of Won 555.5 billion, mostly in connection with the disposal of our 15.0% interest in Loen Entertainment for shares of Kakao Corporation and Won 218.0 billion in cash in February 2016 and the disposal of our 1.4% interest in POSCO for Won 305.1 billion in November 2016, collection of short-term loans of Won 239.0 billion and decrease in short-term financial instruments, net of Won 222.3 billion. Cash inflows in 2015 were primarily attributable to collection of short-term loans of Won 398.3 billion and proceeds from disposals of investments in associates and joint ventures of Won 185.1 billion, mostly in connection with the disposal of 27,725,264 shares of KEB HanaCard for Won 176.3 billion.

Cash outflows for investing activities were Won 3,527.4 billion in 2017, Won 3,602.9 billion in 2016 and Won 3,795.0 billion in 2015. Cash outflows in 2017, 2016 and 2015 were primarily attributable to expenditures related to the acquisition of property and equipment of Won 2,715.9 billion, Won 2,490.5 billion and Won 2,478.8 billion, respectively, primarily in connection with the acquisition of LTE equipment and the expansion of our LTE network.

Cash Flows from Financing Activities. Net cash used in financing activities was Won 826.6 billion in 2017, Won 1,044.8 billion in 2016 and Won 964.6 billion in 2015. Cash inflows from financing activities were Won 1,261.8 billion in 2017, Won 861.6 billion in 2016 and Won 1,375.2 billion in 2015. Such inflows were primarily driven by the issuance of debentures, which provided cash of Won 973.3 billion in 2017, Won 776.7 billion in 2016 and Won 1,375.0 billion in 2015 and proceeds from long-term borrowings, which provided cash of Won 120.0 billion in 2017 and Won 49.0 billion in 2016. In 2017, we also received net proceeds from short-term borrowings of Won 127.4 billion.

Cash outflows for financing activities were Won 2,088.4 billion in 2017, Won 1,906.5 billion in 2016 and Won 2,339.8 billion in 2015. Cash outflows for financing activities included repayment of debentures, payment of dividends, repayments of other long-term accounts payable and cash outflows from settlement of derivatives, among other items. Repayment of debentures were Won 842.7 billion in 2017, Won 770.0 billion in 2016 and Won 620.0 billion in 2015. Payment of dividends were Won 706.1 billion in 2017, Won 706.1 billion in 2016 and Won 668.5 billion in 2015. Repayments of other long-term account payables were Won 305.5 billion in 2017, Won 122.7 billion in 2016 and Won 191.4 billion in 2015. Cash outflows from settlement of derivatives were Won 105.3 billion in 2017, none in 2016 and Won 0.7 billion in 2015. In 2015, we had cash outflows of Won 490.2 billion due to acquisition of treasury stock and cash outflows of Won 220.4 billion related to equity interest transactions, principally in connection with a share exchange transaction (the Share Exchange) in June 2015 through which we acquired all of the shares of SK Broadband that we did not otherwise own in exchange for 1,692,824 of our treasury shares and cash.

As of December 31, 2017, we had total long-term debt (excluding current portion) outstanding of Won 5,808.1 billion, which included debentures in the amount of Won 5,596.6 billion and bank and institutional borrowings in the amount of Won 211.5 billion. As of December 31, 2016, we had total long-term debt (excluding current portion) outstanding of Won 6,478.6 billion, which included debentures in the amount of Won 6,338.9 billion and bank and institutional borrowings in the amount of Won 139.7 billion. For a description of our long-term debt, see note 17 of the notes to our consolidated financial statements.

As of December 31, 2017, we had (i) Won 5,285.8 billion aggregate principal amount of Korean Won-denominated debentures outstanding, of which SK Telecom issued Won 3,970.3 billion, SK Broadband issued Won 1,310 billion and Iriver issued Won 5.6 billion, and (ii) Won 1,821.4 billion aggregate principal amount of debentures outstanding denominated in U.S. dollars. The fixed interest rates of our debentures range from 1.00% to 6.63% depending on the offering size, maturity, interest rate environment at the time of the offering and currency, among other factors. We have a diversified maturity profile with respect to our debentures. See Contractual Obligations and Commitments for more details.

As of December 31, 2017, all of our foreign currency-denominated long-term borrowings, which amounted to 25.5% of our total outstanding long-term debt, including the current portion and present value discount as of such date, was denominated in Dollars. However, substantially all of our revenue and operating expenses are denominated in Won. We generally pay for imported capital equipment in Dollars. Appreciation of the Won against the Dollar will result in net foreign currency transaction and translation gains, while depreciation of the Won against the Dollar will result in net foreign currency transaction and translation losses. Changes in foreign currency exchange rates will also affect our liquidity because of the effect of such changes on the amount of funds required for us to make interest and principal payments on our foreign currency-denominated debt. For a description of swap or derivative transactions we have entered into, among other transactions, to mitigate the effects of such losses, see Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Capital Requirements

Historically, capital expenditures, repayment of outstanding debt, frequency usage payments and research and development expenditures have represented our most significant use of funds. In recent years, we have also increasingly dedicated capital resources to develop and invest in new growth engines, including 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.

To fund our scheduled debt repayment and planned capital expenditures over the next several years, we intend to rely primarily on cash flows from operating activities, as well as bank and institutional borrowings, and offerings of debt or equity in the domestic or international markets. We believe that these sources will be sufficient to fund our planned capital expenditures for 2018. Our ability to rely on these alternatives could be affected by the liquidity of the Korean financial markets or by Government policies regarding Won and foreign currency borrowings and the issuance of equity and debt. Our failure to make needed expenditures would adversely affect our ability to sustain subscriber growth and provide quality services and, consequently, our results of operations.

Capital Expenditures. The following table sets forth our actual capital expenditures for 2017, 2016 and 2015:

	Year ended December 31,		
	2017	**2016**	**2015**
	(In billions of Won)		
LTE Network	1,131.8	1,104.0	1,022.7
WCDMA Network	29.0	27.7	90.0
Fixed-line Network(1)	790.0	699.6	559.4
Other Network(2)	436.2	376.3	332.4
Others(3)	328.9	282.9	474.3
Total	2,715.9	2,490.5	2,478.8

(1) Includes all capital expenditures made by SK Broadband.

(2) Includes investments in our CDMA, WiBro and Wi-Fi networks as well as other capital expenditures related to our networks.

(3) Includes non-network related investments such as capital expenditures for product development and maintenance and upgrades of our information technology systems and equipment.

We set our capital expenditure budget for each upcoming year on an annual basis. Our actual capital expenditures in 2017, 2016 and 2015 were Won 2,715.9 billion, Won 2,490.5 billion and Won 2,478.8 billion, respectively. Of such amounts, we spent approximately 41.7%, 44.3% and 41.3% in 2017, 2016 and 2015, respectively, on capital expenditures related to expanding and enhancing the quality of our LTE network. Our other non-network related capital expenditures in 2017, 2016 and 2015 primarily related to developing new products and maintenance and upgrades to our information technology systems.

In addition, we have been making capital expenditures to build more advanced networks based on LTE technology. We commenced commercial LTE services in July 2011 and expanded our LTE network nationwide and launched our

LTE multi-carrier technology in 2012. We launched our LTE-A service in June 2013, our wideband LTE-A service in June 2014, our tri-band LTE-A service in December 2014 and our five-band LTE-A service in June 2017. For a more detailed description of our LTE network, see Item 4.B. Business Overview Digital Wireless Network LTE Network. We plan to continue to make capital investments in 2018 to further improve and expand our LTE network and develop related technologies as well as to prepare for the commercialization of our future 5G network.

The following table sets forth our payment obligations relating to our acquisitions of frequency usage rights.

Band	Technology (width)		Date of Acquisition	Initial Payment Amount (in billions of Won)	Initial Payment Year	Annual Payment Amount (in billions of Won)	Annual Payment Term
	CDMA(10M)						
800MHz	LTE(20M)		June 2011	208.3	2011	69.4	2013-2015
1.8GHz	LTE(35M)	20M	Dec. 2011	248.8	2011	74.6	2012-2021
		15M	Sept. 2013	115.3	2013	43.2	2014-2021
	LTE(20M)		Dec. 2001	650.0	2001	130.0	2007-2011
2.1GHz	WCDMA(20M)		Dec. 2016	141.2	2016	85.3	2017-2021
2.3GHz	WiBro(27M)		March 2012	8.7	2012	2.9	2014-2016
2.6GHz	LTE(40M+20M)		August 2016	332.5	2016	99.8	2017-2026

For more information, see note 16 of the notes to our consolidated financial statements.

We expect that our capital expenditure amount in 2018 will be slightly higher than that of 2017. Our expenditures will be 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. However, our overall expenditure levels and our allocation among projects remain subject to many uncertainties. We may increase, reduce or suspend our planned capital expenditures for 2018 or change the timing and area of our capital expenditure spending from the estimates described above in response to market conditions or for other reasons. We may also make additional capital expenditure investments as opportunities arise, including in connection with building out our networks on any new bandwidths we may choose to acquire in the frequency bandwidth auction expected to be held by the MSIT in June 2018. Accordingly, we periodically review the amount of our capital expenditures and may make adjustments based on the current progress of capital expenditure projects and market conditions. No assurance can be given that we will be able to meet any such increased expenditure requirements or obtain adequate financing for such requirements, on terms acceptable to us, or at all. For more information regarding the frequency bandwidth auction expected to be held by the MSIT in June 2018, see Item 4.B. Business Overview Law and Regulation Competition Regulation Frequency Allocation.

Repayment of Outstanding Debt. As of December 31, 2017, our principal repayment obligations with respect to long-term borrowings, bonds and obligations under capital leases outstanding were as follows for the periods indicated:

Year Ending December 31,	Total

	(In billions of Won)
2018	1,533.0
2019	984.9
2020	978.5
2021 and thereafter	3,854.3

We note that no commercial bank in Korea may extend credit (including loans, guarantees and purchase of bonds) in excess of 20.0% of its shareholders equity to any one borrower. In addition, no commercial bank in Korea may extend credit exceeding 25.0% of the bank s shareholders equity to any one borrower and to any person with whom the borrower shares a credit risk.

Investments in New Growth Businesses. We may also require capital for investments to support our development of new growth businesses.

In August 2014, we acquired a 39.3% equity interest of Iriver, a manufacturer of digital audio players and other portable media devices, which we increased to 49.0% in December 2014, for an aggregate purchase price of

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Won 54.5 billion. In 2017, we made capital contributions of Won 25.0 billion and as of December 31, 2017, we had a 45.9% equity interest in Iriver.

In 2014 and 2015, we acquired an 83.9% interest in NSOK, a provider of residential and small business electronic security and other related alarm monitoring services, for an aggregate of Won 64.0 billion. In October 2016, we acquired the remaining 16.1% interest in NSOK through SK Telink.

In 2016, we acquired a 46.2% interest in SM Mobile Communications for Won 12.1 billion, which was subsequently merged into Iriver, and in 2017, we acquired SM Life Design for Won 30.0 billion, in light of potential synergies that may be achieved through the entertainment business.

From time to time, we may make other investments in telecommunications or other businesses, in Korea or abroad, where we perceive attractive opportunities for investment. From time to time, we may also dispose of existing investments when we believe that doing so would be in our best interest.

Severance Payments. The defined benefit obligation, which is the total accrued and unpaid retirement and severance benefits for our employees, as of December 31, 2017 was Won 62.0 billion. This amount was reflected in our consolidated financial statements as a liability, which is net of deposits with insurance companies totaling Won 663.6 billion to fund a portion of the employees severance indemnities.

Also see Item 6.D. Employees Employee Benefits and note 21 of the notes to our consolidated financial statements.

Dividends. Total cash outflows for payments of dividends amounted to Won 706.1 billion in 2017, Won 706.1 billion in 2016 and Won 668.5 billion in 2015.

In April 2018, we distributed annual dividends at Won 9,000 per share (exclusive of an interim dividend of Won 1,000 per share) to our shareholders for an aggregate payout amount of Won 635.5 billion.

Contractual Obligations and Commitments

The following summarizes our contractual cash obligations at December 31, 2017, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

	Payments Due by Period[(1)]				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(In billions of Won)				
Bonds					
Principal	7,097.0	1,491.4	1,837.0	1,340.0	2,428.6
Interest	1,134.0	190.8	287.6	210.6	445.0
Long-term borrowings					
Principal	253.7	41.6	156.4	55.7	
Interest	14.1	6.3	6.4	1.4	
Capital lease obligations					
Principal					
Interest					

Operating leases					
Facility deposits	6.5	0.6			5.9
Derivatives	40.3	29.0		11.3	
Other long-term payables[2]					
Principal	1,710.2	302.9	605.7	402.6	399.0
Interest	71.3	5.8	37.9	16.5	11.1
Short-term borrowings	130.0	130.0			
Total contractual cash obligations	10,457.0	2,198.4	2,931.0	2,038.1	3,289.6

(1) We are contractually obligated to make severance payments to eligible employees we have employed for more than one year, upon termination of their employment, regardless of whether such termination is voluntary or

involuntary. Accruals for severance indemnities are recorded based on the amount we would be required to pay in the event the employment of all our employees were to terminate at the balance date. However, we have not yet estimated cash flows for future periods. Accordingly, payments due in connection with severance indemnities have been excluded from this table.

(2) Related to acquisition of frequency licenses. See note 14 of the notes to our consolidated financial statements. See note 37 of the notes to our consolidated financial statements for details related to our other commitments and contingencies.

Critical Accounting Policies, Estimates And Judgments

Our consolidated financial statements are prepared in accordance with K-IFRS. The preparation of the consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We continually evaluate our estimates and judgments including those related to allowances for doubtful accounts, fair value measurements of financial instruments, estimated useful lives and impairment of long-lived assets, impairment of goodwill, provisions, retirement benefit plans and income taxes. We base our estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that of our significant accounting policies, the following may involve a higher degree of judgment or complexity:

Allowances for Doubtful Accounts

An allowance for doubtful accounts is provided based on a review of the status of individual receivable accounts at the end of the year. We maintain allowances for doubtful accounts for estimated losses that result from the inability of our customers to make required payments. We base our allowances on the likelihood of recoverability of accounts receivable based on the aging of accounts receivables at the end of the period, past customer default experience and their credit status, and economic and industrial factors. Allowance for doubtful accounts amounted to Won 362.2 billion as of December 31, 2017 and Won 369.3 billion as of December 31, 2016. As there was no significant change in our assumptions and judgments including on the aging of accounts receivables, past customer default experience and credit status, and economic and industrial factors, there was no significant change in the percentage of allowance for doubtful accounts as of December 31, 2017 compared to the prior year. If economic or specific industry trends worsen beyond our estimates, the allowances for doubtful accounts we have recorded may be materially adjusted in the future.

Fair Value Measurement of Financial Instruments

Subsequent to initial recognition, available-for-sale financial assets and derivative financial assets are stated at fair value with any gains or losses arising on remeasurement recognized in profit for the period or other comprehensive income. When measuring fair value, we use quoted prices in active markets to the extent such prices exist. The fair values of financial instruments, including derivative instruments, that are not traded in an active market are determined using valuation techniques that require management s estimates of future cash flows and discount rates. Our management uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. See note 2(4) of the notes to our consolidated financial statements.

Impairment of Long-lived Assets Including the Frequency Usage Rights

Long-lived assets generally consist of property, plant and equipment and intangible assets. We review our depreciation and amortization methods, estimated useful lives and residual values of long-lived assets at the end of each annual reporting period. An impairment loss is recognized when the asset s recoverable amount is less than its carrying amount. The recoverable amount of a long-lived asset is the greater of an asset s fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amounts of cash-generating units are determined based on value-in-use calculations, which require the use of estimates. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated recovery value.

Our intangible assets include our frequency usage rights, which have contractual lives of 5 to 10.25 years and are amortized from the date commercial service is initiated through the end of their contractual lives. Because the use of frequency usage rights presents risks and challenges to our business, any or all of which, if realized or not properly addressed, may have a material adverse effect on our financial condition, results of operations and cash flows, we review the frequency usage rights for impairment on an annual basis. In connection with our review, we utilize the estimated long-term revenue and cash flow forecasts. The use of different assumptions within our cash flow model could result in different recoverable amounts for our frequency usage rights. The results of our review using the testing method described above resulted in no impairment of our frequency usage rights in 2017. See note 16 of the notes to our consolidated financial statements.

Impairment of Goodwill

Goodwill is measured as the excess of the sum of: (1) the consideration transferred, (2) the amount of any non-controlling interests in the acquiree and (3) the fair value of the acquirer s previously held equity interest in the acquiree (if any), over the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not depreciated, but tested for impairment at the end of each annual reporting period or whenever there is an indication that the asset may be impaired. Goodwill is carried at cost less accumulated impairment losses and the impairment losses are not reversed. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires our management to estimate the future cash flows expected related to the respective cash-generating unit and the determination of an appropriate discount rate in order to calculate present value. See note 15 of the notes to our consolidated financial statements.

Income Taxes

We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns. This process requires management to make assessments regarding the timing and probability of the tax impact. Actual income taxes could vary from these estimates due to future changes in income tax law or unpredicted results from the final determination of each year s liability by taxing authorities. We believe that the accounting estimate related to assessment of deferred tax assets for recoverability is a critical accounting estimate because (1) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities and (2) the impact that changes in actual performance versus these estimates could have on the realization of tax benefits as reported in our results of operations could be material. Management s assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so. As of December 31, 2017 and 2016, unused tax loss carryforwards of Won 921.3 billion and Won 755.1 billion, respectively, were not recognized as deferred tax assets because we did not believe that their realization would be probable. The increase of Won 166.3 billion in unrecognized tax loss carryforwards in 2017 compared to 2016 was primarily related to the net losses incurred by SK Planet. See note 31 of the notes to our consolidated financial statements.

Item 5.C. ***Research and Development, Patents and Licenses, etc.***

We maintain a high level of spending on our research and development activity. We also donate funds to several Korean research institutes and educational organizations that focus on research and development activity. We believe that we must maintain a substantial in-house technology capability to achieve our strategic goals.

In 2017, 2016 and 2015, our annual research and development expenses were Won 395.3 billion, Won 344.8 billion and Won 315.8 billion, respectively. Our total research and development expenses were approximately 2.3% in 2017, 2.0% in 2016 and 1.8% in 2015, respectively, of operating revenue and other income.

The main focus of our research and development activity is the development of new wireless technologies and services and value-added technologies and services for our LTE network, such as wireless data communications, as

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well as development of new technologies that reflect the growing convergence between telecommunications and other industries. Our research and development activity is centered at a research center with state-of-the-art facilities and equipment established in January 1999 in Bundang-gu, Seongnam-si, Gyeonggi-do, Korea. To more efficiently manage our research and development resources, our research and development center is organized into the following core areas:

- Network Technology R&D Center, through which we research and develop 5G-related technologies as well as technologies for access network, core network, broadband Internet, wireless devices and next-generation open source software;

- Future Technology R&D Center, through which we research and develop technologies for human machine interface, artificial intelligence, video, big data and other business solutions;

- Platform Technology R&D Center, through which we research and develop technologies for our IoT solutions, media and commerce and other innovative products and services offered through our platform services and quantum technologies; and

- Network IT Convergence R&D Center, through which we research and develop technologies that converge network technology and information technology in the ICT area.

Each business unit also has its own research team that can concentrate on specific short-term research needs. Such research teams permit our research center to concentrate on long-term, technology-intensive research projects. We aim to establish strategic alliances with selected domestic and foreign companies with a view to exchanging or jointly developing technologies, products and services.

Item 5.D. ***Trend Information***

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

Item 5.E. ***Off-Balance Sheet Arrangements***

None.

Item 5.F. ***Tabular Disclosure of Contractual Obligations***

These matters are discussed under Item 5.B. above where relevant.

Item 5.G. ***Safe Harbor***

These matters are discussed under Forward-Looking Statements.

Item 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*

Item 6.A. *Directors and Senior Management*

Our board of directors has ultimate responsibility for the management of our affairs. Under our articles of incorporation, our board is to consist of at least three but no more than twelve directors, more than half of whom must be independent non-executive directors. We currently have a total of eight directors, five of whom are independent non-executive directors. We elect our directors at a general meeting of shareholders with the approval of at least a majority of those shares present or represented at such meeting. Such majority must represent at least one-fourth of our total issued and outstanding shares with voting rights.

As required under relevant Korean laws and our articles of incorporation, we have a committee for recommendation of independent non-executive directors within the board of directors, the Independent Director Nomination Committee. Independent non-executive directors are appointed from among those candidates recommended by the Independent Director Nomination Committee.

The term of offices for directors is until the close of the third annual general shareholders meeting convened after he or she commences his or her term. Our directors may serve consecutive terms. Our shareholders may

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remove them from office by a resolution at a general meeting of shareholders adopted by the holders of at least two-thirds of the voting shares present or represented at the meeting, and such affirmative votes also represent at least one-third of our total voting shares then issued and outstanding.

Representative directors are directors elected by the board of directors with the statutory power to represent our company.

The following are the names and positions of our standing and non-standing directors. The business address of all of our directors is the address of our registered office at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 100-999, Korea.

Standing directors are our full-time employees and executive officers, and they also comprise the senior management, or the key personnel who manage us. Their names, dates of birth and positions at our company, other positions and business experience are set forth below:

Name	Date of Birth	Director Since	Expiration of Term	Position	Other Positions	Business Experience
Jung Ho Park	May 27, 1963	2017	2020	Executive Director	President and Chief Executive Officer	Chief Executive Officer, SK Holdings; Head of Corporate Development Office, SK C&C Co., Ltd.; Head of Business Development Office, SK Telecom
Young Sang Ryu	May 15, 1970	2018	2021	Executive Director	Head of Corporate Center	Executive Vice President of Business Development Group, SK Holdings; Senior Vice President of Business Development Office, SK Telecom

Our current non-standing directors are as set forth below:

Name	Date of Birth	Director Since	Expiration of Term	Position	Other Positions	Business Experience
Dae Sik Cho	Nov. 27, 1960	2017	2020			

				Non-executive Director	Chairman, SK SUPEX Council	Chief Executive Officer, SK Holdings; Chief Finance Officer, Head of Finance Division and Risk Management & Corporate Auditing Office, SK Holdings; Head of Business Management, SK Holdings
Dae Shick Oh	Nov. 28, 1954	2013	2019	Independent Non-executive Director	Advisor, Bae, Kim & Lee LLC	Outside Director, CJ Corporation, Head of Seoul Regional Tax Office; Head of Investigation Department, Korea National Tax Service

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Name	Date of Birth	Director Since	Expiration of Term	Position	Other Positions	Business Experience
Jae Hoon Lee	Sep. 26, 1955	2017	2020	Independent Non-executive Director	President, Association of Future Strategy Forum on Energy & Resources Development	Vice Minister, Ministry of Knowledge Economy; Vice Minister, Ministry of Commerce, Industry and Energy; Assistant Minister, Ministry of Commerce, Industry and Energy
Jae Hyeon Ahn	Feb. 2, 1961	2017	2020	Independent Non-executive Director	Professor, Advanced Innovative Management Program, KAIST	Vice President, College of Business, KAIST; Dean, College of Information and Media Management, KAIST; Dean, College of Information and Media Management Association; Senior Technical Staff Member, AT&T Bell Labs
Jung Ho Ahn	Feb. 11, 1978	2017	2020	Independent Non-executive Director	Associate Professor, Graduate School of Convergence Science and Technology, Seoul National University	Visiting Scholar, Google Inc.; Senior Research Scientist, Exascale Computing Lab, HP Labs
Youngmin Yoon	Dec. 19, 1963	2018	2021	Independent Non-executive Director	Dean of School of Media and Communications and Graduate School of	Professor, School of Media & Communication, Korea University; Vice-chair,

		Journalism and Mass Communication, Korea University	Korean Academic Society for Public Relations; Advisor, Ministry of Land, Infrastructure and Transport Public Relations Division; Advisor, Korea Media Rating Board

Item 6.B. ***Compensation***

The aggregate of the remuneration paid and in-kind benefits granted to the directors (all standing directors, who also serve as our executive officers, and non-standing directors) during the year ended December 31, 2017 totaled approximately Won 2.2 billion.

Remuneration for the directors is determined by shareholder resolution. Severance allowances for directors are determined by the board of directors in accordance with our regulation on severance allowances for officers, which was adopted by shareholder resolution. The regulation provides for monthly salary, performance bonus, severance payment and fringe benefits. The amount of performance bonuses is independently decided by a resolution of the board of directors.

In March 2002, pursuant to resolutions of the shareholders, and in accordance with our articles of incorporation, certain of our directors and officers were granted options to purchase our common shares, which have all expired without being exercised. On March 24, 2017, pursuant to resolutions of the shareholders, and in accordance with our articles of incorporation, Mr. Jung Ho Park, our President and Chief Executive Officer, was

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granted options to purchase 66,504 shares of our common stock. On February 20, 2018, our board of directors resolved to grant options to certain executive officers, which was approved by shareholder resolution on March 21, 2018, as set forth in the table below. The following table summarizes the exercisable stock options granted as of the date of this annual report:

Recipient	Position	Exercise period From	Exercise period To	Exercise price (per share)	Number of shares issuable
Jung Ho Park	Executive Director, President and Chief Executive Officer	March 25, 2019	March 24, 2022	246,750	22,168
		March 25, 2020	March 24, 2023	266,490	22,168
		March 25, 2021	March 24, 2024	287,810	22,168
Sung Won Suh	Head of MNO Business	February 21, 2020	February 20, 2023	254,120	2,755
Sang Ho Lee	Head of Service Platform Business	February 21, 2020	February 20, 2023	254,120	1,594
Young Sang Ryu	Head of Corporate Center	February 21, 2020	February 20, 2023	254,120	1,358

Item 6.C. ***Board Practices***

For information regarding the expiration of each director s term of appointment, as well as the period from which each director has served in such capacity, see the table set out under Item 6.A. Directors and Senior Management above.

Termination of Directors, Services

Directors are given a retirement and severance payment upon termination of employment in accordance with our internal regulations on severance payments. Upon retirement, directors who have made significant contributions to our company during their term may be appointed to serve either as an advisor to us or as an officer of an affiliate company.

Audit Committee

Under relevant Korean laws and our articles of incorporation, we are required to have an audit committee under the board of directors. The committee is composed of at least three members, two-thirds of whom must be independent non-executive directors in accordance with applicable rules. The members of the audit committee are appointed annually by a resolution of the general meeting of shareholders. They are required to:

- examine the agenda for the general meeting of shareholders;

- examine financial statements and other reports to be submitted by the board of directors to the general meeting of shareholders;

review the administration by the board of directors of our affairs; and

examine the operations and asset status of us and our subsidiaries.

In addition, the audit committee must appoint independent auditors to examine our financial statements. An audit and review of our financial statements by independent auditors is required for the purposes of a securities report. Listed companies must provide such report on an annual, semi-annual and quarterly basis to the FSC and the KRX KOSPI Market.

Our audit committee is composed of four independent non-executive directors: Dae Shick Oh, Jae Hoon Lee, Jae Hyeon Ahn, and Youngmin Yoon, each of whom is financially literate and independent under the rules of the NYSE as applicable. The board of directors has determined that Dae Shick Oh is an audit committee financial expert as defined under the applicable rules of the SEC. See Item 16A. Audit Committee Financial Expert.

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Independent Director Nomination Committee

This committee is devoted to recommending independent non-executive directors for the board of directors. The objective of the committee is to help promote fairness and transparency in the nomination of candidates for these positions. The board of directors decides from time to time who will comprise the members of this committee. The committee is comprised of one executive director, Jung Ho Park, and two independent directors, Jae Hoon Lee and Jae Hyeon Ahn.

Capex Review Committee

This committee is responsible for reviewing our business plan (including the budget). It also examines major capital expenditure revisions, and routinely monitors capital expenditure decisions that have already been executed. The committee is comprised of one executive director, Young Sang Ryu, and five independent directors, Jae Hoon Lee, Dae Shick Oh, Jae Hyeon Ahn, Jung Ho Ahn and Youngmin Yoon.

Compensation Review Committee

This committee oversees our overall compensation scheme for top-level executives and directors. It is responsible for reviewing both the criteria for and level of compensation. It is comprised of three independent directors, Jae Hoon Lee, Dae Shick Oh and Jung Ho Ahn.

Corporate Citizenship Committee

This committee was established to help us achieve world-class sustainable growth and to help us fulfill our corporate social responsibilities. It is comprised of three independent directors, Jae Hyeon Ahn, Jung Ho Ahn and Youngmin Yoon.

Item 6.D. ***Employees***

The following table sets forth the numbers of our regular employees, temporary employees and total employees as of the dates indicated:

	Regular Employees	Temporary Employees	Total
December 31, 2015	24,479	1,513	25,992
December 31, 2016	24,569	1,275	25,844
December 31, 2017	29,450	1,158	30,608

Labor Relations

As of December 31, 2017, SK Telecom had a company union consisting of 2,257 regular employees out of 4,495 total regular employees. We have never experienced a work stoppage of a serious nature. 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. Our wage negotiations for 2015 were completed in November 2015 and resulted in an average monthly wage increase of Won 80,000 for SK Telecom employees. Our wage negotiations for 2016 were completed in September 2016 and resulted in no change to the average monthly wage of SK Telecom employees. Our wage negotiations for 2017 were completed in November 2017 and resulted in an average monthly wage increase of 3% for SK Telecom employees. Our wage negotiations for 2018 have not commenced yet. We consider our relations with our employees to be good.

Employee Benefits

Since April 1999, we have been required to contribute an amount equal to 4.5% of employee wages toward a national pension plan. Employees are eligible to participate in an employee stock ownership association. We are not required to, and we do not, make any contributions to the employee stock ownership association, although we subsidize the employee stock ownership association through the Employee Welfare Fund by providing low interest rate loans to employees who desire to purchase our stock through the plan in the event of a capitalization by the association.

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We are required to pay a severance amount to eligible employees who voluntarily or involuntarily cease employment with us, including through retirement. This severance amount is based upon the employee s length of service with us and the employee s salary level at the time of severance. As of December 31, 2017, the defined benefit obligation, which is the accrued and unpaid retirement and severance benefits, of Won 679.6 billion for all of our employees are reflected in our consolidated financial statements as a liability, of which a total of Won 663.6 billion was funded. Under Korean laws and regulations, we are prevented from involuntarily terminating a full-time employee except under certain limited circumstances. In September 2002, we entered into an employment stabilization agreement with the union. Among other things, in the event that we reorganize a department into a separate entity or we outsource an employee to a separate entity where the wage is lower, this agreement provides for a guarantee of the same wage level for the year that such an event occurs.

Under the Basic Labor Welfare Act, we may also contribute up to 5.0% of our annual earnings before tax for employee welfare. Contribution amounts are determined annually following negotiation with the union. The contribution amount for 2017 was set at 2.49% of SK Telecom s profit before income tax on a separate basis, or Won 40.0 billion. The contribution amount for 2016 was set at 2.24% of SK Telecom s profit before income tax on a separate basis, or Won 35.0 billion. The contribution amount for 2015 was set at 2.04% of SK Telecom s profit before income tax on a separate basis, or Won 30.0 billion.

In addition, we provide our employees with miscellaneous other fringe benefits including medical cost subsidies, family camp programs and sabbatical programs for long-term employees.

Item 6.E. ***Share Ownership***

The following table sets forth the share ownership by our standing and non-standing directors as of March 31, 2018:

Name	Position	Number of Shares Owned	Percentage of Total Shares Outstanding	Special Voting Rights	Options
Standing Director:					
Jung Ho Park	President & Chief Executive Officer	1,000	0.0%	None	66,504
Young Sang Ryu	Chief Financial Officer	0	0	None	1,358
Non-Standing Directors:					
Dae Sik Cho	Non-executive Director	0	0	None	None
Dae Shick Oh	Independent Non-executive Director	0	0	None	None
Jae Hoon Lee	Independent Non-executive Director	0	0	None	None
Jae Hyeon Ahn	Independent Non-executive	0	0	None	None

	Director				
Jung Ho Ahn	Independent Non-executive Director	0	0	None	None
Youngmin Yoon	Independent Non-executive Director	0	0	None	None

Item 7. ***MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS***

Item 7.A. ***Major Shareholders***

As of the close of our shareholders registry on December 31, 2017, approximately 58.6% of our issued shares were held in Korea by approximately 53,935 shareholders. According to Citibank, N.A. (Citibank), depositary for our ADRs, as of December 31, 2017, there were at least 33,186 record holders of our ADRs evidencing ADSs resident in the United States to the best of Citibank s knowledge, and 8,899,423 shares of our common stock were held in the form of ADSs. As of such date, outstanding ADSs represented approximately 11.0% of our outstanding common shares.

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The following table sets forth certain information as of December 31, 2017 with respect to any person known to us to be the beneficial owner of more than 5.0% of our common shares and with respect to the total amount of such shares owned by our officers and directors, as a group:

Shareholder/Category	Number of Shares	Percentage Total Shares Issued	Percentage Total Shares Outstanding
Domestic Shareholders			
SK Holdings	20,363,452	25.22%	28.84%
Treasury shares[(1)]	10,136,551	12.55	
Officers and Directors	1,000	0.00	0.00
National Pension Service	7,392,350	9.16	10.47
Other Domestic Shareholders	9,401,926	11.64	13.32
Foreign Shareholders[(2)]			
Shareholders holding ADRs	8,899,423	11.02	12.60
Shareholders holding common stock	24,551,009	30.41	34.77
Total Issued Shares	80,745,711	100%	
Total Outstanding Shares[(3)]	70,609,160		100%

(1) Treasury shares do not have any voting rights. Pursuant to the Share Exchange in June 2015, we exchanged 1,692,824 treasury shares for the common shares of SK Broadband. In the fourth quarter of 2015, we acquired 2,020,000 treasury shares on the market through a share buy-back program.

(2) Based on the data collected by the KRX KOSPI Market under the Foreign Exchange Transaction Laws.

(3) Represents total issued shares excluding treasury shares.

The following table sets forth significant changes in the percentage ownership held by our major shareholders during the past three years:

Shareholder	As of December 31,		
	2017	2016	2015
	(As a percentage of total issued shares)[(1)]		
SK Group[(2)]	25.22%	25.22%	25.22%
SK Holdings	25.22	25.22	25.22
National Pension Service	9.16	8.87	8.62

(1) Includes 10,136,551 shares held in treasury as of December 31, 2017, 2016 and 2015, respectively. Pursuant to the Share Exchange in June 2015, we exchanged 1,692,824 treasury shares for the common shares of SK Broadband. In the fourth quarter of 2015, we acquired 2,020,000 treasury shares on the market through a share buy-back program.

(2) SK Group s ownership interest as of December 31, 2017, 2016 and 2015 consisted of the ownership interest of SK Holdings only.

Except as described above, other than companies in the SK Group, no other persons or entities known by us to be acting in concert, directly or indirectly, jointly or severally, own in excess of 5.0% of our total shares outstanding or exercise control or could exercise control over our business.

On July 1, 2007, the company formerly known as SK Corporation underwent a corporate reorganization, pursuant to which SK Corporation spun off substantially all of its operating business divisions into a newly established corporation named SK Energy Co., Ltd. The surviving company currently operates as a holding company, renamed SK Holdings. Ownership of all our shares held by SK Corporation immediately preceding the reorganization passed to SK Holdings as of July 1, 2007. On August 1, 2015, SK Holdings merged with and into SK C&C and the merged entity was renamed SK Holdings.

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As of March 31, 2018, SK Holdings held 25.22% of our shares of common stock. For a description of our foreign ownership limitation, see Item 3.D. Risk Factors Risks Relating to Securities If SK Holdings causes us to breach the foreign ownership limitations on our common shares, we may experience a change of control and Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements. In the event that SK Holdings announces plans of a sale of our shares, we expect to be able to discuss the details of such sale with them in advance and will endeavor to minimize any adverse effects on our share prices as a result of such sale.

As of March 31, 2018, the total number of our common shares outstanding was 70,609,160.

Other than as disclosed herein, there are no other arrangements, to the best of our knowledge, which would result in a material change in the control of us. Our major shareholders do not have different voting rights.

Item 7.B. *Related Party Transactions*

We are part of the SK Group of affiliated companies. See Item 7.A. Major Shareholders. As disclosed in note 36 of the notes to our consolidated financial statements, we had related party transactions with a number of affiliated companies of the SK Group during the year ended December 31, 2017.

SK Networks

As of December 31, 2017, we had Won 3.1 billion of accounts receivable from SK Networks. As of the same date, we had Won 267.3 billion of accounts payable to SK Networks, mainly relating to payments for wireless devices by PS&Marketing. The aggregate fees we paid to SK Networks for dealer commissions amounted to Won 1,220.3 billion in 2017, Won 1,131.6 billion in 2016 and Won 1,258.0 billion in 2015.

SK Holdings

We enter into agreements with SK Holdings from time to time for specific information technology-related projects. The aggregate fees we paid to SK Holdings for information technology services amounted to Won 397.0 billion in 2017, Won 449.2 billion in 2016 and Won 324.1 billion in 2015. We also purchase various information technology-related equipment from SK Holdings from time to time. The total amount of such purchases was Won 283.6 billion in 2017, Won 235.5 billion in 2016 and Won 236.4 billion in 2015. We are a party to several service agreements with SK Holdings relating to the development and maintenance of our information technologies systems. We also pay SK Holdings for use of the SK brand.

SK TNS

SK TNS Co., Ltd. (SK TNS) provides us with network construction and maintenance services and related equipment. The total amount of network equipment purchased from SK TNS was Won 494.6 billion in 2017 and Won 387.5 billion in 2016. As of December 31, 2017, we had Won 140.3 billion of accounts payable to SK TNS, mainly relating to payments for such services and equipment.

Item 7.C. *Interests of Experts and Counsel*

Not applicable.

Item 8. *FINANCIAL INFORMATION*

Item 8.A. *Consolidated Statements and Other Financial Information*

See Item 18. Financial Statements and pages F-1 through G-77.

Legal Proceedings

FTC Proceedings

In March 2012, the FTC fined us Won 21.9 billion for allegedly colluding with KT, LG U+, Samsung Electronics, LG Electronics and Pantech (which were also assessed separate fines) to inflate the prices of handsets while advertising that the handsets are offered at a discount through subsidy plans. We paid such fine in September 2012 and filed an appeal at the Seoul High Court, which ruled against us in October 2014. We appealed the decision to the Supreme Court of Korea, where the case is currently pending.

KCC Proceedings

On March 12, 2015, the KCC imposed a fine of Won 934 million on us and issued a correctional order for violating the MDDIA with respect to our compensation programs for used handsets. On March 26, 2015, the KCC imposed a fine of Won 23.5 billion on us and imposed a suspension on acquiring new subscribers for a period of seven days for providing subsidies to subscribers in excess of the amounts permitted under the MDDIA. We suspended acquisition of new customers during the period from October 1, 2015 to October 7, 2015. On May 13, 2015, the KCC imposed a fine of Won 3.6 billion on us and issued a correctional order for violating its obligations to protect personal information. We paid such fine in July 2015 and reported to the KCC on the implementation of actions pursuant to the correctional order in September 2015. On May 28, 2015 and December 10, 2015, the KCC imposed a fine of Won 350 million and Won 560 million, respectively, on us and issued a correctional order for misleading and exaggerated advertisement of bundled wireless and fixed-line telecommunications products.

On January 14, 2016, the KCC imposed a fine of Won 15 million on us and issued a correctional order for failure to comply with the retention period for our subscribers personal information. On December 6, 2016, the KCC imposed a fine of Won 3.75 billion on us for unfair marketing practices in connection with our bundled wireless and fixed-line telecommunications services. On December 21, 2016, the KCC imposed fines of Won 100 million and Won 30 million on us for engaging in certain prohibited sales activities and violating certain subscriber location data protection regulations, respectively.

On March 21, 2017, the KCC imposed a fine of Won 794 million on us for providing subsidies to foreign subscribers in excess of the amounts permitted under the MDDIA. On December 6, 2017, the KCC issued a correctional order relating to restrictions on cancelling broadband Internet and bundled service subscriptions. On January 24, 2018, the KCC imposed an aggregate fine of Won 21.4 billion on us for providing discriminatory subsidies in violation of the MDDIA.

With respect to the correctional orders issued by the KCC set forth above, we have implemented remedial measures pursuant to such correctional orders and reported to the KCC on the implementation of such measures.

SK Communications Litigation

In July 2011, there was a leak of personal information of subscribers of NATE and Cyworld websites operated by 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.

Except as described above, neither we nor any of our subsidiaries are involved in any litigation, arbitration or administrative proceedings relating to claims which may have, or have had during the twelve months preceding the date hereof, a significant effect on our financial position or the financial position of our subsidiaries taken as a whole, and, so far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

Dividends

Annual dividends, if any, on our outstanding shares must be approved at the annual general meeting of shareholders. This meeting is generally held in March of the following year, and the annual dividend is generally paid shortly after the meeting. Since our shareholders have discretion to declare annual dividends, we cannot give any assurance as to the amount of dividends per share or that any dividends will be declared at all. Interim dividends, if any, can be approved by a resolution of our board of directors. Once declared, dividends must be claimed within five years, after which the right to receive the dividends is extinguished and reverted to us.

We pay cash dividends to the ADR depositary in Won. Under the terms of the deposit agreement, cash dividends received by the ADR depositary generally are to be converted by the ADR depositary into Dollars and distributed to the holders of the ADSs, less withholding tax, other governmental charges and the ADR depositary s fees and expenses. The ADR depositary s designated bank in Korea must approve this conversion and remittance of cash dividends. See Item 10.B. Memorandum and Articles of Association Description of American Depositary Shares and Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations.

The following table sets forth the dividend per share and the aggregate total amount of dividends declared (including any interim dividends), as well as the number of outstanding shares entitled to dividends, with respect to the years indicated. The dividends set out for each of the years below were paid in the immediately following year.

Year Ended December 31,	Dividend per Share (In Won)	Total Amount of Dividends (In billions of Won)	Number of Shares Entitled to Dividend
2013	9,400	666.4	70,936,336
2014	9,400	666.8	70,936,336
2015	10,000	708.1	70,609,160(1)
2016	10,000	706.1	70,609,160
2017	10,000	706.1	70,609,160

(1) The number of shares entitled to the interim dividend was 72,629,160.

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. Our common shares represented by the ADSs have the same dividend rights as other outstanding common shares.

Holders of non-voting shares are entitled to receive dividends in priority to the holders of common shares. The dividend on the non-voting shares is between 9.0% and 25.0% of the par value as determined by the board of directors at the time of their issuance. If the dividends for common shares exceed the dividends for non-voting shares, the holders of non-voting shares will be entitled to participate in the distribution of such excess amount with the holders of common shares. If the amount available for dividends is less than the aggregate amount of the minimum required dividend, holders of non-voting shares will be entitled to receive such accumulated unpaid dividend from dividends payable in the next fiscal year before holders of common shares. There are no non-voting shares issued or outstanding.

We declare dividends annually at the annual general meeting of shareholders which is generally held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record or registered pledges as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in shares. However, a dividend of shares must be distributed at par value. Dividends in shares may not exceed one-half of the annual dividend. Our obligation to pay dividend expires if no claim to dividend is made for five years from the payment date.

Under the Korean Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital, (2) the total amount of our capital surplus reserve, (3) legal reserve accumulated up to the end of the relevant dividend period and (4) the increase in our net asset value resulting from the evaluation of our assets and liabilities that has not been offset against unrealized losses. In addition, we may not pay an annual dividend unless we have set aside as a legal reserve an amount equal to at least 10.0% of the cash portion of the annual dividend or until we have accumulated a legal reserve of not less than one-half of our stated capital. We may not use our legal reserve to pay cash dividends but may transfer amounts from our legal reserve to capital stock or use our legal reserve to reduce an accumulated deficit.

In addition, the Korean Commercial Code and our articles of incorporation provide that, in addition to annual dividends, we may pay interim dividends once during each fiscal year. Unlike annual dividends, the decision to pay interim dividends can be made by a resolution of the board of directors and is not subject to shareholder approval. Any interim dividends must be paid in cash to the shareholders of record as of June 30 of the relevant fiscal year.

Under the Korean Commercial Code, the total amount of interim dividends payable in a fiscal year shall not be more than the net assets on the balance sheet of the immediately preceding fiscal year, after deducting (1) a

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company s capital in the immediately preceding fiscal year, (2) the aggregate amount of its capital reserves and legal reserves accumulated up to the immediately preceding fiscal year, (3) the amount of earnings for dividend payments confirmed at the general shareholders meeting with respect to the immediately preceding fiscal year and (4) the amount of legal reserve that should be set aside for the current fiscal year following the interim dividend payment. Furthermore, the rate of interim dividends for non-voting shares must be the same as that for our common shares.

Our obligation to pay interim dividends expires if no claims to such dividends are made for a period of five years from the payment date.

Item 8.B. ***Significant Changes***

Not applicable.

Item 9. *THE OFFER AND LISTING*

Item 9.A. ***Offering and Listing Details***

These matters are described under Item 9.C. below where relevant.

Item 9.B. ***Plan of Distribution***

Not applicable.

Item 9.C. ***Markets***

The principal trading market for our common shares is the KRX KOSPI Market. As of March 31, 2018, 70,609,160 shares of our common stock were outstanding.

The ADSs are traded on the NYSE and the London Stock Exchange. The ADSs have been issued by the ADR depositary and are traded on the NYSE under the ticker symbol SKM . Each ADS represents one-ninth of one share of our common stock. As of March 31, 2018, ADSs representing 8,804,190 shares of our common stock were outstanding.

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Shares of Common Stock

The following table sets forth the high, low and closing prices and the average daily trading volume of our common shares on the KRX KOSPI Market since January 1, 2013:

Calendar Year	High[(1)]	Prices Low[(1)] (Won per shares)	Close	Average Daily Trading Volume (Number of shares)
2013	238,500	150,000	230,000	212,769
First Quarter	185,500	150,000	180,500	234,684
Second Quarter	225,500	172,000	210,000	245,151
Third Quarter	226,500	202,000	218,500	175,670
Fourth Quarter	238,500	211,500	230,000	195,925
2014	298,500	196,500	268,000	170,709
First Quarter	229,000	196,500	215,500	184,185
Second Quarter	243,500	198,000	236,500	180,743
Third Quarter	298,500	236,000	290,000	152,740
Fourth Quarter	298,500	259,000	268,000	165,710
2015	301,000	215,000	215,500	185,999
First Quarter	301,000	264,000	272,500	151,786
Second Quarter	293,500	240,500	250,000	209,931
Third Quarter	263,000	237,000	263,000	185,542
Fourth Quarter	261,500	215,000	215,500	195,488
2016	233,500	193,000	224,000	157,834
First Quarter	233,500	193,000	208,500	212,966
Second Quarter	222,000	201,500	215,500	152,755
Third Quarter	232,000	214,500	226,000	120,700
Fourth Quarter	232,500	216,000	224,000	146,790
2017	283,000	218,000	267,000	172,987
First Quarter	262,500	218,000	252,000	170,277
Second Quarter	266,000	235,500	266,000	199,148
Third Quarter	283,500	242,000	255,000	160,091
Fourth Quarter	278,000	250,500	267,000	162,875
October	271,500	257,500	264,000	161,370
November	266,000	250,500	264,000	151,552
December	278,000	265,000	267,000	177,252
2018 (through April 25)	280,000	222,000	226,500	179,421
First Quarter	280,000	226,500	233,500	177,266
January	280,000	259,500	265,500	178,936
February	262,000	239,500	240,000	169,110
March	239,500	226,500	233,500	182,507
Second Quarter (through April 25)	237,000	222,000	226,500	186,725
April (through April 25)	237,000	222,000	226,500	186,725

Source: Korea Exchange

(1) Both high and low prices are based on the daily closing prices for the period.

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American Depositary Shares

The following table sets forth the high, low and closing prices and the average daily trading volume of the ADSs on the NYSE since January 1, 2013:

Calendar Year	High[(1)]	Low[(1)]	Close	Average Daily Trading Volume
		Prices (US$ per ADS)		(Number of ADS)
2013	25.16	15.69	24.62	1,407,958
First Quarter	18.69	15.69	17.87	1,884,190
Second Quarter	22.37	17.05	20.33	1,724,433
Third Quarter	22.70	19.47	22.70	848,082
Fourth Quarter	25.16	22.16	24.62	1,204,890
2014	31.75	20.76	27.01	905,341
First Quarter	24.07	20.76	22.57	952,847
Second Quarter	26.50	20.76	25.94	903,143
Third Quarter	31.75	25.54	30.34	963,636
Fourth Quarter	30.62	27.01	27.01	803,932
2015	30.07	20.15	20.15	598,527
First Quarter	29.76	26.22	27.21	787,402
Second Quarter	30.07	23.96	24.79	598,632
Third Quarter	25.22	22.08	24.40	510,694
Fourth Quarter	25.49	20.15	20.15	506,235
2016	23.17	17.89	20.90	621,501
First Quarter	20.98	17.89	20.17	674,708
Second Quarter	21.08	19.27	20.92	745,167
Third Quarter	23.17	20.48	22.60	485,527
Fourth Quarter	22.60	20.71	20.90	582,486
2017	28.65	20.64	27.91	546,992
First Quarter	25.85	20.64	25.18	658,687
Second Quarter	25.89	23.14	25.67	481,912
Third Quarter	27.88	23.57	24.59	583,505
Fourth Quarter	28.65	24.64	27.91	463,863
October	26.61	24.64	26.14	485,191
November	27.44	25.06	27.44	466,935
December	28.65	27.31	27.91	437,177
2018 (through April 25)	28.82	23.02	23.04	499,512
First Quarter	28.82	23.26	24.17	505,693
January	28.82	27.26	27.52	448,572
February	27.19	24.32	24.35	544,621
March	24.70	23.26	24.17	527,594
Second Quarter (through April 25)	24.83	23.02	23.04	478,567
April (through April 25)	24.83	23.02	23.04	478,567

Source: New York Stock Exchange

(1) Both high and low prices are based on the daily closing prices for the period.

The Korean Securities Market

The Korea Exchange Inc.

With the enactment of the Korea Stock and Futures Exchange Act, which came into effect on January 27, 2005, the three existing spot and futures exchanges (which were the Korea Stock Exchange, Korean Futures Exchange, and KOSDAQ) and KOSDAQ Committee, a sub-organization of Korea Securities Dealers Association,

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were merged and integrated into the Korea Exchange as a joint stock company. There are four different markets run by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, the KRX KONEX Market and the KRX Derivatives Market. The Korea Exchange has three trading floors located in Seoul, one for the KRX KOSPI Market, one for the KRX KOSDAQ Market and one for the KRX KONEX Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (1) securities companies and futures companies that were formerly members of the Korea Stock Exchange or the Korea Futures Exchange, (2) the Small & Medium Business Corporation, (3) the Korea Securities Finance Corporation and (4) the Korea Financial Investment Association. Currently, the Korea Exchange is the only stock exchange in Korea and is run by membership, having most of Korean securities companies and some Korean branches of foreign securities companies as its members.

As of December 31, 2017, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately Won 1,605.8 trillion. For the year ended December 31, 2017, the average daily trading volume of equity securities was approximately 340.5 million shares with an average trading value of Won 5,325.8 billion. For the year ended December 31, 2016, the average daily trading volume of equity securities was approximately 376.8 million shares with an average trading value of Won 4,523.0 billion. For the year ended December 31, 2015, the average daily trading volume of equity securities was approximately 455.3 million shares with an average trading value of Won 5,351.7 billion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers an excess capacity in a particular industry and induced private companies to publicly offer their securities.

The Korea Exchange publishes the KOSPI, every ten seconds, which is an index of all equity securities listed on the KRX KOSPI Market. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

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Movements in KOSPI are set out in the following table together with the associated dividend yields and price to earnings ratios:

Year	Opening	High	Low	Closing	Period Average Dividend Yield[1] (%)	Price to Earnings[2]
1980	100.00	119.36	100.00	106.87	20.9	2.6
1981	97.95	165.95	93.14	131.37	13.2	3.1
1982	123.60	134.49	106.00	127.31	10.5	3.4
1983	122.52	134.46	115.59	121.21	6.9	3.8
1984	116.73	142.46	114.37	142.46	5.1	4.5
1985	139.53	163.37	131.40	163.37	5.3	5.2
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.77	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	860.47	1,027.37	1.2	16.2
1995	1,013.57	1,016.77	847.09	882.94	1.2	16.4
1996	888.85	986.84	651.22	651.22	1.3	17.8
1997	653.79	792.29	350.68	376.31	1.5	17.0
1998	385.49	579.86	280.00	562.46	1.9	10.8
1999	587.57	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,059.04	1,059.04	500.60	504.62	2.4	15.3
2001	520.95	704.50	468.76	693.70	1.7	29.3
2002	724.95	937.61	584.04	829.44	1.8	15.6
2003	635.17	822.16	515.24	810.71	2.1	10.1
2004	821.26	936.06	719.59	895.92	2.1	15.8
2005	893.71	1,379.37	870.84	1,379.37	1.7	11.0
2006	1,389.27	1,464.70	1,192.09	1,434.46	1.7	11.4
2007	1,435.26	2,064.85	1,355.79	1,897.13	1.4	16.8
2008	1,853.45	1,888.88	938.75	1,124.47	2.6	9.0
2009	1,157.4	1,718.88	1,018.81	1,682.77	1.2	23.7
2010	1,696.14	2,052.97	1,532.68	2,051.00	1.1	17.8
2011	2,070.08	2,228.96	1,652.71	1,825.74	1.6	10.9
2012	1,826.37	2,049.28	1,769.31	1,997.05	1.3	12.9
2013	2,031.10	2,059.58	1,780.63	2,011.34	1.2	13.5
2014	2,013.11	2,093.08	1,881.73	1,915.59	1.1	15.3
2015	1,926.44	2,173.41	1,829.81	1,961.31	1.2	16.1
2016	1,918.76	2,068.72	1,835.28	2,026.46	1.5	14.3
2017	2,026.16	2,557.97	2,026.16	2,467.49	1.4	14.3

2018 (through April 25)	2,479.65	2,598.19	2,363.77	2,448.81	1.3	13.1

Source: Korea Exchange

(1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.

(2) The price to earnings ratio is based on figures for companies that record a profit in the preceding year.

KOSPI closed at 2,448.81 on April 25, 2018.

Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15.0% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price	Rounded Down to
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

The brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the KRX KOSPI Market. See Item 10.E. Taxation Korean Taxation.

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The following table sets forth the number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization and the average daily trading volume at the end of the periods indicated:

		Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value		
Year	Number of Listed Companies	(Billions of Won)	(Millions of US$)[(1)]	Thousands of Shares	(Millions of Won)	(Thousands of US$)[(1)]
1981	343	2,959	US$ 4,223	10,565	8,708	US$ 12,427
1982	334	3,001	4,012	9,704	6,667	8,914
1983	328	3,490	4,361	9,325	5,941	7,425
1984	336	5,149	6,207	14,847	10,642	12,829
1985	342	6,570	7,362	18,925	12,315	13,798
1986	355	11,994	13,863	31,755	32,870	37,991
1987	389	26,172	32,884	20,353	70,185	88,183
1988	502	64,544	93,895	10,367	198,364	288,571
1989	626	95,477	140,119	11,757	280,967	412,338
1990	669	79,020	109,872	10,866	183,692	255,412
1991	686	73,118	95,541	14,022	214,263	279,973
1992	688	84,712	107,027	24,028	308,246	389,445
1993	693	112,665	138,870	35,130	574,048	707,566
1994	699	151,217	190,762	36,862	776,257	979,257
1995	721	141,151	181,943	26,130	487,762	628,721
1996	760	117,370	138,490	26,571	486,834	928,418
1997	776	70,989	41,881	41,525	555,759	327,881
1998	748	137,799	114,261	97,716	660,429	547,619
1999	725	349,504	307,662	278,551	3,481,620	3,064,806
2000	704	188,042	148,415	306,163	2,602,211	2,053,837
2001	689	255,850	194,785	473,241	1,997,420	1,520,685
2002	683	258,681	216,071	857,245	3,041,598	2,540,590
2003	684	355,363	298,624	542,010	2,216,636	1,862,719
2004	683	412,588	398,597	372,895	2,232,109	2,156,419
2005	702	655,075	648,589	467,629	3,157,662	3,126,398
2006	731	704,588	757,622	279,096	3,435,180	3,693,742
2007	746	951,900	1,017,205	363,732	5,539,588	5,919,697
2008	765	576,888	457,122	355,205	5,189,644	4,112,238
2009	770	887,316	762,528	485,657	5,795,552	4,980,494
2010	777	1,114,882	1,260,486	379,171	5,607,749	6,340,121
2011	791	1,041,999	899,438	353,759	6,863,146	5,924,166
2012	784	1,154,294	1,085,679	486,734	4,824,610	4,537,819
2013	777	1,185,974	1,123,826	328,325	3,993,422	3,784,158
2014	773	1,192,253	1,092,908	278,082	3,983,580	3,651,646
2015	770	1,242,832	1,062,885	455,256	5,351,734	4,576,870
2016	779	1,308,440	1,086,988	376,772	4,523,044	3,757,524

2017	774	1,605,821	1,504,395	340,457	5,325,760	4,989,377
2018 (through April 25)	777	1,634,742	1,526,370	409,131	7,139,579	6,666,274

Source: Korea Exchange

(1) Converted at the noon buying rate as certified by the Federal Reserve Bank of New York in effect on April 20, 2018 (the latest available noon buying rate prior to filing this annual report).

The Korean securities markets are principally regulated by the FSC and became subject to the FSCMA beginning in February 2009. The law imposes restrictions on insider trading and price manipulation, requires

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specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Further Opening of the Korean Securities Market

Stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Korea Stock Exchange. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

In addition, the Korea Stock Exchange opened new option markets for stocks of seven companies including our shares of common stock and common stock of six other companies on January 28, 2002. Foreigners will be permitted to invest in such options for individual stocks subject to certain procedural requirements.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Korea Stock Exchange or registered on the KOSDAQ, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The FSC sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in securities including shares of most Korean companies that are not listed on the KRX KOSPI Market or the KRX KOSDAQ Market and in bonds that are not listed.

Protection of Customer s Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent s creditors are concerned. Therefore, in the event of a bankruptcy or rehabilitation procedure involving a financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license which is not a member of the Korea Exchange and this financial investment company places a sell order with another financial investment company with a brokerage license which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or rehabilitation of the non-member company.

Under the FSCMA, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company with a brokerage license which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company s creditors are concerned.

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As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company with a brokerage license if a bankruptcy or rehabilitation procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million per investor in case of such financial investment company s bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the FSCMA, subject to certain exceptions, financial investment companies with a brokerage license are required to deposit the cash received from their customers with the Korea Securities Finance Corporation, a special entity established pursuant to the FSCMA. Set-off or attachment of cash deposits by financial investment companies with a brokerage license is prohibited. The premiums related to this insurance under the Depositor Protection Act are paid by financial investment companies with a brokerage license.

Item 9.D. ***Selling Shareholders***

Not Applicable.

Item 9.E. ***Dilution***

Not Applicable.

Item 9.F. ***Expenses of the Issue***

Not Applicable.

Item 10. *ADDITIONAL INFORMATION*

Item 10.A. ***Share Capital***

Not Applicable.

Description of Capital Stock

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the FSCMA, the Korean Commercial Code, the Telecommunications Business Act and related laws of Korea, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the FSCMA, the Korean Commercial Code and the Telecommunications Business Act. We have filed copies of our articles of incorporation and the Telecommunications Business Act as exhibits to our annual reports on Form 20-F.

General

The name of our company is SK Telecom Co., Ltd. We are registered under the laws of Korea under the commercial registry number of 110111-0371346. As specified in Article 2 (Objectives) of our articles of incorporation, as amended and approved at our general shareholders meeting held on March 24, 2017, our objectives are the rational management of the telecommunications business, development of telecommunications technology, and contribution to public welfare and convenience. In order to achieve these objectives, we are engaged in the following:

- information and communication business;
- sale and lease of subscriber handsets;
- new media business;
- advertising business;
- mail order sales business;
- real estate business (development, management and leasing, etc.) and chattel leasing business;

research and technology development relating to the first four items above;

overseas and import/export business relating to the first four items above;

manufacture and distribution business relating to the first four items above;

travel business;

electronic financial services business;

film business (production, import, distribution and screening);

lifetime education and management of lifetime educational facilities;

electric engineering business;

information- and communication-related engineering business;

ubiquitous city construction and related service business;

any related business through investment, management and operation of our Korean or offshore subsidiaries and investment companies;

construction business, including the machine and equipment business;

export/import business and export/import intermediation/agency business;

electrical business such as intelligent electrical grid business; and

any business or undertaking incidental or conducive to the attainment of the objectives stated above.

Currently, our authorized share capital is 220,000,000 shares, which consists of shares of common stock, par value Won 500 per share, and shares of non-voting stock, par value Won 500 per share (common shares and non-voting shares together are referred to as shares). Under our articles of incorporation, we are authorized to issue up to 5,500,000 non-voting preferred shares. As of March 31, 2018, 80,745,711 common shares were issued, of which

10,136,551 shares were held by us in treasury. Pursuant to the Share Exchange in June 2015, we exchanged 1,692,824 treasury shares for the common shares of SK Broadband. In the fourth quarter of 2015, we acquired 2,020,000 treasury shares on the market through a share buy-back program to further increase shareholder value. We have never issued any non-voting preferred shares. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Board of Directors

Meetings of the board of directors are convened by the representative director as he or she deems necessary or upon the request of three or more directors. The board of directors determines all important matters relating to our business. In addition, the prior approval of the majority of the independent non-executive directors is required for certain matters, which include:

- investment by us or any of our subsidiaries in a foreign company in equity or acquisition of such foreign company s other overseas assets in an amount equal to 5.0% or more of our equity under our most recent balance sheet; and

- contribution of capital, loans or guarantees, acquisition of our subsidiaries assets or similar transactions with our affiliated companies in excess of Won 10.0 billion through one or a series of transactions.

Resolutions of the board are adopted in the presence of a majority of the directors in office and by the affirmative vote of a majority of the directors present. No director who has an interest in a matter for resolution may exercise his or her vote upon such matter.

There are no specific shareholding requirements for director s qualification. Directors are elected at a general meeting of shareholders if the approval of the holders of the majority of the voting shares present at such meeting is obtained and if such majority also represents at least one-fourth of the total number of shares outstanding. Under the

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Korean Commercial Code, unless otherwise stated in the articles of incorporation, holders of an aggregate of 1.0% or more of the outstanding shares with voting rights may request cumulative voting in any election for two or more directors. Our articles of incorporation permit cumulative voting for the election of directors.

The term of office for directors is until the close of the third annual general shareholders meeting convened after he or she commences his or her term. Our directors may serve consecutive terms and our shareholders may remove them from office at any time by a special resolution adopted at a general meeting of shareholders.

Dividends

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. Our common shares represented by the ADSs have the same dividend rights as other outstanding common shares. For a detailed discussion of our dividend policy, see Item 8.A. Consolidated Statements and Other Financial Information Dividends.

Distribution of Free Shares

In addition to paying dividends in shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

We may at times issue authorized but unissued shares, unless otherwise provided in the Korean Commercial Code, on terms determined by our board of directors. All our shareholders are generally entitled to subscribe to any newly-issued shares in proportion to their existing shareholdings. We must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders registry as of the relevant record date. We must give public notice of the preemptive rights regarding new shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Under the Korean Commercial Code and our articles of incorporation, we may issue new shares pursuant to a board resolution to persons other than existing shareholders only if (1) the new shares are issued for the purpose of issuing depositary receipts in accordance with the relevant regulations or through an offering to public investors and (2) the purpose of such issuance is deemed necessary by us to achieve a business purpose, including, but not limited to, the introduction of new technology or the improvement of our financial condition. If we make an allotment of new shares to persons other than our existing shareholders, we are required by the Korean Commercial Code to notify our existing shareholders of (a) the class and number of new shares, (b) the issuance price of new shares and the date set for the payment thereof, (c) in cases of no par value shares, the amount to be included in the paid-up capital out of the issuance price of new shares and (d) the method of subscription to new shares by no later than two weeks before the date of payment of the subscription price, or publicly announce such information. Under our articles of incorporation, only our board of directors is authorized to set the terms and conditions with respect to such issuance of new shares.

In addition, under our articles of incorporation, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 400.0 billion, to persons other than existing shareholders, where such issuance is deemed necessary by us to achieve a business purpose, including, but not limited to, the introduction of new technology or the improvement of our financial condition.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20.0% of the shares publicly offered pursuant to the FSCMA. This right is exercisable only to the extent that the total number of shares so acquired and held by members of our employee stock ownership association does not exceed 20.0% of the sum of the number of shares then outstanding and the number of newly-issued shares.

General Meeting of Shareholders

We generally hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

- as necessary;
- at the request of holders of an aggregate of 3.0% or more of our outstanding common shares;
- at the request of shareholders holding an aggregate of 1.5% or more of our outstanding shares and preferred shares for at least six months; or
- at the request of our audit committee.

Holders of non-voting preferred shares may request a general meeting of shareholders only after the non-voting shares become entitled to vote or enfranchised, as described under Voting Rights below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of less than 1.0% of the total number of issued and outstanding voting shares, we may give notice by placing at least two public notices in at least two daily newspapers at least two weeks in advance of the meeting. Currently, we use The Korea Economic Daily News and Maeil Business Newspaper, both published in Seoul, for this purpose, but we may give notice in the future through electronic means. Shareholders who are not on the shareholders registry as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of non-voting preferred shares, unless enfranchised, are not entitled to receive notice of or vote at general meetings of shareholders.

Our general meetings of shareholders have historically been held in or near Seoul.

Voting Rights

Holders of our common shares are entitled to one vote for each common share, except that voting rights of common shares held by us (including treasury shares and shares held by bank trust funds controlled by us), or by a corporate shareholder in which we own more than 10.0% equity interest, either directly or indirectly, may not be exercised. The Korean Commercial Code, unless otherwise stated in the articles of incorporation, permits cumulative voting, which would allow each shareholder to have multiple voting rights corresponding to the number of directors to be appointed in the voting and to exercise all voting rights cumulatively to elect one director. Our articles of incorporation permit cumulative voting for the election of directors.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting if such affirmative votes also represent at least one-fourth of our total voting shares then issued and outstanding. However, under the Korean Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting shares present or represented at a meeting, and such affirmative votes must also represent at least one-third of our total voting shares then issued and outstanding:

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

effecting our acquisition of all of the business of any other company or a part of the business of any other company having a material effect on our business;

reducing our capital; or

issuing any new shares at a price lower than their par value.

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In general, holders of non-voting preferred shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders.

However, in case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases which affect the rights or interests of the non-voting preferred shares, approval of the holders of non-voting preferred shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the non-voting preferred shares present or represented at a class meeting of the holders of non-voting preferred shares, where the affirmative votes also represent at least one-third of our total issued and outstanding non-voting shares. In addition, if we are unable to pay dividends on non-voting preferred shares as provided in our articles of incorporation, the holders of non-voting shares will become enfranchised and will be entitled to exercise voting rights beginning at the next general meeting of shareholders to be held after the declaration of non-payment of dividends is made until such dividends are paid. The holders of enfranchised non-voting preferred shares will have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy. A shareholder may give proxies only to another shareholder, except that a corporate shareholder may give proxies to its officers or employees.

Holders of ADRs exercise their voting rights through the ADR depositary, an agent of which is the record holder of the underlying common shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depositary how to vote our common shares underlying their ADSs.

Limitation on Shareholdings

The Telecommunications Business Act prohibits foreign governments, individuals, and entities (including Korean entities that are deemed foreigners, as discussed below) from owning more than 49.0% of our voting stock. Korean entities whose largest shareholder is a foreign government or a foreigner (together with any of its related parties) that owns 15.0% or more of such Korean entities   outstanding voting stock are deemed foreigners. A foreigner who has acquired shares of our voting stock in excess of such limitation may not exercise the voting rights with respect to the shares exceeding such limitation and may be subject to the MSIT   s corrective orders.

Rights of Dissenting Shareholders

Under Financial Investment Services and Capital Market Act, in some limited circumstances, including the transfer of all or a significant part of our business or our merger or consolidation with another company (with certain exceptions), dissenting shareholders have the right to require us to purchase their shares. To exercise this right, shareholders, including holders of non-voting shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Then, within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of such dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily share prices on the KRX KOSPI Market for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily share price on the KRX KOSPI Market for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily share price on the KRX KOSPI Market for the one week period before the date of the adoption of the relevant resolution. However, a court may determine the purchase price if we or dissenting shareholders do not accept the purchase price.

Registry of Shareholders and Record Dates

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It records and registers transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the registry of shareholders is closed for the period from January 1 to January 31 of the following year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the shares, we may, on at least two weeks public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of shares and the delivery of share certificates may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual reports and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the FSCMA, we must file with the FSC and the Korea Exchange (1) an annual securities report within 90 days after the end of our fiscal year, (2) a mid-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the Korea Exchange.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. However, to assert shareholders rights against us, the transferee must have his or her name, seal and address registered on our registry of shareholders, maintained by our transfer agent. A non-Korean shareholder may file a sample signature in place of a seal, unless he or she is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent in Korea authorized to receive notices on his or her behalf and file his or her mailing address in Korea.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Korean citizens. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations.

Our transfer agent is Kookmin Bank, located at 24, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, Korea.

Restrictions Applicable to Shares

Pursuant to the Telecommunications Business Act, the maximum aggregate foreign shareholding in us is limited to 49.0%. See Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements. In addition, certain foreign exchange controls and securities regulations apply to the acquisition of securities by non-residents or non-Korean citizens. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations.

Acquisition of Shares by Us

We may acquire our own shares pursuant to an approval at the general meeting of shareholders, through purchases on the Korea Exchange or a tender offer, or by acquiring the interests in a trust account holding our own shares through agreements with trust companies and asset management companies. The aggregate purchase price for the shares may not exceed the total amount available for distribution as dividends as of the end of the preceding fiscal year less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

Under the Korean Commercial Code, we may resell or transfer any shares acquired by us to a third party pursuant to an approval by the Board of Directors. In general, corporate entities in which we own a 50.0% or more equity interest may not acquire our common stock. Under the FSCMA, we are subject to certain selling restrictions with respect to the shares acquired by us.

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Liquidation Rights

In the event of our liquidation, remaining assets after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to their shareholdings. Holders of non-voting preferred shares have no preference in liquidation. Holders of debt securities have no preference over other creditors in the event of liquidation.

Description of American Depositary Shares

The following is a summary of the deposit agreement dated as of May 31, 1996, as amended by amendment no. 1 dated as of March 15, 1999, amendment no. 2 dated as of April 24, 2000 and amendment no. 3 dated as of July 24, 2002, among us, Citibank, as ADR depositary, and all holders and beneficial owners of ADSs, as supplemented by side letters dated as of July 25, 2002, October 1, 2002 and October 1, 2007. The deposit agreement is governed by the laws of the State of New York. Because it is a summary, this description does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the ADR. The deposit agreement has been filed as an exhibit to our Annual Report on Form 20-F filed with the SEC on June 30, 2006. Copies of the deposit agreement are available for inspection at the principal New York office of the ADR depositary, currently located at 388 Greenwich Street, 14th Floor, New York, New York 10013, United States of America, and at the principal London office of the ADR depositary, currently located at Canada Square, Canary Wharf, London, E14 5LB, England.

American Depositary Receipts

The ADR depositary may execute and deliver ADRs evidencing the ADSs. Each ADR evidences a specified number of ADSs, each ADS representing one-ninth of one share of our common stock to be deposited with the ADR depositary s custodian in Seoul. Korea Securities Depository is the institution authorized under applicable law to effect book-entry transfers of our common shares, known as the Custodian . The Custodian is located at 358-8, Hosu-ro, Ilsandong-gu, Goyang-si, Gyeonggi-do 411-770, Korea. An ADR may represent any number of ADSs. We and the ADR depositary will treat only persons in whose names ADRs are registered on the books of the registrar as holders of ADRs.

Deposit and Withdrawal of Shares of Common Stock

Notwithstanding the provisions described below, under the terms of the deposit agreement, the deposit of shares and issuance of ADSs may only be made if the total number of shares represented by ADSs after such deposit does not exceed a specified maximum of 24,321,893 shares as of March 31, 2018. This limit will be adjusted in certain circumstances, including (1) upon the cancellation of existing ADSs, (2) upon future offerings of ADSs by us or our shareholders, (3) rights offerings and (4) adjustments for share reclassifications. The limit also may be decreased in certain circumstances. As of March 31, 2018, the outstanding ADSs represented 8,804,190 shares of our common stock. Notwithstanding the foregoing, the ADR depositary and the Custodian may not accept deposits of shares of common stock for issuance of ADSs if it has been notified by us in writing that we block deposits to prevent a violation of applicable Korean laws or regulations or a violation of our articles of incorporation. In addition, the ADR depositary may not accept deposits of shares of common stock for issuance of ADSs from a person who identifies him-, her- or itself to the depositary, and has been identified in writing by us, as a holder of at least 3.0% of our shares of common stock.

The shares of common stock underlying the ADSs are delivered to the ADR depositary s Custodian in book-entry form. Accordingly, no share certificates will be issued but the ADR depositary will hold the shares of common stock through the book-entry settlement system of the Custodian. The delivery of the shares of common stock pursuant to the deposit agreement will take place through the facilities of the Custodian in accordance with its applicable settlement procedures. The ADR depositary will execute and deliver ADSs if you or your broker deposit shares or evidence of rights to receive shares of common stock with the Custodian. Upon payment of fees and expenses and any taxes or charges, such as stamp taxes or stock transfer taxes, the ADR depositary will register the appropriate number of ADSs in the names you designate. The ADR depositary and the ADR depositary s Custodian will refuse to accept shares of common stock for deposit whenever we restrict transfer of shares of common stock to

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comply with ownership restrictions under applicable law or our articles of incorporation or whenever the deposit would cause the total number of shares of common stock deposited to exceed a level we determine from time to time. We may instruct the ADR depositary to take certain actions with respect to a holder of ADSs who holds in excess of the ownership limitation set forth in the deposit agreement, including the mandatory sale or disposition of the shares represented by the ADSs in excess of such ownership limitations if, and to the extent, permitted by applicable law.

You may surrender your ADRs to the ADR depositary to withdraw the underlying shares of our common stock. Upon payment of the fees and any governmental charges and taxes provided in the deposit agreement, and subject to applicable laws and regulations of Korea and our articles of incorporation, you will be entitled to physical delivery or electronic delivery to an account in Korea or, if permissible under applicable Korean law, outside the United States, of the shares of common stock evidenced by the ADRs and any other property at the time represented by ADR you surrendered. If you surrender an ADR evidencing a number of ADSs not evenly divisible by nine, the ADR depositary will deliver the appropriate whole number of shares of common stock represented by the surrendered ADSs and will execute and deliver to you a new ADR evidencing ADSs representing any remaining fractional shares of common stock.

If you request withdrawal of shares of common stock, you must deliver to the ADR depositary a written order directing the ADR depositary to cause the shares of common stock being withdrawn to be delivered or to cause such delivery upon the written order of the person designated in your order, subject to applicable Korean laws and the provisions of the deposit agreement.

Under the provisions of the deposit agreement, the ADR depositary may not lend shares of common stock or ADSs. However, subject to the provisions of the deposit agreement and limitations established by the ADR depositary, the ADR depositary may execute and deliver ADSs before deposit of the underlying shares of common stock. This is called a pre-release of the ADS. The ADR depositary may also deliver shares of common stock upon cancellation of pre-released ADSs (even if the cancellation occurs before the termination of the pre-release). The ADR depositary may pre-release ADSs only under the following circumstances:

- before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the ADR depositary in writing that the person, or, in case of an institution its customer, owns the shares of common stock or ADSs to be deposited and show evidence of the ownership to the ADR depositary s satisfaction;

- before or at the time of such pre-release, the person to whom the pre-release is being made must agree in writing that he or she will hold the shares of common stock or ADSs in trust for the ADR depositary until their delivery to the ADR depositary or Custodian, reflect on his or her records the ADR depositary as owner of such shares of common stock or ADSs and deliver such shares of common stock upon the ADR depositary s request;

- the pre-release must be fully collateralized with cash or U.S. government securities;

- the ADR depositary must be able to terminate the pre-release on not more than five business days notice; and the pre-release is subject to further indemnities and credit regulations as the ADR depositary deems appropriate.

The ADR depositary may retain for its own account any compensation received by it in connection with the pre-release, such as earnings on the collateral.

If you want to withdraw the shares of common stock from the depositary facility, you must register your identity with the Financial Supervisory Service of Korea (the FSS) before you acquire the shares of common stock unless you intend to sell the shares of common stock within three months. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations Restrictions Applicable to Shares.

Dividends, Other Distributions and Rights

If the ADR depositary can, in its judgment and pursuant to applicable law, convert Won (or any other foreign currency) into Dollars on a reasonable basis and transfer the resulting Dollars to the United States, the ADR

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depositary will as promptly as practicable convert all cash dividends and other cash distributions received by it on the deposited shares of common stock into Dollars and distribute the Dollars to you in proportion to the number of ADSs representing shares of common stock held by you, after deduction of the fees and expenses of the ADR depositary. If the ADR depositary determines that in its judgment any currency other than Dollars it receives from us cannot be converted and distributed on a reasonable basis, the ADR depositary may distribute the currency it receives to the extent permitted under applicable law or hold the currency for your account if you are entitled to receive the distribution. The ADR depositary will not be liable for any interest. Before making a distribution, the ADR depositary will deduct any withholding taxes that must be paid.

In the event that the ADR depositary or the ADR depositary s Custodian receives any distribution upon any deposited shares of common stock in property or securities (other than shares of common stock, non-voting preferred stock or rights to receive shares of common stock or non-voting preferred stock), the ADR depositary will distribute the property or securities to you in proportion to your holdings in any manner that the ADR depositary deems, after consultation with us, equitable and practicable. If the ADR depositary determines that any distribution of property or securities (other than shares of common stock, non-voting preferred stock or rights to receive shares of common stock or non-voting preferred stock) cannot be made proportionally, or if for any other reason the ADR depositary deems the distribution not to be feasible, the ADR depositary may, after consultation with us, dispose of all or a portion of the property or securities in such amounts and in such manner, including by public or private sale, as the ADR depositary deems equitable or practicable. The ADR depositary will distribute to you the net proceeds of any such sale, or the balance of the property or securities, after the deduction of the fees and expenses of the ADR depositary.

If a distribution by us consists of a dividend in, or free distribution of, our shares of common stock, the ADR depositary may, with our approval, and will, if we request, deposit the shares of common stock and either (1) distribute to you, in proportion to your holdings, additional ADSs representing those shares of common stock, or (2) reflect on the records of the ADR depositary the increase in the aggregate number of ADSs representing those number of shares of common stock, in both cases, after the deduction of the fees and expenses of the ADR depositary. If the ADR depositary deems that such distribution for any reason is not feasible, the ADR depositary may adopt, after consultation with us, any method as it may deem equitable and practicable, including by public or private sale of all or part of the shares of common stock received. The ADR depositary will distribute to you the net proceeds of any such sale in the same way as it does with cash. The ADR depositary will only distribute whole ADSs. If the ADR depositary does not distribute additional ADSs, then each outstanding ADS will also represent the new shares so distributed.

If a distribution by us consists of a dividend in, or free distribution of, shares of non-voting preferred stock, the ADR depositary will deposit such shares of non-voting preferred stock under a non-voting preferred stock deposit agreement to be entered into among us, the ADR depositary and all holders and beneficial owners of depositary shares. The ADR depositary will deliver to you, in proportion to your holdings of ADSs, depositary shares issued under the non-voting preferred stock deposit agreement representing the number of non-voting shares received as such dividend or distribution. If the ADR depositary deems such distribution for any reason is not feasible, the ADR depositary may adopt, after consultation with us, any method as it may deem equitable and practicable, including by public or private sale of all or part of the nonvoting shares received. The ADR depositary will distribute to you the net proceeds of any such sale in the same way as it does with cash. The ADR depositary will only distribute whole depositary shares. We are not obligated to list depositary shares representing non-voting shares on any exchange.

If we offer holders of our securities any rights to subscribe for additional shares of common stock or any other rights, the ADR depositary may make these rights available to you. The ADR depositary must first determine whether it is lawful and feasible to do so. If the ADR depositary determines that it is not lawful or feasible to make these rights available to you, then upon our request, the ADR depositary will sell the rights and distribute the proceeds in the same way as it would do with cash. The ADR depositary may allow these rights that are not distributed or sold to lapse. In that case, you will receive no value for these rights.

If we issue any rights with respect to non-voting shares, the securities issuable upon any exercise of such rights by holders or beneficial owners will be depositary shares representing those non-voting shares issued under the provisions of a non-voting preferred stock deposit agreement.

If a registration statement under the Securities Act is required with respect to the securities to which any rights relate in order for us to offer the rights to you and to sell the securities represented by these rights, the ADR depositary will not offer such rights to you until such a registration is in effect, or unless the offering and sale of such securities and such rights to you are exempt from the registration requirements of the Securities Act or any required filing, report, approval or consent has been submitted, obtained or granted. We or the ADR depositary will not be obligated to register the rights or securities under the Securities Act or to submit, obtain or request any filing, report, approval or consent.

The ADR depositary may not be able to convert any currency or to sell or dispose of any distributed or offered property or rights in a timely manner or at a specified price, or at all.

Record Dates

The ADR depositary will fix a record date, after consultation with us, in each of the following situations:

- any cash dividend or other cash distribution becomes payable;
- any distribution other than cash is made;
- rights are issued with respect to deposited shares of common stock;
- the ADR depositary causes a change in the number of shares of common stock that are represented by each ADS; or
- the ADR depositary receives notice of any shareholders meeting.

The record date will, to the extent practicable, be as near as the record date fixed by us for the shares of common stock. The record date will determine (1) the ADR holders who are entitled to receive the dividend, distribution or rights, or the net proceeds of the sale of the rights; or (2) the ADR holders who are entitled to receive notices or exercise rights.

Voting of the Underlying Shares of Common Stock

We will give the ADR depositary a notice of any meeting or solicitation of shareholder proxies immediately after we finalize the form and substance of such notice but not less than 14 days before the meeting. As soon as practicable after it receives our notice, the ADR depositary will fix a record date, and upon our written request, the ADR depositary will mail to you a notice that will contain the following:

- the information contained in our notice to the ADR depositary including an English translation, or, if requested by us, a summary of the information provided by us;

- a statement that the ADR holders as of the close of business on a specified record date will be entitled to instruct the ADR depositary as to how to exercise their voting rights for the number of shares of deposited shares of common stock, subject to the provisions of applicable Korean law and our articles of incorporation, which provisions, if any, will be summarized in the notice to the extent that they are material; and

- a statement as to the manner in which the ADR holders may give their instructions.

Upon your written request received on or before the date set by the ADR depositary for this purpose, the ADR depositary will endeavor, in so far as practicable, to vote or cause to be voted the deposited shares of common stock in accordance with the instructions set forth in your written requests. The ADR depositary may not itself exercise any voting discretion over any deposited shares of common stock. You may only exercise the voting rights in respect of nine ADSs or multiples of nine ADSs. ADR holders may not be entitled to give instruction to vote the shares represented by the ADSs if, and to the extent, the total number of shares represented by the ADSs of an ADR holder exceeds the limit set under applicable law. We can give no assurance to you, however, that we will notify the ADR depositary sufficiently in advance of the scheduled date of a meeting or solicitation of consents or proxies to enable the ADR depositary to make a timely mailing of notices to you, or that you will receive the notices sufficiently in advance of a meeting or solicitation of consents or proxies to give instructions to the ADR depositary.

Inspection of Transfer Books

The ADR depositary will keep books at its principal New York office, which is currently located at 388 Greenwich Street, 14th Floor, New York, New York 10013, for the registration and transfer of ADRs. You may inspect the books of the ADR depositary as long as the inspection is not for the purpose of communicating with holders in the interest of a business or object other than our business or a matter related to the deposit agreement or the ADRs.

Reports and Notices

On or before the first date on which we give notice, by publication or otherwise, of any meeting of shareholders, or of any adjourned meeting of shareholders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights in respect of the shares of common stock, we will transmit to the Custodian and the ADR depositary sufficient copies of the notice in English in the form given or to be given to shareholders. We will furnish to the ADR depositary English language versions of any reports, notices and other communications that we generally transmit to holders of our common stock, including our annual reports, with annual audited consolidated financial statements prepared in conformity with IFRS and unaudited non-consolidated semiannual financial statements prepared in conformity with IFRS. The ADR depositary will arrange for the prompt mailing of copies of these documents, or, if we request, a summary of any such notice provided by us to you or, at our request, make notices, reports (other than the annual reports and semiannual financial statements) and other communications available to you on a basis similar to that for the holders of our common stock or on such other basis as we may advise the ADR depositary according to any applicable law, regulation or stock exchange requirement.

Notices to you under the deposit agreement will be deemed to have been duly given if personally delivered or sent by mail or cable, telegraph or facsimile transmission, confirmed by letter, addressed to you at your address as it appears on the transfer books of the ADR depositary or at such other address as you have notified the ADR depositary.

In addition, the ADR depositary will make available for inspection by holders at its principal New York office and its principal London office any notices, reports or communications, including any proxy soliciting materials, received from us that we generally transmit to the holders of our common stock or other deposited securities, including the ADR depositary. The ADR depositary will also send to you copies of reports and communications we will provide as provided in the deposit agreement.

Changes Affecting Deposited Shares of Common Stock

In case of a change in the par value, or a split-up, consolidation or any other reclassification of our common shares or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting us, any securities received by the ADR depositary or the Custodian in exchange for, in conversion of or in respect of deposited shares of our common stock will be treated as new deposited shares of common stock under the deposit agreement. In that case, ADSs will, subject to the terms of the deposit agreement and applicable laws and regulations, including any registration requirements under the Securities Act, represent the right to receive the new deposited shares of common stock, unless additional ADRs are issued, as in the case of a stock dividend, or unless the ADR depositary calls for the surrender of outstanding ADRs to be exchanged for new ADRs.

Amendment and Termination of the Deposit Agreement

We may agree with the ADR depositary to amend the deposit agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or certain expenses of the ADR depositary, or prejudices any substantial existing right of ADR holders, it will only become effective 30 days after the ADR depositary notifies you of the amendment. If you continue to hold your ADSs at the time an amendment becomes effective, you will be considered to have agreed to the amendment and to be bound by the deposit agreement as amended. Except as otherwise required by any mandatory provisions of applicable law, no amendment may impair your right to surrender your ADSs and to receive the underlying deposited securities.

The ADR depositary will terminate the deposit agreement if we ask it to do so with 90 days prior written notice. The ADR depositary may also terminate the deposit agreement if the ADR depositary has notified us at least 90 days in advance that it would like to resign and we have not appointed a new depositary. In both cases, the ADR depositary must notify you at least 30 days before the termination date.

If any ADRs remain outstanding after the date of termination, the ADR depositary will stop performing any further acts under the deposit agreement, except:

- to collect dividends and other distributions pertaining to the deposited shares of common stock;
- to sell property and rights and the conversion of deposited shares of common stock into cash as provided in the deposit agreement; and
- to deliver deposited shares of common stock, together with any dividends or other distributions received with respect to the deposited shares of common stock and the net proceeds of the sale of any rights or other property represented by those ADSs in exchange for surrendered ADRs.

At any time after the expiration of six months from the date of termination, the ADR depositary may sell any remaining deposited shares of common stock and hold uninvested the net proceeds in an unsegregated account, together with any other cash or property then held, without liability for interest, for the pro rata benefit of the holders of ADSs that have not been surrendered by then.

Charges of ADR Depositary

The fees and expenses of the ADR depositary as agreed between us and the ADR depositary include:

- taxes and other governmental charges;
- registration fees applicable to transfers of shares of common stock on our shareholders register, or that of any entity acting as registrar for the shares, to the name of the ADR depositary or its nominee, or the Custodian or its nominee, when making deposits or withdrawals under the deposit agreement;
- cable, telegraph and facsimile transmission expenses that are expressly provided in the deposit agreement;
- expenses incurred by the ADR depositary in the conversion of foreign currency into Dollars under the deposit agreement;
- a fee of up to US$5.00 per 100 ADSs, or portion thereof, for execution and delivery of ADSs and the surrender of ADRs under the deposit agreement; and

- a fee of up to US$0.02 per ADS held for cash distributions, a sale or exercise of rights or the taking of any other corporate action involving distributions to shareholders.

For a detailed description of fees and charges payable by the holders of ADSs under the deposit agreement, see Item 12.D. American Depositary Shares Fees and Charges under Deposit Agreement.

General

Neither we nor the ADR depositary will be liable to you if prevented or delayed by law, governmental authority, any provision of our articles of incorporation or any circumstances beyond our or its control in performing our or its obligations under the deposit agreement. The deposit agreement provides that the ADR depositary will hold the shares of common stock for your sole benefit. Our obligations and those of the ADR depositary under the deposit agreement are expressly limited to performing, in good faith and without negligence, our and its respective duties specified in the deposit agreement.

The ADSs are transferable on the books of the ADR depositary, provided that the ADR depositary may, after consultation with us, close the transfer books at any time or from time to time, when deemed expedient by it in connection with the performance of its duties. As a condition precedent to the execution and delivery of any ADSs, registration of transfer, split-up, combination of any ADR or surrender of any ADS for the purpose of withdrawal of deposited shares of common stock, the ADR depositary or the Custodian may require payment from the depositor of

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the shares of common stock or a holder of ADSs of a sum sufficient to reimburse the ADR depositary for any tax or other governmental charge and any stock transfer or registration fee and payment of any applicable fees payable by the holders of ADSs.

Any person depositing shares of common stock, any holder of an ADS or any beneficial owner may be required from time to time to file with the ADR depositary or the Custodian a proof of citizenship, residence, exchange control approval, payment of applicable Korean or other taxes or governmental charges, or legal or beneficial ownership and the nature of their interest, to provide information relating to the registration on our shareholders register (or our appointed agent for the transfer and registration of shares of common stock) of the shares of common stock presented for deposit or other information, to execute certificates and to make representations and warranties as we or the ADR depositary may deem necessary or proper or to enable us or the ADR depositary to perform our and its obligations under the deposit agreement. The ADR depositary may withhold the execution or delivery or registration of transfer of all or part of any ADR or the distribution or sale of any dividend or other distribution of rights or of the proceeds from their sale or the delivery of any shares deposited under the deposit agreement and any other securities, property and cash received by the ADR depositary or the Custodian until the proof or other information is filed or the certificates are executed or the representations and warranties are made. The ADR depositary shall provide us, unless otherwise instructed by us, in a timely manner, with copies of any of these proofs and certificates and these written representations and warranties.

The delivery and surrender of ADSs and transfer of ADSs generally may be suspended during any period when our or the ADR depositary s transfer books are closed or, if that action is deemed necessary or advisable by us or the ADR depositary, at any time or from time to time in accordance with the deposit agreement. We may restrict, in a manner as we deem appropriate, transfers of shares of common stock where the transfers may result in ownership of shares of common stock in excess of limits under applicable law. Except as described in Deposit and Withdrawal of Shares of Common Stock above, notwithstanding any other provision of the deposit agreement, the surrender of outstanding ADRs and withdrawal of Deposited Securities (as defined in the deposit agreement) represented by the ADRs may be suspended, but only as required in connection with (1) temporary delays caused by closing the transfer books of the ADR depositary or the issuer of any Deposited Securities (or the appointed agent or agents for such issuer for the transfer and registration of such Deposited Securities) in connection with voting at a shareholders meeting or the payment of dividends, (2) payment of fees, taxes and similar charges, or (3) compliance with any United States or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of the Deposited Securities.

Governing Law

The deposit agreement and the ADRs will be interpreted under, and all rights under the deposit agreement or the ADRs are governed by, the laws of the State of New York.

We have irrevocably submitted to the non-exclusive jurisdiction of New York State or United States Federal Courts located in New York City and waived any objection to legal actions or proceedings in these courts whether on the ground of venue or on the ground that the proceedings have been brought in an inconvenient forum.

This submission was made for the benefit of the ADR depositary and the holders and will not limit the right of any of them to take legal actions or proceedings in any other court of competent jurisdiction nor will the taking of legal actions or proceedings in one or more jurisdictions preclude the taking of legal actions or proceedings in any other jurisdiction (whether concurrently or not), to the extent permitted under applicable law.

Information Relating to the ADR Depositary

Citibank has been appointed as ADR depositary pursuant to the deposit agreement. Citibank is an indirect wholly-owned subsidiary of Citigroup Inc., a Delaware corporation whose principal office is located in New York, New York. Citibank is a global financial services organization serving individuals, businesses, governments and financial institutions in approximately 100 countries around the world.

Citibank was originally organized on June 16, 1812, and now is a national banking association organized under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal office is at 399 Park Avenue, New York, NY 10022.

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The consolidated balance sheets of Citibank are set forth in Citigroup s most recent annual report on Form 10-K and quarterly report on Form 10-Q, each on file with the SEC.

Citibank s Articles of Association and By-laws, each as currently in effect, together with Citigroup s most recent annual and quarterly reports will be available for inspection at the Depositary Receipt office of Citibank, N.A., 388 Greenwich Street, 14th Floor, New York, New York 10013.

Item 10.B. ***Material Contracts***

We have not entered into any material contracts since January 1, 2017, other than in the ordinary course of our business. For information regarding our agreements and transactions with entities affiliated with the SK Group, see Item 7.B. Related Party Transactions and note 36 of the notes to our consolidated financial statements. For a description of certain agreements entered into during the past three years related to our capital commitments and obligations, see Item 5.B. Liquidity and Capital Resources.

Item 10.C. ***Exchange Controls***

Korean Foreign Exchange Controls and Securities Regulations

General

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree, collectively referred to as the Foreign Exchange Transaction Laws, regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The FSC has also adopted, pursuant to its authority under the FSCMA, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Subject to certain limitations, the MOSF has authority to take the following actions under the Foreign Exchange Transaction Laws:

- if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the MOSF may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange), impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies or impose an obligation on a resident that holds a claim against a non-resident to collect such claim to enable the recovery of the relevant debt back to Korea; and

- if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries are likely to adversely affect the Won, exchange rate or other macroeconomic policies, the

MOSF may take action to require any person who intends to effect or effects a capital transaction to deposit all or a portion of the means of payment acquired in such transactions with The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies.

Under the regulations of the FSC amended on February 4, 2009, (1) if a company listed on the KRX KOSPI Market or a company listed on the KRX KOSDAQ Market has submitted a public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the FSC and the Korea Exchange, and (2) if a KRX KOSPI Market-listed company or KRX KOSDAQ Market-listed company is approved for listing on a foreign stock market or determined to be de-listed from the foreign stock market or actually listed on, or de-listed from a foreign stock market, then it must submit a copy of any document, which it submitted to or received from the relevant foreign government, foreign financial investment supervisory authority or the foreign stock market, and a Korean translation thereof to the FSC and the Korea Exchange.

Government Review of Issuances of ADSs

In order for us to issue ADSs in excess of US$30 million, we are required to submit a report to the MOSF with respect to the issuance of the ADSs prior to and after such issuance; provided that such US$30 million threshold amount would be reduced by the aggregate principal amount of any foreign currency loans borrowed, and any securities offered and issued, outside Korea during the one-year period immediately preceding the report s submission date. The MOSF may at its discretion direct us to take necessary measures to avoid exchange rate fluctuation in connection with its acceptance of report of the issuance of the ADSs.

Under current Korean laws and regulations, the depositary is required to obtain our prior consent for any proposed deposit of common shares if the number of shares to be deposited in such proposed deposit exceeds the number of common shares initially deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent issuances of ADSs by us or with our consent and stock dividends or other distributions related to the ADSs).

In addition to such restrictions under Korean laws and regulations, there are also restrictions on the deposits of our common shares for issuance of ADSs. See Item 10.B. Memorandum and Articles of Incorporation Description of American Depositary Shares. Therefore, a holder of ADRs who surrenders ADRs and withdraws shares may not be permitted subsequently to deposit those shares and obtain ADRs.

We submitted a report to and obtained acceptance thereof by the MOSF for the issuance of ADSs up to an amount corresponding to 24,321,893 common shares. No additional Korean governmental approval is necessary for the issuance of ADSs except that if the total number of our common shares on deposit for conversion into ADSs exceeds 24,321,893 common shares, we may be required to file a report to and obtain acceptance thereof by the MOSF with respect to the increase of such limit and the issuance of additional ADSs.

Reporting Requirements for Holders of Substantial Interests

Under the FSCMA, any person whose direct or beneficial ownership of shares with voting rights, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively referred to as equity securities), together with the equity securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5.0% or more of the total outstanding equity securities is required to report the status and purpose (in terms of whether the purpose of shareholding is to affect control over management of the issuer) of the holdings to the FSC and the Korea Exchange within five business days after reaching the 5.0% ownership interest threshold and promptly deliver a copy of such report to the issuer. In addition, any change (1) in the ownership interest subsequent to the report which equals or exceeds 1.0% of the total outstanding equity securities, or (2) in the shareholding purpose is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change. However, reporting deadline of such reporting requirement is extended to (1) certain professional investors, as specified under the FSCMA, or (2) persons who hold shares for purposes other than management control by the tenth day of the month immediately following the month of share acquisition or change in their shareholding. Those who reported the purpose of shareholding is to affect control over management of the issuer are prohibited from exercising their voting rights and acquiring additional shares for five days subsequent to the report under the FSCMA.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of unreported equity securities exceeding 5.0%.

Furthermore, the FSC may issue an order to dispose of such non-reported equity securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our common shares accounts for 10.0% or more of the total issued and outstanding shares with voting rights (a major shareholder) must report the status of his or her shareholding to the Securities and Futures Commission and the Korea Exchange within five business days after he or she becomes a major shareholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Securities and Futures Commission and the Korea Exchange by the fifth business day of any changes in his or her shareholding. Violations of these reporting requirements may subject a person to criminal sanctions, such as fines or imprisonment.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery of shares in Korea in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the FSS, as described below. The acquisition of the shares by a foreigner must be reported by the foreigner or his or her standing proxy in Korea immediately to the Governor of the FSS (the Governor).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

In addition, we are required to file a securities registration statement with the FSC and such securities registration statement has to become effective pursuant to the FSCMA in order for us to issue shares represented by ADSs, except in certain limited circumstances.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and the regulations of the FSC, together referred to as the Investment Rules, adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or the KRX KOSDAQ Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including, among others:

- odd-lot trading of shares;
- acquisition of shares by a foreign company as a result of a merger;
- acquisition or disposal of shares in connection with a tender offer;
- acquisition of shares by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company (converted shares);
- acquisition of shares through exercise of rights under securities issued outside of Korea;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders rights, including preemptive rights or rights to participate in free distributions and receive dividends;

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;

acquisition of shares by direct investment under the Foreign Investment Promotion Law;

acquisition and disposal of shares on an overseas stock exchange market, if such shares are simultaneously listed on the KRX KOSPI Market or KRX KOSDAQ Market and such overseas stock exchange;

arm s length transactions between foreigners in the event all such foreigners belong to an investment group managed by the same person; and

acquisition and disposal of shares through alternative trading systems.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions through borrowing shares from financial investment companies with respect to shares which are subject to a foreign ownership limit.

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The Investment Rules require a foreign investor who wishes to invest in shares for the first time on the KRX KOSPI Market or the KRX KOSDAQ Market (including converted shares) and shares being publicly offered for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire converted shares with the intention of selling such converted shares within three months from the date of acquisition of the converted shares or who acquire the shares in an over-the-counter transaction or dispose of shares where such acquisition or disposal is deemed to be a foreign direct investment pursuant to the Foreign Investment Promotion Law. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a financial investment company or financial institution in Korea. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or longer, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree promulgated under the FSCMA. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor s purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, where a foreign investor acquires or sells shares outside the KRX KOSPI Market and the KRX KOSDAQ Market, such acquisition or sale of shares must be reported by the foreign investor or such foreign investor s standing proxy to the Governor at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transaction. In the event a foreign investor desires to acquire or sell shares outside the KRX KOSPI Market or the KRX KOSDAQ Market and the circumstances in connection with such sale or acquisition do not fall within the exceptions made for certain limited circumstances described above, then the foreign investor must obtain the prior approval of the Governor. In addition, in the event a foreign investor acquires or sells shares outside the KRX KOSPI Market or the KRX KOSDAQ Market, a prior report to the Bank of Korea may also be required in certain circumstances. A foreign investor must appoint one or more standing proxies among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians which will act as a standing proxy to exercise shareholders rights, or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than his, her or its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on his, her or its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. The Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his, her or its custodian deposits the shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40.0% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3.0% of the total number of shares in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor of not less than 10.0% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Trade, Industry and Energy of Korea, which delegates its authority to foreign exchange banks or the Korea Trade-Investment Promotion Agency under the relevant regulations. The acquisition of our shares by a foreign investor is also subject to the restrictions prescribed in the Telecommunications Business Act. The Telecommunications Business Act generally limits the maximum aggregate foreign shareholdings in us to 49.0% of the outstanding shares. A foreigner who has acquired shares in excess of such restriction described above may not exercise the voting rights with respect to the shares exceeding such limitations and may be subject to corrective orders.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to make a portfolio investment in shares of a Korean company listed on the KRX KOSPI Market or the KRX KOSDAQ Market must designate a foreign exchange bank at which he, she or it must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any such shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any such shares held by a non-resident of Korea must be deposited either in a Won account with the investor s financial investment companies with a securities dealing, brokerage or collective investment license or the investor s Won account. Funds in the investor s Won account may be transferred to such investor s foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount is reported to the tax authorities by the foreign exchange bank at which the Won account is maintained. Funds in the investor s Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors stock investments in Korea. Through these accounts, these financial investment companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Item 10.D. ***Taxation***
United States Taxation

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold our common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a bank;
- a life insurance company;

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- a tax-exempt organization;
- a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10.0% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are the beneficial owner of a common share or an ADS and are:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source passive income dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your receipt of the dividend, in the case of common shares, or the depositary s receipt, in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at a preferential rate if the dividends are qualified dividends . Dividends paid on the ADSs will be treated as qualified dividends if (1) the ADSs are readily tradable on an established securities market in the United States and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes (PFIC), as discussed below under Passive Foreign Investment Company Rules . The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements, as well as relevant market and shareholder data, we believe that we were not a PFIC with respect to our 2017 taxable year but could become a PFIC for our 2018 taxable year or in subsequent years, as discussed below.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

Sale or Other Disposition

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

Passive Foreign Investment Company Rules

Special U.S. tax rules apply to companies that are considered to be PFICs. We will be classified as a PFIC in a particular taxable year if either (i) 75 percent or more of our gross income for the taxable year is passive income; or (ii) the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50 percent. Investments in companies in which we own less than 25 percent of the stock (by value) are considered to be assets that produce passive income.

The determination whether we are a PFIC is made annually based on the particular facts and circumstances, such as the valuation of our assets at the time. Although we do not believe that we were a PFIC in 2017, there is a significant risk that we could be treated as a PFIC in the current year or in future years due to our substantial investment in the stock of SK Hynix, which is treated as a passive asset for this purpose. If so, the considerations discussed below could become applicable to U.S. Holders.

If we are classified as a PFIC, and you do not make a mark-to-market election, as described in the following paragraph, you will be subject to a special tax at ordinary income tax rates on excess distributions, including certain distributions by us and gain that you recognize on the sale of your shares or ADSs. The amount of income tax on any excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period you hold your shares or ADSs. Classification as a PFIC may also have other adverse tax consequences, including, in the case of individuals, the denial of a step-up in the basis of your shares or ADSs at death.

You can avoid the unfavorable rules described in the preceding paragraph by electing to mark your shares or ADSs to market. If you make this mark-to-market election, you will be required in any year in which we are a PFIC to include as ordinary income the excess of the fair market value of your shares at year-end over your basis in those shares. In addition, any gain you recognize upon the sale of your shares will be taxed as ordinary income in the year of sale.

You should consult your own tax advisor regarding the U.S. federal income tax considerations discussed above and in particular the desirability of making a mark-to-market election.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs, so long as you have owned our common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on general category income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agricultural and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder s expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder s particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

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Specified Foreign Financial Assets

Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of US$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the common shares or ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisers concerning the application of these rules to their investment in the common shares or ADSs, including the application of the rules to their particular circumstances.

U.S. Information Reporting and Backup Withholding Rules

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient and demonstrates this when required or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Korean Taxation

The following is a summary of the principal Korean tax consequences to owners of the common shares or ADSs, as the case may be, who are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable or with which the relevant income is effectively connected (Non-resident Holders). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the common shares or ADSs, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident, and any tax treaty between Korea and their country of residence, by consulting their own tax advisors.

Tax on Dividends

Dividends on the common shares or ADSs paid (whether in cash or in shares) to a Non-resident Holder will be subject to Korean withholding taxes at the rate of 22.0% (including local income tax) or such lower rate as is applicable under a treaty between Korea and such Non-resident Holder s country of tax residence. Free distributions of shares representing a capitalization of certain capital surplus reserves may be subject to Korean withholding taxes.

The tax is withheld by the payer of the dividend. Since the payer is required to withhold the tax, Korean law does not entitle the person who was subject to the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if it subsequently produces evidence that it was entitled to have tax withheld at a lower rate, except in certain limited circumstances.

Tax on Capital Gains

As a general rule, capital gains earned by Non-resident Holders upon transfer of the common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11.0% (including local income tax) of the gross proceeds realized or (2) 22.0% (including local income tax) of the net realized gains (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs), unless exempt from Korean income taxation under the effective Korean tax treaty with the Non-resident Holder s country of tax residence.

However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the common shares through the KRX KOSPI Market if the Non-resident Holder (1) has no permanent establishment in Korea and (2) did not or has not owned (together with any shares owned by any entity with certain special relationship with such Non-resident Holder) 25.0% or more of the total issued and outstanding shares of us at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

It should be noted that capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation, provided that the ADSs are deemed to have been issued overseas. If and when an owner of the underlying common shares transfers the ADSs following the conversion of the underlying shares for ADSs, such person will not be exempt from Korean income taxation.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and vary according to the identity of the parties involved.

Under Korean inheritance and gift tax laws, securities issued by a Korean corporation are deemed to be located in Korea irrespective of where they are physically located or by whom they are owned.

Securities Transaction Tax

Securities transaction tax is imposed on the transfer of shares issued by a Korean corporation or the right to subscribe for such shares generally at the rate of 0.5% of the sales price. In the case of the transfer of shares listed on the KRX KOSPI Market (such as our common shares), the securities transaction tax is imposed generally at the rate of (1) 0.3% of the sales price of such shares (including agricultural and fishery special surtax thereon) if traded on the KRX KOSPI Market or (2) subject to certain exceptions, 0.5% of the sales price of such shares if traded outside the KRX KOSPI Market.

Securities transaction tax or the agricultural and fishery special surtax is not applicable if (1) the shares or rights to subscribe for shares are listed on a designated foreign stock exchange and (2) the sale of the shares takes place on such exchange.

Securities transaction tax, if applicable, must be paid by the transferor of the shares or rights, in principle. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay (to the tax authority) the tax, and when such transfer is made through a financial investment company with a brokerage license only, such company is required to withhold and pay the tax. Where the transfer is effected by a Non-resident Holder without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company with a brokerage license, the transferee is required to withhold the securities transaction tax. Failure to do so will result in the imposition of penalties equal to the sum of (1) between 10.0% to 40.0% of the tax amount due, depending on the nature of the improper reporting, and (2) 10.95% per annum on the tax amount due for the default period.

Tax Treaties

Currently, Korea has income tax treaties with a number of countries, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Ireland, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States under which the rate of withholding tax on dividend and interest is reduced, generally to between 5.0% and 16.5% (including local income tax), and the tax on capital gains derived by a non-resident from the transfer of securities issued by a Korean company is often eliminated.

Each Non-resident Holder of common shares should inquire for itself whether it is entitled to the benefits of a tax treaty with Korea. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest,

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dividend, capital gains or other income to submit to us (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, prior to or at the time of payment, such evidence of tax residence of the party claiming the treaty benefit as the Korean tax authorities may require in support of its claim for treaty protection. In the absence of sufficient proof, we (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, must withhold tax at the normal rates.

Furthermore, in order for a non-resident of Korea to obtain the benefits of tax exemption on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agent) to submit to the payer of such Korean source income an application for a tax exemption along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident s country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

For a non-resident of Korea to obtain the benefits of treaty-reduced tax rates on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for treaty-reduced tax rates prior to receipt of such Korean source income; provided, however, that an owner of ADSs who is a non-resident of Korea is not required to submit such application, if the Korean source income on the ADSs is paid through an account opened at the Korea Securities Depository by a foreign depository.

At present, Korea has not entered into any tax treaty relating to inheritance or gift tax.

Item 10.E. ***Dividends and Paying Agents***
Not applicable.

Item 10.F. ***Statements by Experts***
Not applicable.

Item 10.G. ***Documents on Display***
We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC s Website at http://www.sec.gov.

Documents filed with annual reports and documents filed or submitted to the SEC are also available for inspection at our principal business office during normal business hours. Our principal business office is located at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 04539, Korea.

Item 10.H. ***Subsidiary Information***

Not applicable.

Item 11. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities and to equity price risk as a result of our investment in equity instruments.

We have entered into a floating-to-fixed cross currency swap contract to hedge foreign currency and interest rate risks with respect to long-term borrowings of US$300 million of bonds issued in March 2013. In addition, we have entered into fixed-to-fixed cross currency swap contracts to hedge the foreign currency risks of US$400 million of bonds issued in July 2007, US$700 million of bonds issued in November 2012, US$300 million of bonds issued in October 2013 and US$51.8 million of borrowings from December 2013. We also entered into floating-to-fixed interest rate swap contracts to hedge interest rate risks with respect to Won 49.0 billion of

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borrowings from December 2016, Won 28.6 billion of borrowings from January 2017, Won 30.0 billion of borrowings from March 2017 and Won 50.0 billion of borrowings from December 2017. See note 22 of the notes to our consolidated financial statements. We may consider in the future entering into other such transactions solely for hedging purposes.

The following discussion and tables, which constitute forward looking statements that involve risks and uncertainties, summarize our market-sensitive financial instruments including fair value, maturity and contract terms. These tables address market risk only and do not present other risks which we face in the normal course of business, including country risk, credit risk and legal risk.

Exchange Rate Risk

Korea is our main market and, therefore, substantially all of our cash flow is denominated in Won. We are exposed to foreign exchange risk related to foreign currency denominated liabilities. These liabilities relate primarily to foreign currency denominated debt, primarily in Dollars. A 10.0% increase in the exchange rate between the Won and all foreign currencies would result in an increase in profit before income tax of 0.2%, or Won 8.0 billion, with a decrease of 10.0% in the exchange rate having the opposite effect, as of December 31, 2017. For a further discussion of our exchange rate risk exposures, see note 35(1) of the notes to our consolidated financial statements.

Interest Rate Risk

We are also subject to market risk exposure arising from changing interest rates. The following table summarizes the carrying amounts and fair values, maturity and contract terms of our exchange rate and interest sensitive short-term and long-term liabilities as of December 31, 2017:

	Maturities							
	2018	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**	**Fair Value**
	(In billions of Won, except for percentage data)							
Local currency:								
Fixed-rate	519.6	893.5	618.4	608.5	727.6	2,004.3	5,371.9	5,500.4
Average weighted rate(1)	3.26%	2.78%	2.34%	2.76%	2.60%	2.85%		
Variable rate	59.3	77.0	54.8	24.8	12.5		228.4	228.3
Average weighted rate(1)	2.46%	2.71%	2.80%	2.32%	2.37%			
Sub-total	578.9	970.5	673.2	633.3	740.1	2,004.3	5,600.3	5,728.7
Foreign currency:								
Fixed-rate	1,082.3	12.3	12.3	12.3	6.1	423.5	1,548.8	1,719.8
Average weighted rate(1)	2.35%	1.70%	1.70%	1.70%	1.71%	6.71%		
Variable rate			320.9				320.9	320.9
Average weighted rate(1)			2.57%					
Sub-total	1,082.3	12.3	333.2	12.3	6.1	423.5	1,869.7	2,040.7

Total	1,661.2	982.8	1,006.4	645.6	746.2	2,427.8	7,470.0	7,769.4

(1) Weighted average rates of the portfolio at the period end.

A 1.0% point increase in interest rates would result in a decrease in profit before income tax of Won 0.7 billion with a 1.0% point decrease in interest rates having the opposite effect, as of December 31, 2017. For a further discussion of our interest rate risk exposures, see note 35(1) of the notes to our consolidated financial statements.

Equity Price Risk

We are also subject to market risk exposure arising from changes in the equity securities market, which affect the fair value of our equity portfolio. As of December 31, 2017, 2016 and 2015, a 10.0% increase in the equity indices where our available-for-sale equity instruments are listed, with all other variables held constant, would have increased our total equity by Won 58.9 billion, Won 52.6 billion and Won 89.8 billion, respectively, with a 10.0%

decrease in the equity index having the opposite effect. The foregoing sensitivity analysis assumes that all variables other than changes in the equity index are held constant, and that our available-for-sale equity instruments had moved according to the historical correlation to the index, and as such, does not reflect any correlation between the equity index and other variables. For a further discussion of our equity price risk exposures, see note 35(1) of the notes to our consolidated financial statements.

Item 12. *DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES*

Item 12.A. *Debt Securities*

Not applicable.

Item 12.B. *Warrants and Rights*

Not applicable.

Item 12.C. *Other Securities*

Not applicable.

Item 12.D. *American Depositary Shares*

Fees and Charges under Deposit Agreement

The ADR depositary will charge the party receiving ADSs up to US$5.00 per 100 ADSs (or fraction thereof), provided that the ADR depositary has agreed to waive such fee as would have been payable by us in the case of (1) an offering of ADSs by us or (2) any distribution of shares of common stock or any rights to subscribe for additional shares of common stock. The ADR depositary will not charge the party to whom ADSs are delivered against deposits. The ADR depositary will charge the party surrendering ADSs for delivery of deposited securities up to US$5.00 per 100 ADSs (or fraction thereof) surrendered. The ADR depositary will also charge the party to whom any cash distribution, or for whom the sale or exercise of rights or other corporate action involving distributions to shareholders, is made with respect to ADSs up to US$0.02 per ADS held plus the expenses of the ADR depositary on a per-ADS basis. We will pay the expenses of the ADR depositary and any entity acting as registrar for the shares only as specified in the deposit agreement. The ADR depositary will pay any other charges and expenses of the ADR depositary and the entity acting as registrar for the shares.

Holders of ADRs must pay (1) taxes and other governmental charges, (2) share transfer registration fees on deposits of shares of common stock, (3) such cable, telex, facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of persons depositing shares of common stock or holders of ADRs and (4) such reasonable expenses as are incurred by the ADR depositary in the conversion of foreign currency into United States dollars.

Notwithstanding any other provision of the deposit agreement, in the event that the ADR depositary determines that any distribution in property (including shares or rights to subscribe therefor or other securities) is subject to any tax or governmental charges which the ADR depositary is obligated to withhold, the ADR depositary may dispose of all or a portion of such property (including shares and rights to subscribe therefor) in such amounts and in such manner as the ADR depositary deems necessary and practicable to pay such taxes or governmental charges, including by public or private sale, and the ADR depositary will distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes or governmental charges to the holders of ADSs entitled thereto in proportion to the number of ADSs held by them respectively.

All such charges may be changed by agreement between the ADR depositary and us at any time and from time to time, subject to the deposit agreement. The right of the ADR depositary to receive payment of fees, charges and expenses shall survive the termination of this deposit agreement and, as to any depositary, the resignation or removal of such depositary pursuant to the deposit agreement.

For a detailed summary of the deposit agreement, see Item 10.B. Memorandum and Articles of Association Description of American Depositary Shares.

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Payments made by ADS Depositary

The depositary reimburses us for certain expenses we incur in connection with our ADR program, subject to certain ceilings. These reimbursable expenses currently include expenses relating to the preparation of SEC filings and submissions, listing fees, education and training fees, corporate action expenses and other miscellaneous fees. In the fiscal year 2017, we received approximately US$1,264,021 from the depositary in connection with such reimbursements.

PART II

Item 13. ***DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES***

None.

Item 14. ***MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS***

None.

Item 15. ***CONTROLS AND PROCEDURES***

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as of December 31, 2017. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework (2013 framework) issued by the Committee of Sponsoring

Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS as issued by the IASB. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

Report of the Independent Registered Public Accounting Firm on the Effectiveness of Our Internal Control Over Financial Reporting

The report of our independent registered public accounting firm, KPMG Samjong Accounting Corp. (KPMG Samjong), on the effectiveness of our internal control over financial reporting as of December 31, 2017 is included in Item 18 of this Form 20-F.

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Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. *RESERVED*

Item 16.A. *AUDIT COMMITTEE FINANCIAL EXPERT*

Dae Shick Oh is the chairman of our audit committee and was elected and designated an audit committee financial expert within the meaning of this Item 16A at a meeting of the board of directors in April 2014. The board of directors have further determined that Dae Shick Oh is independent within the meaning of applicable SEC rules and the listing standards of the NYSE. See Item 6.C. Board Practices Audit Committee for additional information regarding our audit committee.

Item 16.B. *CODE OF ETHICS*

Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller

We have a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, senior accounting officers and employees. We also have internal control and disclosure policy designed to promote full, fair, accurate, timely and understandable disclosure in all of our reports and publicly filed documents. A copy of our code of ethics is available on our website at www.sktelecom.com. If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website.

Item 16.C. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

The table sets forth the fees we paid to our independent registered public accounting firm KPMG Samjong and its affiliates for the years ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017	**2016**
	(In millions of Won)	
Audit Fees	5,625	5,181
Audit-Related Fees	35	14
Tax Fees	323	273
All Other Fees	300	
Total	6,283	5,468

Audit Fees are the aggregate fees billed by KPMG Samjong for the audit of our consolidated annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees are fees charged by KPMG Samjong for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. This category comprises fees billed for advisory services associated with our financial reporting.

Tax Fees are fees for professional services rendered by KPMG Samjong for tax compliance, tax advice on actual or contemplated transactions and tax planning services.

All Other Fees for 2017 in the table above relate to the fees billed by KPMG Samjong for consulting services related to our corporate social responsibility project.

Pre-Approval of Audit and Non-Audit Services Provided by Independent Registered Public Accounting Firm

Our audit committee pre-approves all audit services to be provided by KPMG Samjong, our independent registered public accounting firm. Our audit committee s policy regarding the pre-approval of non-audit services to be provided to us by our independent auditors is that all such services shall be pre-approved by our audit committee. Non-audit services that are prohibited to be provided to us by our independent auditors under the rules of the SEC and applicable law may not be pre-approved. In addition, prior to the granting of any pre-approval, our audit committee must be satisfied that the performance of the services in question will not compromise the independence of our independent registered public accounting firm.

Our audit committee did not pre-approve any non-audit services under the *de minimis* exception of Rule 2-01 (c)(7)(i)(C) of Regulation S-X as promulgated by the SEC.

Item 16.D. ***EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES***

Not applicable.

Item 16.E. ***PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS***

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

Item 16.F. ***CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT***

Not applicable.

Item 16.G. ***CORPORATE GOVERNANCE***

The following is a summary of the significant differences between the NYSE s corporate governance standards and those that we follow under Korean law.

NYSE Corporate Governance Standards	Our Corporate Governance Practice
Director Independence	
Listed companies must have a majority of independent directors.	Of the eight members of our board of directors, six are independent directors.
Executive Session	
Non-management directors must meet in regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year.	Our audit committee, which is comprised solely of four independent directors, holds meetings whenever there are matters related to management directors, and such meetings are generally held once every month.
Nomination/Corporate Governance Committee	
Listed companies must have a nomination/corporate governance committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.	Although we do not have a separate nomination/ corporate governance committee, we maintain an independent director nomination committee composed of two independent directors and one management director.

Compensation Committee	
Listed companies must have a compensation committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company s website. In addition, in accordance with the U.S. Securities and Exchange Commission rules adopted pursuant to Section 952 of the Dodd-Frank Act, the New York Stock Exchange listing standards were amended to expand the factors relevant in determining whether a committee member	We maintain a compensation review committee comprised of three independent directors.

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NYSE Corporate Governance Standards	Our Corporate Governance Practice
has a relationship with the company that will materially affect that member s duties to the compensation committee.	
Audit Committee Listed companies must have an audit committee that satisfies the independence and other requirements of Rule 10A 3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee s purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available on the company s website.	We maintain an audit committee comprised solely of four independent directors.
Audit Committee Additional Requirements Listed companies must have an audit committee that is composed of at least three directors.	Our audit committee has four independent directors.
Shareholder Approval of Equity Compensation Plan Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company s equity compensation plan.	We currently have two equity compensation plans: a stock option plan for officers and directors and employee stock ownership plan for employees (ESOP). We manage such compensation plans in compliance with the applicable laws and our articles of incorporation, provided that, under certain limited circumstances, the grant of stock options or matters relating to ESOP are not subject to shareholders approval under Korean law.
Corporate Governance Guidelines Listed companies must adopt and disclose corporate governance guidelines.	Although we do not maintain separate corporate governance guidelines, we are in compliance with the Korean Commercial Code in connection with such matters, including the governance of the board of directors.
Code of Business Conduct and Ethics Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers.	We have adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees, and such code is also available on our website at www.sktelecom.com.

Item 16.H. ***MINE SAFETY DISCLOSURE***

Not applicable.

PART III

Item 17. ***FINANCIAL STATEMENTS***

Not applicable.

Item 18. ***FINANCIAL STATEMENTS***

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Item 19. ***EXHIBITS***

Number	Description
1.1	Articles of Incorporation (incorporated by reference to Exhibit 1.1 to the Registrant s Annual Report on Form 20-F filed on April 27, 2017)
2.1	Deposit Agreement dated as of May 31, 1996, as amended by Amendment No. 1 dated as of March 15, 1999, Amendment No. 2 dated as of April 24, 2000 and Amendment No. 3 dated as of July 24, 2002, entered into among SK Telecom Co., Ltd., Citibank, N.A., as Depositary, and all Holders and Beneficial Owners of American Depositary Shares (incorporated by reference to Exhibit 2.1 to the Registrant s Annual Report on Form 20-F filed on June 30, 2006)
8.1	List of Subsidiaries of SK Telecom Co., Ltd.
12.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Framework Act on Telecommunications, as amended (English translation) (incorporated by reference to Exhibit 15.1 to the Registrant s Annual Report on Form 20-F filed on April 29, 2016)
15.2	Enforcement Decree of the Framework Act on Telecommunications, as amended (English translation) (incorporated by reference to Exhibit 15.2 to the Registrant s Annual Report on Form 20-F filed on June 30, 2011)
15.3	Telecommunications Business Act, as amended (English translation)
15.4	Enforcement Decree of the Telecommunications Business Act, as amended (English translation)
15.5	Government Organization Act, as amended (English translation) (incorporated by reference to Exhibit 15.5 to the Registrant s Annual Report on Form 20-F filed on April 29, 2016)

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Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors

SK Telecom Co., Ltd.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of SK Telecom Co., Ltd. and subsidiaries (the Group) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 27, 2018 expressed an unqualified opinion on the effectiveness of the Group s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error of fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Samjong Accounting Corp.

We have served as the Group s auditor since 2012.

Seoul, Korea

April 27, 2018

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Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors

SK Telecom Co., Ltd.:

Opinion on Internal Control Over Financial Reporting

We have audited SK Telecom Co., Ltd. and subsidiaries (the Group) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Group as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements) and our report dated April 27, 2018, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

Group s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Group s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 27, 2018

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SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

(In millions of won)	*Note*	December 31, 2017	December 31, 2016
Assets			
Current Assets:			
Cash and cash equivalents	*34,35*	1,457,735	1,505,242
Short-term financial instruments	*6,34,35,37*	616,780	468,768
Short-term investment securities	*9,34,35*	144,386	107,364
Accounts receivable trade, net	*7,34,35,36*	2,126,007	2,240,926
Short-term loans, net	*7,34,35,36*	62,830	58,979
Accounts receivable other, net	*7,34,35,36,37*	1,260,835	1,121,444
Prepaid expenses		197,046	169,173
Inventories, net	*8*	272,403	259,846
Advanced payments and other	*7,9,34,35,36*	63,777	64,886
Total Current Assets		**6,201,799**	**5,996,628**
Non-Current Assets:			
Long-term financial instruments	*6,34,35*	1,222	937
Long-term investment securities	*9,34,35*	887,007	828,521
Investments in associates and joint ventures	*12*	9,538,438	7,404,323
Property and equipment, net	*13,36,37*	10,144,882	10,374,212
Goodwill	*10,15*	1,915,017	1,932,452
Intangible assets, net	*16*	3,586,965	3,776,354
Long-term loans, net	*7,34,35,36*	50,874	65,476
Long-term accounts receivable other	*7,34,35,37*	287,048	149,669
Long-term prepaid expenses		90,834	88,130
Guarantee deposits	*7,34,35,36*	292,590	298,964
Long-term derivative financial assets	*22,34,35*	253,213	214,770
Defined benefit assets	*21*	45,952	30,247
Deferred tax assets	*31*	88,132	75,111
Other non-current assets	*7,34,35*	44,696	61,869
Total Non-Current Assets		**27,226,870**	**25,301,035**
Total Assets		**33,428,669**	**31,297,663**

See accompanying notes to the consolidated financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Financial Position (Continued)

As of December 31, 2017 and 2016

(In millions of won)	*Note*	December 31, 2017	December 31, 2016
Liabilities and Shareholders Equity			
Current Liabilities:			
Short-term borrowings	*17,34,35*	130,000	2,614
Current portion of long-term debt, net	*17,34,35*	1,530,948	888,467
Current portion of long-term payables other	*18,34,35*	302,703	301,773
Accounts payable trade	*34,35,36*	351,711	402,445
Accounts payable other	*34,35,36*	1,867,074	1,767,799
Withholdings	*34,35,36*	961,501	964,084
Accrued expenses	*34,35*	1,327,906	1,125,816
Income tax payable	*31*	219,791	474,931
Unearned revenue		175,732	188,403
Provisions	*19*	52,057	66,227
Receipts in advance		161,266	174,588
Derivative financial liabilities	*22,34,35*	28,406	86,950
Other current liabilities		28	2
Total Current Liabilities		**7,109,123**	**6,444,099**
Non-Current Liabilities:			
Debentures, excluding current portion, net	*17,34,35*	5,596,570	6,338,930
Long-term borrowings, excluding current portion	*17,34,35*	211,486	139,716
Long-term payables other	*18,34,35*	1,346,763	1,624,590
Long-term unearned revenue		7,052	2,389
Defined benefit liabilities	*21*	61,960	70,739
Long-term derivative financial liabilities	*22,34,35*	11,064	203
Long-term provisions	*19*	32,669	31,690
Deferred tax liabilities	*31*	978,693	479,765
Other non-current liabilities	*34,35*	44,094	49,112
Total Non-Current Liabilities		**8,290,351**	**8,737,134**
Total Liabilities		**15,399,474**	**15,181,233**
Shareholders Equity			
Share capital	*1,23*	44,639	44,639
Capital deficit and others	*23,24,25,26*	(202,237)	(198,739)
Hybrid bonds	*25*	398,518	398,518
Retained earnings	*27*	17,835,946	15,953,164

Reserves	*28*	(234,727)	(226,183)
Equity attributable to owners of the Parent Company		17,842,139	15,971,399
Non-controlling interests		187,056	145,031
Total Shareholders Equity		**18,029,195**	**16,116,430**
Total Liabilities and Shareholders Equity		**33,428,669**	**31,297,663**

See accompanying notes to the consolidated financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 2017, 2016 and 2015

(In millions of won except for per share data)	*Note*	2017	2016	2015
Operating revenue and other income:	*5,36*			
Revenue		17,520,013	17,091,816	17,136,734
Other income	*29*	31,997	66,548	30,935
		17,552,010	17,158,364	17,167,669
Operating expenses:	*36*			
Labor		1,966,156	1,869,763	1,893,745
Commissions		5,486,263	5,376,726	5,206,951
Depreciation and amortization	*5*	3,097,466	2,941,886	2,845,295
Network interconnection		875,045	954,267	957,605
Leased line		342,240	394,412	389,819
Advertising		522,753	438,453	405,005
Rent		520,244	517,305	493,586
Cost of products that have been resold		1,886,524	1,838,368	1,955,861
Others	*29*	1,630,747	1,523,766	1,524,377
		16,327,438	15,854,946	15,672,244
Operating profit	*5*	**1,224,572**	**1,303,418**	**1,495,425**
Finance income	*5,30*	366,561	575,050	103,900
Finance costs	*5,30*	(433,616)	(326,830)	(350,100)
Gain relating to investments in subsidiaries, associates and joint ventures, net	*1,5,12*	2,245,732	544,501	786,140
Profit before income tax	*5*	**3,403,249**	**2,096,139**	**2,035,365**
Income tax expense	*31*	745,654	436,038	519,480
Profit for the year		**2,657,595**	**1,660,101**	**1,515,885**
Attributable to:				
Owners of the Parent Company		2,599,829	1,675,967	1,518,604
Non-controlling interests		57,766	(15,866)	(2,719)
Earnings per share:	*32*			
Basic and diluted earnings per share (in won)		36,582	23,497	20,988

See accompanying notes to the consolidated financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017, 2016 and 2015

(In millions of won)	*Note*	2017	2016	2015
Profit for the year		**2,657,595**	**1,660,101**	**1,515,885**
Other comprehensive income (loss)				
Items that will never be reclassified to profit or loss, net of taxes:				
Remeasurement of defined benefit liabilities	*21*	5,921	(7,524)	(14,489)
Items that are or may be reclassified subsequently to profit or loss, net of taxes:				
Net change in unrealized fair value of available-for-sale financial assets	*28,30*	158,440	(223,981)	(3,661)
Net change in other comprehensive income of investments in associates and joint ventures	*12,28*	(141,008)	(9,939)	(5,709)
Net change in unrealized fair value of derivatives	*22,28,30*	22,586	(13,218)	(1,271)
Foreign currency translation differences for foreign operations	*28*	(46,952)	7,331	26,965
Other comprehensive income (loss) for the year, net of taxes		**(1,013)**	**(247,331)**	**1,835**
Total comprehensive income		**2,656,582**	**1,412,770**	**1,517,720**
Total comprehensive income (loss) attributable to:				
Owners of the Parent Company		2,597,160	1,432,982	1,522,280
Non-controlling interests		59,422	(20,212)	(4,560)

See accompanying notes to the consolidated financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017, 2016 and 2015

(In millions of won)

	Attributable to owners							
	Share capital	**Capital surplus (deficit) and others**	**Hybrid bonds**	**Retained earnings**	**Reserves**	**Total**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2015	**44,639**	**(120,520)**	**398,518**	**14,188,591**	**(4,489)**	**14,506,739**	**741,531**	**15,248,270**
Total comprehensive income:								
Profit (loss) for the year				1,518,604		1,518,604	(2,719)	1,515,885
Other comprehensive income (loss)				(13,402)	17,078	3,676	(1,841)	1,835
				1,505,202	17,078	1,522,280	(4,560)	1,517,720
Transactions with owners:								
Annual dividends				(595,865)		(595,865)	(143)	(596,008)
Interim dividends				(72,629)		(72,629)		(72,629)
Interest on hybrid bonds				(16,840)		(16,840)		(16,840)
Acquisition of treasury shares		(490,192)				(490,192)		(490,192)
Disposal of treasury shares		425,744				425,744		425,744
Changes in consolidation scope							(5,226)	(5,226)
Changes in ownership in subsidiaries		(24,040)		(832)	(3,286)	(28,158)	(608,585)	(636,743)
		(88,488)		(686,166)	(3,286)	(777,940)	(613,954)	(1,391,894)
Balance at December 31, 2015	**44,639**	**(209,008)**	**398,518**	**15,007,627**	**9,303**	**15,251,079**	**123,017**	**15,374,096**
Balance at January 1, 2016	**44,639**	**(209,008)**	**398,518**	**15,007,627**	**9,303**	**15,251,079**	**123,017**	**15,374,096**
Total comprehensive income:								
Profit (loss) for the year				1,675,967		1,675,967	(15,866)	1,660,101
Other comprehensive loss				(7,499)	(235,486)	(242,985)	(4,346)	(247,331)
				1,668,468	(235,486)	1,432,982	(20,212)	1,412,770
Transactions with owners:								
Annual dividends				(635,482)		(635,482)	(300)	(635,782)
Interim dividends				(70,609)		(70,609)		(70,609)

Interest on hybrid bonds				(16,840)		(16,840)		(16,840)
Changes in ownership in subsidiaries		10,269				10,269	42,526	52,795
		10,269		(722,931)		(712,662)	42,226	(670,436)
Balance at December 31, 2016	**44,639**	**(198,739)**	**398,518**	**15,953,164**	**(226,183)**	**15,971,399**	**145,031**	**16,116,430**

See accompanying notes to the consolidated financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Changes in Equity (Continued)

For the years ended December 31, 2017, 2016 and 2015

(In millions of won)

	Attributable to owners							
	Share capital	Capital surplus (deficit) and others	Hybrid bonds	Retained earnings	Reserves	Total	Non-controlling interests	Total equity
Balance at January 1, 2017	**44,639**	**(198,739)**	**398,518**	**15,953,164**	**(226,183)**	**15,971,399**	**145,031**	**16,116,430**
Total comprehensive income:								
Profit for the year				2,599,829		2,599,829	57,766	2,657,595
Other comprehensive income (loss)				5,875	(8,544)	(2,669)	1,656	(1,013)
				2,605,704	(8,544)	2,597,160	59,422	2,656,582
Transactions with owners:								
Annual dividends				(635,482)		(635,482)	(281)	(635,763)
Interim dividends				(70,609)		(70,609)		(70,609)
Interest on hybrid bonds				(16,840)		(16,840)		(16,840)
Share option		414				414		414
Changes in ownership in subsidiaries		(3,912)		9		(3,903)	(17,116)	(21,019)
		(3,498)		(722,922)		(726,420)	(17,397)	(743,817)
Balance at December 31, 2017	**44,639**	**(202,237)**	**398,518**	**17,835,946**	**(234,727)**	**17,842,139**	**187,056**	**18,029,195**

See accompanying notes to the consolidated financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016 and 2015

(In millions of won)	**2017**	**2016**	**2015**
Cash flows from operating activities:			
Cash generated from operating activities			
Profit for the year	2,657,595	1,660,101	1,515,885
Adjustments for income and expenses (Note 38)	2,096,764	3,039,561	3,250,143
Changes in assets and liabilities related to operating activities (Note 38)	(261,468)	13,764	(685,734)
Sub-total	4,492,891	4,713,426	4,080,294
Interest received	66,713	44,602	43,400
Dividends received	106,674	98,267	62,973
Interest paid	(234,127)	(245,236)	(275,796)
Income tax paid	(576,331)	(367,891)	(132,742)
Net cash provided by operating activities	**3,855,820**	**4,243,168**	**3,778,129**
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net		222,322	
Decrease in short-term investment securities, net			105,158
Collection of short-term loans	216,700	238,980	398,308
Decrease in long-term financial instruments	27	28	7,424
Proceeds from disposals of long-term investment securities	129,726	555,519	149,310
Proceeds from disposals of investments in associates and joint ventures	5,925	66,852	185,094
Proceeds from disposals of property and equipment	29,368	22,549	36,586
Proceeds from disposals of intangible assets	8,848	16,532	3,769
Proceeds from disposals of assets held for sale			1,009
Collection of long-term loans	6,205	1,960	2,132
Decrease in deposits	24,550	14,894	14,635
Proceeds from disposals of other non-current assets	1,185	728	607
Proceeds from disposals of subsidiaries	30,132		155
Increase in cash due to merger	4,112		10,355
Receipt of government grants		300	
Sub-total	456,778	1,140,664	914,542
Cash outflows for investing activities:			
Increase in short-term financial instruments, net	(156,012)		(385,612)
Increase in short-term investment securities, net	(28,975)	(6,334)	
Increase in short-term loans	(205,878)	(239,303)	(370,378)

Increase in long-term loans	(5,869)	(32,287)	(16,701)
Increase in long-term financial instruments	(2,034)	(342)	(10,008)
Acquisitions of long-term investment securities	(19,328)	(30,949)	(312,261)
Acquisitions of investments in associates and joint ventures	(193,100)	(130,388)	(65,080)
Acquisitions of property and equipment	(2,715,859)	(2,490,455)	(2,478,778)
Acquisitions of intangible assets	(145,740)	(635,387)	(127,948)
Increase in deposits	(26,377)	(12,943)	(12,536)
Increase in other non-current assets	(47)	(763)	(2,542)
Acquisitions of businesses, net of cash acquired		(4,498)	(13,197)
Acquisitions of subsidiaries, net of cash acquired	(26,566)	(19,032)	
Liquidation of subsidiary	(1,600)	(191)	
Sub-total	(3,527,385)	(3,602,872)	(3,795,041)
Net cash used in investing activities	**(3,070,607)**	**(2,462,208)**	**(2,880,499)**

See accompanying notes to the consolidated financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2017, 2016 and 2015

(In millions of won)	2017	2016	2015
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings, net	127,386		
Proceeds from issuance of debentures	973,291	776,727	1,375,031
Proceeds from long-term borrowings	120,000	49,000	
Cash inflows from settlement of derivatives	188	251	175
Cash received from transfer of interests in subsidiaries to non-controlling interests	40,938	35,646	
Sub-total	1,261,803	861,624	1,375,206
Cash outflows for financing activities:			
Decrease in short-term borrowings, net		(257,386)	(106,600)
Repayments of long-term account payables-other	(305,476)	(122,723)	(191,436)
Repayments of debentures	(842,733)	(770,000)	(620,000)
Repayments of long-term borrowings	(32,701)	(33,387)	(21,924)
Cash outflows from settlement of derivatives	(105,269)		(655)
Payments of finance lease liabilities		(26)	(3,206)
Payments of dividends	(706,091)	(706,091)	(668,494)
Payments of interest on hybrid bonds	(16,840)	(16,840)	(16,840)
Acquisitions of treasury shares			(490,192)
Transactions with non-controlling shareholders	(79,311)		(220,442)
Sub-total	(2,088,421)	(1,906,453)	(2,339,789)
Net cash used in financing activities	**(826,618)**	**(1,044,829)**	**(964,583)**
Net increase (decrease) in cash and cash equivalents	**(41,405)**	**736,131**	**(66,953)**
Cash and cash equivalents at beginning of the year	1,505,242	768,922	834,429
Effects of exchange rate changes on cash and cash equivalents	(6,102)	189	1,446
Cash and cash equivalents at end of the year	**1,457,735**	**1,505,242**	**768,922**

See accompanying notes to the consolidated financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017, 2016 and 2015

1. Reporting Entity

(1) General

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

The Parent Company s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2017, the Parent Company s total issued shares are held by the following shareholders:

	Number of shares	Percentage of total shares issued(%)
SK Holdings Co., Ltd.	20,363,452	25.22
National Pension Service	7,392,350	9.16
Institutional investors and other minority shareholders	42,853,358	53.07
Treasury shares	10,136,551	12.55
Total number of shares	80,745,711	100.00

These consolidated financial statements comprise the Parent Company and its subsidiaries (together referred to as the Group and individuals as Group entities). SK Holdings Co., Ltd. is the ultimate controlling entity of the Parent Company.

(2) List of subsidiaries

The list of subsidiaries as of December 31, 2017 and 2016 is as follows:

	Subsidiary	Location	Primary business	Ownership (%)(*1) Dec. 31, 2017	Dec. 31, 2016
Subsidiaries owned by the	SK Telink Co., Ltd.(*2)	Korea	Telecommunication and MVNO service	100.0	85.9

Parent Company	SK Communications Co., Ltd.(*3)	Korea	Internet website services	100.0	64.5
	SK Broadband Co., Ltd	Korea	Telecommunication services	100.0	100.0
	PS&Marketing Corporation	Korea	Communications device retail business	100.0	100.0
	SERVICEACE Co., Ltd.	Korea	Customer center management service	100.0	100.0
	SERVICE TOP Co., Ltd.	Korea	Customer center management service	100.0	100.0
	Network O&S Co., Ltd.	Korea	Base station maintenance service	100.0	100.0
	SK Planet Co., Ltd.	Korea	Telecommunication service	98.1	98.1
	IRIVER LIMITED(*4, 5)	Korea	Manufacturing digital audio players and other portable media devices.	45.9	48.9
	SK Telecom China Holdings Co., Ltd.	China	Investment	100.0	100.0

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

	Subsidiary	Location	Primary business	Ownership (%)(*1) Dec. 31, 2017	Dec. 31, 2016
	SK Global Healthcare Business Group, Ltd.	Hong Kong	Investment	100.0	100.0
	SKT Vietnam PTE. Ltd.	Singapore	Telecommunication service	73.3	73.3
	SKT Americas, Inc.	USA	Information gathering and consulting	100.0	100.0
	YTK Investment Ltd.	Cayman Islands	Investment association	100.0	100.0
	Atlas Investment	Cayman Islands	Investment association	100.0	100.0
	Entrix Co., Ltd.(*6)	Korea	Cloud streaming services		100.0
	SK techx Co., Ltd.	Korea	System software development and supply	100.0	100.0
	One Store Co., Ltd.	Korea	Telecommunication services	65.5	65.5
Subsidiaries owned by SK Planet Co., Ltd.	SK m&service Co., Ltd. (formerly, M&Service Co., Ltd.)	Korea	Data base and internet website service	100.0	100.0
	SK Planet Japan, K. K.(*5)	Japan	Digital contents sourcing service	79.5	100.0
	SK Planet Global PTE. Ltd.	Singapore	Digital contents sourcing service	100.0	100.0
	SKP GLOBAL HOLDINGS PTE. LTD.	Singapore	Investment	100.0	100.0
	SKP America LLC.	USA	Digital contents sourcing service	100.0	100.0
	shopkick Management Company, Inc.	USA	Investment	100.0	100.0
	shopkick, Inc.	USA	Reward points-based in-store shopping app development	100.0	100.0
	Planet11 E-commerce Solutions India Pvt. Ltd.(*6)	India	Electronic commerce platform service		99.0
	11street (Thailand) Co., Ltd.	Thailand	Electronic commerce	100.0	100.0
	Hello Nature Ltd.	Korea		100.0	100.0

			Retail of agro-fisheries and livestock		
Subsidiaries owned by IRIVER LIMITED	iriver Enterprise Ltd.	Hong Kong	Management of Chinese subsidiary	100.0	100.0
	iriver Inc.	USA	Marketing and sales in North America	100.0	100.0
	iriver China Co., Ltd.	China	Sales and manufacturing MP3,4 in China	100.0	100.0
	Dongguan iriver Electronics Co., Ltd.	China	Sales and manufacturing e-book in China	100.0	100.0
	groovers JP Ltd.	Japan	Digital music contents sourcing and distribution service	100.0	100.0

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

	Subsidiary	Location	Primary business	Ownership (%)(*1) Dec. 31, 2017	Dec. 31, 2016
	S.M. LIFE DESIGN COMPANY JAPAN INC.(*6)	Japan	Selling of goods in Japan	100.0	
	S.M. Mobile Communications JAPAN Inc.(*6)	Japan	Digital contents service	100.0	
Subsidiaries owned by SK Telink Co., Ltd.	NSOK Co., Ltd. (formerly, Neosnetworks Co., Ltd.)(*7)	Korea	Guarding of facilities	100.0	100.0
Subsidiaries owned by SK techx Co., Ltd.	K-net Culture and Contents Venture Fund	Korea	Capital investing in startups	59.0	59.0
Subsidiaries owned by SK Broadband Co., Ltd.	Home & Service Co., Ltd.(*6)	Korea	Operation of information and communication facility	100.0	
	SK stoa Co., Ltd.(*6)	Korea	Other telecommunication retail business	100.0	
Others(*8)	SK Telecom Innovation Fund, L.P.	USA	Investment	100.0	100.0
	SK Telecom China Fund I L.P.	Cayman Islands	Investment	100.0	100.0
	Stonebridge Cinema Fund(*6)	Korea	Capital investing in startups		60.0

(*1) The ownership interest represents direct ownership interest in subsidiaries either by the Parent Company or subsidiaries of the Parent Company.

(*2) On September 28, 2017, the board of directors of the Parent Company resolved to acquire the shares of SK Telink Co., Ltd. held by the non-controlling shareholders of SK Telink Co., Ltd. on December 14, 2017 at 270,583 per share in cash. The Parent Company paid 35,281 million in cash, in aggregate, and wholly owns SK Telink Co., Ltd. as of December 31, 2017.

(*3) On November 24, 2016, the board of directors of the Parent Company resolved to acquire all of the shares of SK Communications Co., Ltd. held by the non-controlling shareholders of SK Communications Co., Ltd. on February 7, 2017 at 2,814 per share in cash. The Parent Company paid 41,550 million in cash ,in aggregate, and wholly owns SK Communications Co., Ltd. as of December 31, 2017.

(*4) Although the Group has less than 50% of the voting rights of IRIVER LIMITED, the Group is considered to have control over IRIVER LIMITED since the Group holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed.

(*5) The ownership interest changed due to the non-proportional capital increase during the year ended December 31, 2017.

(*6) Details of changes in consolidation scope for the year ended December 31, 2017 are presented in Note 1-(4).

(*7) During the year ended December 31, 2017, Neosnetworks Co., Ltd. changed its name to NSOK Co., Ltd.

(*8) Others are owned together by Atlas Investment and one other subsidiary of the Parent Company.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(3) Condensed financial information of subsidiaries

Condensed financial information of the significant subsidiaries as of and for the year ended December 31, 2017 is as follows:

(In millions of won)	As of December 31, 2017			2017	
Subsidiary	**Total assets**	**Total liabilities**	**Total equity**	**Revenue**	**Profit (loss)**
SK Telink Co., Ltd.	455,685	104,727	350,958	389,944	32,728
SK m&service Co., Ltd. (formerly, M&Service Co., Ltd.)	113,515	62,795	50,720	193,256	1,249
SK Communications Co., Ltd.	90,923	28,410	62,513	47,546	(35,454)
SK Broadband Co., Ltd.	3,802,349	2,616,317	1,186,032	3,050,083	32,030
K-net Culture and Contents Venture Fund	250,747	35,900	214,847		196,250
PS&Marketing Corporation	506,883	288,881	218,002	1,766,142	391
SERVICEACE Co., Ltd.	77,681	45,501	32,180	197,408	2,599
SERVICE TOP Co., Ltd.	65,406	41,860	23,546	186,117	3,309
Network O&S Co., Ltd.	87,000	45,248	41,752	255,841	6,283
SK Planet Co., Ltd.	1,534,866	920,677	614,189	1,082,685	(513,667)
IRIVER LIMITED(*)	130,878	17,204	113,674	69,452	(14,092)
SKP America LLC.	412,251		412,251		(57)
SK techx Co., Ltd.	237,700	41,561	196,139	195,948	26,827
One Store Co., Ltd.	104,891	39,874	65,017	115,596	(27,254)
Home & Service Co., Ltd.	83,698	38,350	45,348	141,739	11
shopkick Management Company, Inc.	338,650		338,650		(238)
shopkick, Inc.	37,336	32,219	5,117	48,836	(25,249)

(*) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and six other subsidiaries of IRIVER LIMITED. Information for the other subsidiaries in the above summary is based on their separate financial statements.

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

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

(In millions of won)	As of December 31, 2016			2016	
Subsidiary	**Total assets**	**Total liabilities**	**Total equity**	**Revenue**	**Profit (loss)**
SK Telink Co., Ltd.	440,956	122,741	318,215	406,930	61,585
SK m&service Co., Ltd. (formerly, M&Service Co., Ltd.)	107,768	56,596	51,172	173,816	4,958
SK Communications Co., Ltd.	128,233	31,592	96,641	58,154	(20,411)
SK Broadband Co., Ltd.	3,523,494	2,376,429	1,147,065	2,942,976	21,526
PS&Marketing Corporation	546,803	328,846	217,957	1,679,735	11,908
SERVICEACE Co., Ltd.	67,735	40,014	27,721	199,828	3,605
SERVICE TOP Co., Ltd.	59,004	39,121	19,883	186,740	3,971
Network O&S Co., Ltd.	69,774	35,798	33,976	218,917	3,755
SK Planet Co., Ltd.(*1)	1,935,663	834,151	1,101,512	1,177,323	(30,959)
IRIVER LIMITED(*2)	50,075	11,941	38,134	52,328	(9,987)
SKP America LLC.	439,209		439,209		1,226
SK techx Co., Ltd.	212,819	52,563	160,256	193,396	28,213
One Store Co., Ltd.	134,207	41,738	92,469	106,809	(22,161)
shopkick Management Company, Inc.	354,627		354,627		(85)
shopkick, Inc.	37,947	34,024	3,923	45,876	(27,149)

(*1) The separate financial information of SK Planet Co., Ltd. includes pre-merger income and expenses of Commerce Planet Co., Ltd. prior to the merger date of February 1, 2016.

(*2) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and five other subsidiaries of IRIVER LIMITED.

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

(In millions of won)	As of December 31, 2015	2015

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(*) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and five other subsidiaries of IRIVER LIMITED.

(4) Changes in subsidiaries

The list of subsidiaries that were newly included in consolidation during the year ended December 31, 2017 is as follows:

Subsidiary	Reason
S.M. LIFE DESIGN COMPANY JAPAN INC. (Refer to Note10)	Acquired by IRIVER LIMITED
S.M. Mobile Communications JAPAN Inc. (Refer to Note10)	Acquired by IRIVER LIMITED
Home & Service Co., Ltd.	Established by SK Boradband Co., Ltd.
SK stoa Co., Ltd.	Established by SK Boradband Co., Ltd.

The list of subsidiaries that were excluded from consolidation during the year ended December 31, 2017 is as follows:

Subsidiary	Reason
Entrix Co., Ltd.	Merged into SK techx Co., Ltd. during the year ended December 31, 2017.
Planet11 E-commerce Solutions India Pvt. Ltd.	Disposed during the year ended December 31, 2017.
Stonebridge Cinema Fund	Liquidated during the year ended December 31, 2017.

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2017, 2016 and 2015 are as follows. There were no dividends paid during the years ended December 31, 2017, 2016 and 2015 by subsidiaries of which non-controlling interests are significant.

(In millions of won)

	K-net Culture and Contents Venture Fund	IRIVER LIMITED	One Store Co., Ltd.
Ownership of non-controlling interests (%)	41.00	54.10	34.46
		As of December 31, 2017	
Current assets	625	74,873	76,810
Non-current assets	250,122	56,005	28,081
Current liabilities	(35,900)	(9,563)	(38,547)
Non-current liabilities		(7,641)	(1,327)
Net assets	214,847	113,674	65,017
Carrying amount of non-controlling interests	88,087	63,382	22,405
		2017	
Revenue		69,452	115,596
Profit (loss) for the year	196,250	(14,092)	(27,254)
Total comprehensive profit (loss)	201,693	(14,278)	(27,452)
Profit (loss) attributable to non-controlling interests	80,463	(7,438)	(9,392)
Net cash provided by (used in) operating activities	(7)	(7,553)	13,912
Net cash used in investing activities	(600)	(45,002)	(2,000)
Net cash provided by (used in) financing activities		64,571	(7)
Net increase (decrease) in cash and cash equivalents	(607)	12,016	11,905

(In millions of won)

	SK Communications Co., Ltd.	One Store Co., Ltd.
Ownership of non-controlling interests (%)	35.46	34.46

	As of December 31, 2016	
Current assets	81,806	90,414
Non-current assets	46,427	43,793
Current liabilities	(30,098)	(40,969)
Non-current liabilities	(1,494)	(769)
Net assets	96,641	92,469
Carrying amount of non-controlling interests	34,265	31,863

	2016	
Revenue	58,154	106,809
Loss for the year	20,411	22,161
Total comprehensive loss	20,841	22,402
Loss attributable to non-controlling interests	7,240	6,772
Net cash used in operating activities	(4,891)	(4,447)
Net cash provided by (used in) investing activities	3,625	(20,796)
Net cash provided by financing activities		51,426
Net increase(decrease) in cash and cash equivalents	(1,266)	26,183

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For the years ended December 31, 2017, 2016 and 2015

(In millions of won)

	SK Communications Co., Ltd.
Ownership of non-controlling interests (%)	35.46

	As of December 31, 2015
Current assets	95,662
Non-current assets	56,834
Current liabilities	(33,306)
Non-current liabilities	(1,708)
Net assets	117,482
Carrying amount of non-controlling interests	41,659

	2015
Revenue	80,147
Loss for the period	14,826
Total comprehensive loss	16,698
Loss attributable to non-controlling interests	5,254
Net cash used in operating activities	(2,706)
Net cash provided by investing activities	8,723
Net cash provided by financing activities	
Net increase in cash and cash equivalents	6,017

2. Basis of Presentation

(1) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issuance by the Board of Directors on February 2, 2018.

(2) Basis of measurement

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

derivative financial instruments measured at fair value;

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

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

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

(3) Functional and presentation currency

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

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(4) Use of estimates and judgments

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

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

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in Note 4 for the following areas: consolidation: whether the Group has de facto control over an investee, and classification of lease.

2) Assumptions and estimation uncertainties

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

3) Fair value measurement

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

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

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

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

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

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

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

Information about assumptions used for fair value measurements are included in Note 35.

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

3. Changes in accounting policies

Except the following amendments to the standards that are effective for annual periods beginning on January 1, 2017, the accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(1) International Accounting Standards (IAS) 7, Cash Flow Statements

The Group adopted the amendments to IAS 7, which form a part of the IASB s broader disclosure in the period beginning on January 1, 2017. The amendment requires the Group to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group disclosed the reconciliation of the opening and closing balances of liabilities arising from financing activities including changes from financing cash flows; changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes in Note 38.

(2) IAS 12, Income Taxes

The Group adopted the amendments to IAS 12 in the period beginning January 1, 2017. The amendments clarify the necessity to consider whether there are restrictions on tax laws on the sources of taxable profits which may be used for the reversal of deductible temporary difference. In addition, the amendments provide the guidance on how to estimate the probable future taxable profit and specify the circumstances where an asset can be recovered for more than its carrying amount. These amendments have no impact on the Group s consolidated financial statements.

4. Significant Accounting Policies

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

(1) Operating segments

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

The Group s chief operating decision maker receives and reviews operating income based on Korean IFRS as the measure of segment profit and loss for each operating segment. Segment operating income differs from consolidated operating income used in the Group s consolidated statements of income. Segment operating profit does not include certain items such as fee revenues, gain/loss from disposal of property, plant, equipment and intangible assets, impairment losses on property, plant, equipment and intangible assets, donations, bad debt expense and penalties. The chief operating decision maker does not receive any information about segment assets and liabilities.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(2) Basis of consolidation

(i) Business combination

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

Consideration transferred is generally measured at fair value, identical to the measurement of identifiable net assets acquired at fair value. The difference between the acquired company s fair value and the consideration transferred is accounted for goodwill. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received excluding costs to issue debt or equity securities recognized based on IAS 32 and 39.

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

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

(ii) Non-controlling interests

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

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

(iii) Subsidiaries

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

(iv) Loss of control

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

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

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

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

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(vi) Intra-group transactions

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

(vii) Business combinations under common control

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

(3) Cash and cash equivalents

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

(4) Inventories

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

(5) Non-derivative financial assets

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

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

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

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

(ii) Held-to-maturity investments

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

(v) De-recognition of financial assets

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

(vi) Offsetting between financial assets and financial liabilities

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

(6) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of income.

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The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

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

(ii) Separable embedded derivatives

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

(a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

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

(iii) Other derivative financial instruments

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

(7) Impairment of financial assets

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

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

- significant financial difficulty of the issuer or obligor;

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

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

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- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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

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

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

(8) Property and equipment

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

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

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

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

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

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

	Useful lives (years)
Buildings and structures	15 ~ 40
Machinery	3 ~ 15
Other property and equipment	2 ~ 10

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

(9) Borrowing costs

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

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

(10) Intangible assets

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

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

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Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

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

	Useful lives (years)
Frequency usage rights	5 ~ 13
Land usage rights	5
Industrial rights	5, 10
Development costs	3 ~ 5
Facility usage rights	10, 20
Customer relations	3 ~ 7
Other	3 ~ 20

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

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

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

(11) Government grants

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

(i) Grants related to assets

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

(ii) Grants related to income

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

(12) Investment property

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

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

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Notes to the Consolidated Financial Statements (Continued)

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

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

(13) Impairment of non-financial assets

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

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

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

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

(14) Leases

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

(i) Finance leases

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

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

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

(ii) Operating leases

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

(iii) Determining whether an arrangement contains a lease

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

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

(15) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS 36, *Impairment of Assets*.

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

(16) Non-derivative financial liabilities

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

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

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

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(ii) Other financial liabilities

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

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

(17) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined contribution plans

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

(iv) Retirement benefits: defined benefit plans

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

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

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

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

(v) Termination benefits

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

(18) Provisions

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

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

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

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

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

(19) Transactions in foreign currencies

(i) Foreign currency transactions

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

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

(ii) Foreign operations

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

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

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

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

(20) Share capital

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

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

(21) Hybrid bond

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

(22) Share-based Payment

For equity-settled share-based payment transaction, if the fair value of the goods or services received cannot be reliably estimated, the Group measures their value indirectly by reference to the fair value of the equity instruments granted. Related expense, with a corresponding increase in capital surplus and others is recognized over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(23) Revenue

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

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

(i) Services rendered

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed.

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

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

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(ii) Goods sold

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

(iii) Commission revenue

In connection with the commission revenue from e-commerce services with following characteristics, the Group has determined that it is acting as an agent.

- The Group does not bear inventory risk or have responsibility for the delivery goods;

- All of the credit risks are borne by suppliers of goods though the Group collects the proceeds from end customers on behalf of the suppliers; and

- The Group has no latitude in establishing prices regarding goods sold in e-commerce.

(iv) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programs is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Group performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

(24) Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

(25) Finance income and finance costs

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

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

(26) Income taxes

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

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The Group pays income tax in accordance with the tax-consolidation system which applies to the Parent Company and wholly owned subsidiaries.

(i) Current tax

In accordance with the tax-consolidation system, the Parent Company calculates current taxes for the Parent Company and its wholly owned domestic subsidiaries and recognizes the income tax payable as current tax liabilities of the Parent Company. Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and includes interests and fines related to income taxes paid or payable. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

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

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

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

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

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

(27) Earnings per share

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

(28) Standards issued but not yet effective

The following new standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Group has not early adopted the following new standards in preparing these financial statements.

1) IFRS 9, Financial Instruments

IFRS 9, published in July 2014 which will replace the IAS 39 *Financial Instruments: Recognition and Measurement*, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 in the period beginning on January 1, 2018.

IFRS 9 will be applied retrospectively with exemption allowing the Group not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. The Group will recognize any difference on the measurement of financial assets and liabilities in the opening balance of retained earnings of the year beginning January 1, 2018. In the case of hedge accounting, the prospective application is allowed except for those specified in IFRS 9 such as accounting for the time value of options and the forward element of forward contracts which requires retrospective application.

Key features of IFRS 9 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment model based on changes in expected credit losses, and new approach to hedge qualification and methods for assessing hedge effectiveness.

To ensure smooth implementation of IFRS 9, the Group needs to assess the financial impact of adopting IFRS 9, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting IFRS 9 on the Group s financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

Based on the circumstances and information available as of December 31, 2017, the Group preliminary assessed the financial impact on its consolidated financial statements resulting from the adoption of IFRS 9. The results of the preliminary assessment are as follows. The results are subject to change according to additional information available in subsequent period.

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i) Classification and measurement of financial assets

Classification of financial assets under IFRS 9 is driven by the entity s business model for managing financial assets and their contractual cash flows. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models and contractual cash flows are as follows:

	Contractual cash flow characteristics	
Business model assessment(*1)	**Solely payments of principal and interest**	**Others**
Hold to collect contractual cash flows	Amortized cost(*2)	
Hold to collect contractual cash flows and sell financial assets	FVOCI- measured at fair value(*2)	FVTPL-measured at fair value(*3)
Hold to sell financial assets and others	FVTPL-measured at fair value	

(*1) The business model is expected to be assessed at portfolio level.

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

(*3) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option. This election will be made on an investment-by-investment basis.

As new classification requirements for financial assets under IFRS 9 are more stringent than requirements under IAS 39, the adoption of the new standard may result in increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Group. As of December 31, 2017, the Group s financial assets consist of 6,176,575 million of loans and receivables, 934,390 million of available-for-sale financial assets, and 328,314 million of financial assets at fair value through profit or loss.

A financial asset is measured at amortized cost under IFRS 9 if the asset is held by the Group to collect its contractual cash flows and the asset s contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Group has 6,176,575 million of loans and receivables measured at amortized cost.

Based on preliminary assessment, most of the Group s loans and receivables are held to collect their contractual cash flows and the asset s contractual cash flows represent solely payments of principal and interest. Though some are held for collecting the asset s contractual cash flows and sale, management does not expect this to have a significant impact due to the short term nature of the receivables.

A financial asset is measured at FVOCI under IFRS 9 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset s contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Group has 19,928 million of debt instruments classified as available-for-sale financial assets.

Most of the debt instruments held by the Group classified as available-for-sale financial assets are expected to be classified as financial assets measured at FVOCI upon adoption IFRS 9 as at January 1, 2018. Therefore, management does not expect there to be a significant impact.

Under IFRS 9, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2017, the Group has 914,462 million of available-for-sale equity instruments.

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As the Group plans to classify the equity instruments with long-term investment purposes to financial assets measured at FVOCI under IFRS 9, the Group s preliminary assessment did not indicate any material impact on the Group s consolidated financial statements except no recycling of amounts from OCI to profit and loss is allowed.

All other financial assets are measured at FVTPL. As of December 31, 2017, the Group has 97,003 million of debt instruments classified as financial assets at FVTPL.

Most of the financial assets classified as FVTPL under IAS 39 of the Group are expected to be designated as financial assets measured at FVTPL under IFRS 9. Therefore, the Group s preliminary assessment did not indicate any material impact on the Group s consolidated financial statements upon adoption of IFRS 9 as at January 1, 2018.

ii) Classification and measurement of financial liabilities

Under IFRS 9, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability s credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss.

Adoption of IFRS 9 may result in decrease in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI.

As of December 31, 2017, the Group s total financial liability amounts to 12,725,704 million, among which the financial liabilities designated as FVTPL using fair value option amount to 60,278 million.

As of December 31, 2017, most of the financial liabilities designated as FVTPL of the Group have short-term maturities with no significant changes in their credit risks. The Group s preliminary assessment did not indicate any material impact on the Group s consolidated financial statements upon adoption of IFRS 9 as of January 1, 2018.

iii) Impairment: financial assets and contract assets

The current impairment requirements under IAS 39 are based on an incurred loss model , where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

Under IFRS 9, the Group should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of IAS 39.

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

(*1) Under IFRS 15, *Revenue from Contracts with Customers* (see note 4 (28) (2)), for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to

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lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under IFRS 15, the Group may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Group may choose to recognize loss allowances at an amount equal to lifetime expected credit losses. The Group expects to perform the analysis on whether there was a significant increase in credit risk on collective basis instead of on individual instrument basis. In addition, when information that is more forward-looking than past due status is not available without undue cost or effort, the Group expects to use past due information to determine whether there have been significant increases in credit risk since initial recognition.

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

IFRS 9 allows the Group to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date. As of December 31, 2017, the Group has 6,176,575 million of debt instrument financial assets measured at amortized cost and 362,171 million as loss allowances for these assets. The Group s preliminary assessment did not indicate any material impact on the Group s consolidated financial statements upon adoption of IFRS 9 on January 1, 2018.

iv) Hedge accounting

IFRS 9 maintains the mechanics of hedge accounting from those in IAS 39. However, IFRS 9 replaces existing rule-based requirements under IAS 39 that are complex and difficult to apply with principle based requirement focusing more on the Group s risk management purposes and procedures. Under IAS 9, more hedging instruments and hedged items are permitted and 80%-125% effectiveness requirement is removed.

By complying with the hedging rules in IFRS 9, the Group may apply hedge accounting for transactions that currently do not meet the hedging criteria under IAS 39 thereby reducing volatility in profit or loss. As of December 31, 2017, the Group recognized the total amount of 2,026,434 million as hedged liabilities that applied hedge accounting and changes in fair value of cash flow hedge in the amount of 73,828 million was recognized in OCI for the year ended December 31, 2017.

Upon initial application of IFRS 9, the Group may choose as its accounting policy to continue to apply hedge accounting requirements under IAS 39 instead of the requirements in IFRS 9.

The Group is yet to decide on its accounting policy whether to continuously apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9 when initially applying IFRS 9. The Group designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Group s hedging instruments as of December 31, 2017 satisfy the hedge requirements of retrospective testing (80~125%) under IAS 39, the adoption of IFRS 9 is not expected to have material impact on the Group s consolidated financial statements.

2) IFRS 15, Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, published in May 2014 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts*, SIC 31, *Revenue: Barter Transactions Involving Advertising Services*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, and IFRIC 18, Transfers of Assets from Customers. The Group plans to adopt IFRS 15 on January 1, 2018. The Group plans to apply IFRS 15 by recognizing the cumulative effect of initially applying the IFRS 15 as an adjustment to the opening balance of*

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retained earnings (or other component of equity, as appropriate) of the year beginning January 1, 2018. The Group elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application (January 1, 2018) using the transition method permitted by IFRS 15.

IAS 18 provides separate revenue recognition criteria by transaction type which include sale of goods, rendering of services, and use of entity assets by others yielding interest, royalties and dividends. However, IFRS 15 introduces a five-step model for revenue recognition that focuses on the transfer of control rather than the transfer of risks and rewards . The steps in five-step model are as follows:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when (or as) the entity satisfies a performance obligation.

The Group performed evaluation and identified necessary changes to its accounting system and related controls based on the understanding of the revenue stream of the Group with the assistance of external information technology and accounting specialists. The Group is assessing the financial impact of the adoption of IFRS 15 on its consolidated financial statements and plans to complete the assessment by March 31, 2018.

Based on the circumstances and information available as of December 31, 2017, the Group preliminarily assessed the financial impact on its consolidated financial statements resulting from the adoption of IFRS 15. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available to use in subsequent periods.

i) Identification of performance obligations in the contract

A substantial portion of the Group s revenues are generated from provision of wireless telecommunications services. IFRS 15 requires the Group to evaluate goods or services promised to customers to determine if they are performance obligations other than wireless telecommunications service that should be accounted for separately. The amount and timing of revenue recognition under IFRS 15 may be different from those under IAS 18 depending on the conclusion over the existence of separately identifiable performance obligations and the timing of satisfying each performance obligation.

In the case that the Group provides the wireless telecommunications services and a handset to one customer, the Group will allocate considerations from the customer between handset sale revenue and wireless telecommunications service revenue. The handset sales revenue is recognized when handset is sold and the wireless telecommunications service revenue is recognized as revenue over the period of the contract term as stated in the subscription contract.

ii) Allocate the transaction price to the separate performance obligations

In accordance with IFRS 15, the Group should allocate the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price. The Group plans to use adjusted market assessment method for estimating the stand-alone selling price. However, in some circumstances, expected cost plus a margin approach will be used.

The Group is in the progress of assessing the financial impact of allocating the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price for the case where the Group provides the wireless telecommunications services and handset to one customer. Based on the preliminary assessment, the Group expects that wireless telecommunications service revenue will be decreased, while handset sale revenue will be increased upon adoption of IFRS 15.

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For the years ended December 31, 2017, 2016 and 2015

iii) Incremental costs to acquire a contract

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

Under IFRS 15, for the Group s incremental costs to acquire a subscription contract, the Group expects to capitalize such amounts and amortized over the expected subscription period estimated based on historical experience. However, as a practical expedient, the Group plans to expense the incremental cost as incurred if the amortization period of the contract acquisition and fulfillment cost is considered to be not longer than one year.

As of December 31, 2017, the Group is assessing the impact of capitalizing the incremental costs associated with obtaining customer contracts. Based on the preliminary assessment, the Group expects commission expenses to decrease, while corresponding assets capitalized (incremental costs of obtaining a contract) and amortization expenses to be recognized and incurred, respectively.

3) IFRS 16, Leases

IFRS 16, published in January 2016 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. IFRS16 replaces existing leases guidance including IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC 15, *Operating Leases Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

IFRS 16, at the inception date of a contract and the first implementation of the standard, requires the Group to determine whether a contract is, or contains, a lease unless the Group applies the practical expedient for the existing lease contract at the date of adoption of the standard.

When accounting for lease, lessee and lessor should account for each lease component within the contract as a lease separately from non-lease components of the contract.

Lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. However, there are optional exemptions for short-term leases and leases of low value items. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessor accounting remains similar to the current standard IAS 17. For a sale and leaseback arrangement, IFRS 16 requires the Group to apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset. However, sale and leaseback arrangements entered into before the adoption of IFRS 16 may not be reassessed.

i) Lease accounting for lessees

As a lessee, the Group can either apply the IFRS 16 using a full retrospective approach; or modified retrospective approach. The full retrospective approach requires the Group to retrospectively apply the new standard to each prior reporting period presented, while modified retrospective approach requires the lessee to recognize the cumulative effect of initial application at the date of initial application of the new leases standard.

ii) Lease accounting for lessors

In case where the Group is an intermediate lessor, the Group should reassess subleases that were classified as operating leases applying IAS 17 and are ongoing at the date of initial application, whether each sublease should be

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classified as an operating lease or a finance lease applying IFRS 16. For subleases that were classified as operating leases applying IAS 17 but finance leases applying IFRS 16, the Group should accounts for such sublease as a new finance lease entered into at the date of initial application of IFRS 16.

The Group plans to update its accounting system and related controls and complete the assessment of impact on its consolidated financial statements resulting from the adoption of IFRS 16 by December 31, 2018.

5. Operating Segments

The Group s operating segments have been identified to be each business unit, by which the Group provides independent services and merchandise. The Group s reportable segments are 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 open marketplace platform, 11st, and other commerce solutions, and other businesses, which include online portal service, hardware business and other operations that do not meet the quantitative thresholds to be separately considered reportable segments.

(1) Segment information for the years ended December 31, 2017, 2016 and 2015 is as follows:

(In millions of won)

	2017						
	Cellular Services	**Fixed-line telecommu-nication services**	**E-commerce Services**	**Others**	**Sub-total**	**Adjustments**	**Total**
Total revenue	14,873,543	3,586,887	1,091,903	788,836	20,341,169	(2,821,156)	17,520,013
Inter-segment revenue	1,611,408	862,736	47,732	299,280	2,821,156	(2,821,156)	
External revenue	13,262,135	2,724,151	1,044,171	489,556	17,520,013		17,520,013
Depreciation and amortization	2,390,016	592,877	54,486	60,087	3,097,466		3,097,466
Operating profit (loss)	1,714,078	167,515	(267,829)	(77,138)	1,536,626	(312,054)	1,224,572
Gain relating to investments in subsidiaries,							2,245,732

associates and joint ventures, net	
Finance income	366,561
Finance costs	(433,616)
Profit before income tax	3,403,249

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(In millions of won)

	2016						
	Cellular Services	Fixed-line telecommu-nication services	E-commerce Services	Others	Sub-total	Adjustments	Total
Total revenue	14,635,720	3,349,905	1,177,323	726,374	19,889,322	(2,797,506)	17,091,816
Inter-segment revenue	1,630,811	698,712	176,007	291,976	2,797,506	(2,797,506)	
External revenue	13,004,909	2,651,193	1,001,316	434,398	17,091,816		17,091,816
Depreciation and amortization	2,262,363	551,811	68,298	59,414	2,941,886		2,941,886
Operating profit (loss)	1,799,127	132,459	(365,194)	(30,648)	1,535,744	(232,326)	1,303,418
Gain relating to investments in subsidiaries, associates and joint ventures, net							544,501
Finance income							575,050
Finance costs							(326,830)
Profit before income tax							2,096,139

(In millions of won)

	2015						
	Cellular Services	Fixed-line telecommu-nication services	E-commerce Services	Others	Sub-total	Adjustments	Total
Total revenue	14,962,689	3,162,712	1,703,278	410,265	20,238,944	(3,102,210)	17,136,734
Inter-segment revenue	1,693,411	668,139	643,299	97,361	3,102,210	(3,102,210)	
External revenue	13,269,278	2,494,573	1,059,979	312,904	17,136,734		17,136,734
Depreciation and amortization	2,174,819	531,106	112,537	26,833	2,845,295		2,845,295
Operating profit (loss)	1,678,339	108,252	(6,740)	(71,845)	1,708,006	(212,581)	1,495,425

Gain relating to investments in subsidiaries, associates and joint ventures, net	786,140
Finance income	103,900
Finance costs	(350,100)
Profit before income tax	2,035,365

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(2) Reconciliation of total segment operating income to consolidated operating profit from continuing operations for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)	**2017**	**2016**	**2015**
Total segment operating income	1,536,626	1,535,744	1,708,006
Other operating income:			
Gain on disposal of property and equipment and intangible assets	13,991	6,908	7,140
Others(*1)	18,006	59,640	23,795
	31,997	66,548	30,935
Other operating expenses:			
Impairment loss on property and equipment and intangible assets	(54,946)	(24,506)	(35,845)
Loss on disposal of property and equipment and intangible assets	(60,086)	(63,797)	(21,392)
Donations	(112,634)	(96,633)	(72,454)
Bad debt for accounts receivable other	(5,793)	(40,312)	(15,323)
Others(*2)	(110,592)	(73,626)	(98,502)
	(344,051)	(298,874)	(243,516)
Consolidated operating profit from continuing operations	1,224,572	1,303,418	1,495,425

(*1) Others for the year ended December 31, 2016 include 25 billion of penalty refund.

(*2) Others for the years ended December 31, 2017, 2016 and 2015 primarily consist of 21.4 billion, 7.6 billion and 29.5 billion of penalties, respectively, and various other expenses with inconsequential amounts.

Since there are no intersegment sales of inventory or depreciable assets, there is no unrealized intersegment profit to be eliminated on consolidation. Domestic revenue for the years ended December 31, 2017, 2016 and 2015 amounts to 17,374 billion, 16,940 billion and 17,083 billion, respectively. Domestic non-current assets (excluding financial assets, investments in associates and joint ventures and deferred tax assets) as of December 31, 2017, 2016 and 2015 amount to 15,554 billion, 15,949 billion and 14,474 billion, and non-current assets outside of Korea amount to 257 billion, 286 billion and 287 billion, respectively.

No single customer contributed 10% or more to the Group s total sales for the years ended December 31, 2017, 2016 and 2015.

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For the years ended December 31, 2017, 2016 and 2015

(3) The Group s operating revenue by service type is as follows:

(In millions of won)	**2017**	**2016**	**2015**
Cellular revenue:			
Wireless service(*1)	10,638,961	10,582,963	10,720,518
Cellular interconnection	592,754	614,446	710,026
Wireless device sales	1,052,203	922,449	963,354
Miscellaneous(*2)	978,217	885,051	875,380
	13,262,135	13,004,909	13,269,278
Fixed-line telecommunication services revenue:			
Fixed line telephone service	316,763	357,754	420,611
Fixed line interconnection	116,070	134,089	57,130
Broadband internet service and advanced media platform service	1,641,645	1,472,776	1,308,789
International calling service	89,412	95,986	99,106
Miscellaneous(*3)	560,261	590,588	608,937
	2,724,151	2,651,193	2,494,573
E-commerce services revenue(*4)	1,044,171	1,001,316	1,059,979
Other revenue:			
Portal service(*5)	43,952	54,177	71,812
Miscellaneous(*6)	445,604	380,221	241,092
	489,556	434,398	312,904
Consolidated operating revenue	17,520,013	17,091,816	17,136,734

(*1) Wireless service revenue includes revenue from wireless voice and data transmission services principally derived through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by our wireless subscribers.

(*2) Miscellaneous cellular services revenue includes revenue from IoT solutions as well as other miscellaneous cellular services.

(*3) Miscellaneous fixed-line telecommunication services revenue includes revenues from business communications services (other than fixed-line telephone service) provided by SK Broadband and VoIP services provided by SK Telink

(*4) E-commerce service revenue includes revenues from 11st, open marketplace platform, and other commerce solutions.

(*5) Portal service revenue includes revenues from Nate, and online portal service operated by SK Communications.

(*6) Miscellaneous other revenue includes revenues from hardware business, security business operated by one of the Group s subsidiaries, NSOK Co., Ltd., marketing and sales solutions business operated by one of the Group s subsidiaries, SK m&service Co., Ltd., and online open marketplace for mobile applications among other operations.

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017, 2016 and 2015

6. Restricted Deposits

Deposits which are restricted in use as of December 31, 2017 and 2016 are summarized as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Short-term financial instruments(*)	89,850	90,278
Long-term financial instruments(*)	1,222	937
	91,072	91,215

(*) Financial instruments include charitable trust fund established by the Group where profits from the fund are donated to charitable institutions. As of December 31, 2017, the funds cannot be withdrawn before maturity.

7. Trade and Other Receivables

(1) Details of trade and other receivables as of December 31, 2017 and 2016 are as follows:

(In millions of won)

		December 31, 2017	
	Gross amount	Allowances for doubtful accounts	Carrying amount
Current assets:			
Accounts receivable trade	2,365,270	(239,263)	2,126,007
Short-term loans	63,380	(550)	62,830
Accounts receivable other	1,336,247	(75,412)	1,260,835
Accrued income	3,979		3,979
Others	3,927		3,927
	3,772,803	(315,225)	3,457,578
Non-current assets:			
Long-term loans	97,635	(46,761)	50,874

Long-term accounts receivable other	287,048		287,048
Guarantee deposits	292,590		292,590
Long-term accounts receivable trade	12,933	(185)	12,748
	690,206	(46,946)	643,260
	4,463,009	(362,171)	4,100,838

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For the years ended December 31, 2017, 2016 and 2015

(In millions of won)

	December 31, 2016		
	Gross amount	**Allowances for doubtful accounts**	**Carrying amount**
Current assets:			
Accounts receivable trade	2,482,502	(241,576)	2,240,926
Short-term loans	59,526	(547)	58,979
Accounts receivable other	1,200,421	(78,977)	1,121,444
Accrued income	2,780		2,780
Others	3,937		3,937
	3,749,166	(321,100)	3,428,066
Non-current assets:			
Long-term loans	113,456	(47,980)	65,476
Long-term accounts receivable other	149,669		149,669
Guarantee deposits	298,964		298,964
Long-term accounts receivable trade	20,637	(252)	20,385
	582,726	(48,232)	534,494
	4,331,892	(369,332)	3,962,560

(2) Changes in allowances for doubtful accounts of trade and other receivables for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	**2016**
Balance at January 1	369,332	344,016
Bad debt expense	40,377	78,132
Write-offs	(70,802)	(79,891)
Other	23,264	27,075
Balance at December 31	362,171	369,332

(3)

Details of overdue but not impaired, and impaired trade and other receivables as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017		December 31, 2016	
	Accounts receivable - trade	Other receivables	Accounts receivable - trade	Other receivables
Neither overdue nor impaired	1,585,714	1,930,261	1,715,966	1,617,349
Overdue but not impaired	29,304	3,113	41,613	5,663
Impaired	763,185	151,432	745,560	205,741
	2,378,203	2,084,806	2,503,139	1,828,753
Allowances for doubtful accounts	(239,448)	(122,723)	(241,828)	(127,504)
	2,138,755	1,962,083	2,261,311	1,701,249

The Group establishes allowances for doubtful accounts based on the likelihood of recoverability of trade and other receivables based on their aging at the end of the period, past customer default experience, customer credit status, and economic and industrial factors.

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(4) The aging of overdue but not impaired accounts receivable as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017		December 31, 2016	
	Accounts receivable - trade	Other receivables	Accounts receivable - trade	Other receivables
Less than 1 month	7,150	2,679	11,543	2,838
1 ~ 3 months	1,663	44	9,144	140
3 ~ 6 months	1,576	124	4,643	1
More than 6 months	18,915	266	16,283	2,684
	29,304	3,113	41,613	5,663

8. Inventories

Details of inventories as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017			December 31, 2016		
	Acquisition cost	Write-down	Carrying amount	Acquisition cost	Write-down	Carrying amount
Merchandise	251,463	(7,488)	243,975	232,871	(6,913)	225,958
Finished goods	1,889	(557)	1,332	1,931	(363)	1,568
Work-in-process	1,906	(956)	950	2,895	(347)	2,548
Raw materials and supplies	29,395	(3,249)	26,146	31,141	(1,369)	29,772
	284,653	(12,250)	272,403	268,838	(8,992)	259,846

The amount of the inventory write-downs and write-off of inventories charged to statement of income are as follows:

(In millions of won)

	2017	2016	2015
Charged to cost of products that have been resold	6,079	3,751	1,983

Write-off upon sale	(2,820)	(1,299)	(2,095)

There are no significant reversals of inventory write-downs for the periods presented.

9. Investment Securities

(1) Details of short-term investment securities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	**December 31, 2016**
Beneficiary certificates(*)	144,386	107,364

(*) The income distributable in relation to beneficiary certificates as of December 31, 2017 were accounted for as accrued income.

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For the years ended December 31, 2017, 2016 and 2015

(2) Details of long-term investment securities as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Equity securities:		
Marketable equity securities(*1)	589,202	526,363
Unlisted equity securities etc.(*2)	277,877	295,403
	867,079	821,766
Debt securities:		
Investment bonds	19,928	6,755
	887,007	828,521

(*1) During the year ended December 31, 2016, the Group sold 3,793,756 shares of Loen Entertainment, Inc. to Kakao Corp. in exchange for 1,357,367 shares of Kakao Corp. and 218,037 million in cash. In connection with the sale of Loen Entertainment shares, the Group recognized gain on disposal of long-term investment securities amounting to 314,745 million.

The Group recognized gain on disposal amounting to 138,779 million as the Group disposed its entire marketable equity securities of POSCO Co., Ltd. for 305,110 million of cash during the year ended December 31, 2016.

In addition, the Group sold 1,357,367 shares of Kakao Corp. in exchange for 112,649 million in cash during the year ended December 31, 2017. In connection with the sale of Kakao Corp. shares, the Group recognized loss on disposal of long-term investment securities amounting to 35,468 million.

(*2) Unlisted equity securities and equity investments whose fair value cannot be measured reliably are recorded at cost.

10. Business Combination

(1) 2017

1) Acquisition of S.M. LIFE DESIGN COMPANY JAPAN INC. by IRIVER LIMITED

On September 1, 2017, IRIVER LIMITED, a subsidiary of the Parent Company, acquired all of the S.M. LIFE DESIGN COMPANY JAPAN INC. s shares from S.M. ENTERTAINMENT JAPAN, Inc. in order to enter overseas business and enhance its competitiveness with the consideration of 30,000 million in cash. The Group recognized the difference between the consideration paid and the fair value of net assets acquired amounting to 21,748 million as goodwill. Subsequent to the acquisition, S.M. LIFE DESIGN COMPANY JAPAN INC. recognized revenues and net profit of amounting to 6,365 million and 1,244 million, respectively, in 2017.

2) Merger of SM mobile communications Co., Ltd. by IRIVER LIMITED

On October 1, 2017, IRIVER LIMITED merged SM mobile communications Co., Ltd. in order to enter contents business and enhance competitiveness of its device business. As a result of merger, IRIVER LIMITED obtained control over S.M. Mobile Communications JAPAN Inc. which was wholly owned by SM mobile communications Co., Ltd. The consideration transferred was measured at the fair value of the shares transferred based on the merger ratio set on October 1, 2017. The Group recognized the difference between the consideration and the fair value of net assets amounting to 13,473 million as goodwill. Subsequent to the consummation of the merger, S.M. Mobile Communications JAPAN Inc. recognized no revenue with 103 million of net loss in 2017.

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3) Considerations paid and assets and liabilities recognized at the acquisition date are as follows:

(In millions of won)

	S.M. LIFE DESIGN COMPANY JAPAN INC.	**S.M. Mobile Communications JAPAN Inc.**
Considerations paid:		
Cash and cash equivalents	30,000	
Shares of IRIVER LIMITED		24,650
Assets and liabilities acquired:		
Cash and cash equivalents	3,434	4,112
Trade and other receivables	1,471	237
Inventories	1,879	
Property and equipment	4	311
Intangible assets	6,677	7,445
Other assets		41
Trade and other payables	(2,563)	(815)
Deferred tax liabilities	(2,324)	
Other liabilities	(326)	(154)
Net assets	8,252	11,177

(2) 2015

1) General information

On April 1, 2015, Neosnetworks Co., Ltd., a subsidiary of the Parent Company, acquired an unmanned machine security business of Joeun Safe Co., Ltd., which provides security and maintenance services, in order to expand infrastructure and enhance competitiveness of its security business.

The Group recognized the acquired assets and liabilities at fair value and the difference between the consideration and fair value of net assets as goodwill.

2) Considerations paid and identifiable assets acquired and liabilities assumed

Considerations paid and assets in succession recognized at the acquisition date are as follows:

(In millions of won)

	2015
Considerations paid and liabilities assumed:	
Cash and cash equivalents	13,197
Accounts payable other	1,858
	15,055
Assets acquired:	
Property and equipment	3,208
Intangible assets	8,486
Other assets	1,603
	13,297

11. Business Combinations under Common Control

(1) 2016

During the year ended December 31, 2016, the Parent Company distributed its entire ownership interests in Neosnetworks Co., Ltd. to SK Telink Co., Ltd., a subsidiary of the Parent Company as contribution in kind.

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Neosnetworks Co., Ltd. became a wholly owned subsidiary of SK Telink Co., Ltd. As this transaction is a business combination under common control, SK Telink Co., Ltd. recognized the book value of the assets and liabilities of Neosnetworks Co., Ltd. in its financial statements. There s no effect on the assets and liabilities of the consolidated financial statements.

(2) 2015
During the year ended December 31, 2015, hoppin service division of SK Planet Co., Ltd., a subsidiary of the Parent Company, was spun off from SK Planet Co., Ltd. and was merged into SK Broadband, Co., Ltd., a subsidiary of the Parent Company. There is no impact on the consolidated financial statements as it is a business combination under common control.

12. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2017 and 2016 are as follows:

(In millions of won)

		December 31, 2017		December 31, 2016	
	Country	Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Investments in associates:					
SK China Company Ltd.(*1)	China	27.3	526,099	9.6	46,354
Korea IT Fund(*2)	Korea	63.3	257,003	63.3	263,850
KEB HanaCard Co., Ltd.(*3)	Korea	15.0	280,988	15.0	265,798
NanoEnTek, Inc.	Korea	28.5	38,718	28.5	39,514
SK Industrial Development China Co., Ltd.(*1)	Hong Kong			21.0	74,717
SK Technology Innovation Company	Cayman Islands	49.0	42,511	49.0	47,488
HappyNarae Co., Ltd.(*4)	Korea	45.0	21,873	42.5	17,236
SK hynix Inc.	Korea	20.1	8,130,000	20.1	6,132,122
SK MENA Investment B.V.	Netherlands	32.1	13,853	32.1	15,451
SKY Property Mgmt. Ltd.(*1)	Virgin Island			33.0	263,225
S.M. Culture & Contents Co., Ltd.(*5)	Korea	23.4	64,966		
	China	49.0	25,891	49.0	25,880

Xian Tianlong Science and Technology Co., Ltd.					
Daehan Kanggun BcN Co., Ltd. and others			96,479		115,181
Sub-total			9,498,381		7,306,816
Investments in joint ventures:					
Dogus Planet, Inc.(*6)	Turkey	50.0	13,991	50.0	20,081
PT XL Planet Digital(*7)	Indonesia			50.0	27,512
Finnq Co., Ltd.(*8)	Korea	49.0	16,474	49.0	24,174
Celcom Planet and others			9,592		25,740
Sub-total			40,057		97,507
Total			9,538,438		7,404,323

(*1) During the year ended December 31, 2017, the Group contributed its shares in SKY Property Mgmt. Ltd. and SK Industrial Development China Co., Ltd., both equity method investees of the Group, to SK China Company Ltd., and participated in SK China Company Ltd. s rights issue amounting to USD 100,000,000,

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For the years ended December 31, 2017, 2016 and 2015

which resulted in Group s acquiring 8,101,884 and 2,107,037 shares of SK China Company Ltd., respectively. This investment in associates acquired through this contribution in kind transaction was measured at fair value.

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

(*3) This investment was classified as investments in associates as the Group can exercise significant influence through its right to appoint the members of board of directors even though the Group has less than 20% of equity interests.

(*4) The Group acquired 40,000 shares of HappyNarae Co., Ltd. at 17,212 per share during the year ended December 31, 2017.

(*5) During the year ended December 31, 2017, the Group subscribed to a third-party allocation of new shares of 22,033,898 by S.M. Culture & Contents Co., Ltd. at 65,341 million in cash.

(*6) The investment is held by SK Planet Co., Ltd.

(*7) PT XL Planet Digital was disposed during the year ended December 31, 2017.

(*8) Investment in Finnq Co., Ltd. was classified as investment in joint venture as the Group has joint control pursuant to the agreement with the other shareholders.

(2) The market price of investments in listed associates as of December 31, 2017 and 2016 are as follows:

(In millions of won, except for share data)

	December 31, 2017			December 31, 2016		
	Market value per share (in won)	Number of shares	Fair value	Market value per share (in	Number of shares	Fair value

				won)		
NanoEnTek, Inc.	5,950	6,960,445	41,415	5,020	6,960,445	34,941
SK hynix Inc.	76,500	146,100,000	11,176,650	44,700	146,100,000	6,530,670
S.M. Culture & Contents Co., Ltd.	2,700	22,033,898	59,492			

(3) The financial information of significant associates as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	As of December 31, 2017		
	SK hynix Inc.(*)	**KEB HanaCard Co., Ltd. (*)**	**SK China Company Ltd. (*)**
Current assets	17,310,444	7,339,492	729,872
Non-current assets	28,108,020	220,258	1,031,647
Current liabilities	8,116,133	1,181,746	81,161
Non-current liabilities	3,481,412	4,861,842	64,717
	2017		
Revenue	30,109,434	1,519,607	69,420
Profit for the year	10,642,219	106,352	11,492
Other comprehensive income (loss)	(422,042)	(984)	27,190
Total comprehensive income	10,220,177	105,368	38,682

(*) The financial information of SK hynix Inc., KEB HanaCard Co., Ltd., and SK China Company Ltd. are consolidated financial information.

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For the years ended December 31, 2017, 2016 and 2015

(In millions of won)

	As of December 31, 2016	
	SK hynix Inc.(*)	**KEB HanaCard Co., Ltd.(*)**
Current assets	9,838,982	6,868,387
Non-current assets	22,377,044	239,758
Current liabilities	4,160,849	1,219,327
Non-current liabilities	4,031,647	4,476,979
	2016	
Revenue	17,197,975	1,413,077
Profit for the year	2,960,483	75,595
Other comprehensive income (loss)	28,844	(154)
Total comprehensive income	2,989,327	75,441

(*) The financial information of SK hynix Inc. and KEB HanaCard Co., Ltd. are consolidated financial information.

(In millions of won)

	SK hynix Inc.	**KEB HanaCard Co., Ltd.**
	2015	
Revenue	18,797,998	1,472,830
Profit for the year	4,323,595	10,119
Other comprehensive income (loss)	40,215	(547)
Total comprehensive income	4,363,810	9,572

(4) The condensed financial information of joint ventures as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	Dogus Planet, Inc.	**Finnq Co., Ltd.**
	As of December 31, 2017	
Current assets	39,656	32,232
Cash and cash equivalents	25,818	4,590

Non-current assets	21,159	15,610
Current liabilities	32,622	5,685
Accounts payable, other payables and provision	2,743	2,290
Non-current liabilities	212	13,862

		2017
Revenue	82,791	
Depreciation and amortization	(6,152)	(1,077)
Interest income	781	532
Interest expense	(4)	(276)
Loss for the year	(4,535)	(15,699)
Total comprehensive loss	(4,535)	(15,699)

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For the years ended December 31, 2017, 2016 and 2015

(In millions of won)

	Dogus Planet, Inc.	PT XL Planet Digital	Finnq Co., Ltd.
		As of December 31, 2016	
Current assets	46,433	20,077	48,699
Cash and cash equivalents	45,839	14,985	48,408
Non-current assets	20,218	50,765	673
Current liabilities	26,417	14,513	138
Accounts payable, other payables and provision	1,971	10,306	15
Non-current liabilities	72	1,305	784
		2016	
Revenue	53,864	9,492	
Depreciation and amortization	(5,299)	(940)	(12)
Interest income	394	267	182
Interest expense	(2,139)		
Income tax benefit		51	
Loss for the year	(22,017)	(49,438)	(829)
Total comprehensive loss	(22,017)	(49,438)	(829)

(In millions of won)

	Dogus Planet, Inc.	PT. Melon Indonesia	PT XL Planet Digital
		2015	
Revenue	38,944	17,094	5,536
Depreciation and amortization	(5,318)	(132)	(2,746)
Interest income	465	288	525
Income tax benefit			7,025
Profit (Loss) for the year	(32,713)	1,853	(21,381)
Total comprehensive income (loss)	(32,713)	1,853	(21,381)

(5) Reconciliations of financial information of significant associates to carrying amounts of investments in associates in the consolidated financial statements as of December 31, 2017 and 2016 are as follows:

(In millions of won)

December 31, 2017

	Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
Associates:					
SK hynix Inc.(*1,2)	33,814,467	20.1	6,997,560	1,132,440	8,130,000
KEB HanaCard Co., Ltd.	1,516,162	15.0	227,424	53,564	280,988
SK China Company Ltd.(*1)	1,612,899	27.3	439,857	86,242	526,099

(In millions of won)

	December 31, 2016				
	Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
Associates:					
SK hynix Inc.(*1,2)	24,016,955	20.1	4,970,267	1,161,855	6,132,122
KEB HanaCard Co., Ltd.	1,411,839	15.0	211,776	54,022	265,798

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For the years ended December 31, 2017, 2016 and 2015

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

(*2) The ownership interest is based on the number of shares owned by the Parent Company as divided by the total shares issued by the investee company. The Group applied the equity method using the effective ownership interest of 20.69% which is based on the number of shares owned by the Parent Company and the total issued shares outstanding less investee s treasury shares.

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)	2017						
	Beginning balance	**Acquisition and disposition**	**Share of profit (loss)**	**Other compre-hensive income (loss)**	**Impair-ment loss**	**Other increase (decrease)**	**Ending balance**
Investments in associates							
SK China Company Ltd.(*1)	46,354	113,803	2,707	(36,783)		400,018	526,099
Korea IT Fund(*2)	263,850		(8,815)	3,371		(1,403)	257,003
KEB HanaCard Co., Ltd.	265,798		15,494	(304)			280,988
NanoEnTek, Inc.	39,514		(733)	(63)			38,718
SK Industrial Development China Co., Ltd.(*1)	74,717		5,154	(1,092)		(78,779)	
SK Technology Innovation Company	47,488		433	(5,410)			42,511
HappyNarae Co., Ltd.	17,236	688	3,929	20			21,873
SK hynix Inc.(*2)	6,132,122		2,175,887	(90,349)		(87,660)	8,130,000
SK MENA Investment B.V.	15,451		131	(1,729)			13,853

SKY Property Mgmt. Ltd.(*1)	263,225		2,362	1,141		(266,728)	
S.M. Culture & Contents Co., Ltd.		65,341	(375)				64,966
Xian Tianlong Science and Technology Co., Ltd.	25,880		11				25,891
Daehan Kanggun BcN Co., Ltd. and others(*2)	115,181	(1,306)	(6,924)	(2,723)	(1,311)	(6,438)	96,479
Sub-total	7,306,816	178,526	2,189,261	(133,921)	(1,311)	(40,990)	9,498,381
Investments in joint ventures							
Dogus Planet, Inc.	20,081	2,162	(2,267)	(5,985)			13,991
PT XL Planet Digital(*3)	27,512	(18,864)	(8,648)				
Finnq Co., Ltd	24,174		(7,691)	(9)			16,474
Celcom Planet and others	25,740		(6,228)	(833)		(9,087)	9,592
Sub-total	97,507	(16,702)	(24,834)	(6,827)		(9,087)	40,057
Total	7,404,323	161,824	2,164,427	(140,748)	(1,311)	(50,077)	9,538,438

(*1) Other increase (decrease) is due to merger of SK China Company Ltd., SK Industrial Development China Co., Ltd. and SKY Property Mgmt. Ltd.

(*2) Dividends received from the associates are deducted from the carrying amount during the year ended December 31, 2017.

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For the years ended December 31, 2017, 2016 and 2015

(*3) During the year ended December 31, 2017, the Group disposed the shares of PT XL Planet Digital and recognized loss on disposal of 27,900 million.

(In millions of won)

	2016						
	Beginning balance	**Acquisition and disposition**	**Share of profit (loss)**	**Other compre-hensive income (loss)**	**Impair-ment loss**	**Other increase (decrease)**	**Ending balance**
Investments in associates							
SK China Company Ltd.	43,814		2,257	283			46,354
Korea IT Fund(*1)	260,456		14,864	(5,388)		(6,082)	263,850
KEB HanaCard Co., Ltd.	254,177		11,658	(37)			265,798
Candle Media Co., Ltd.	20,144	(18,860)	(673)	(611)			
NanoEnTek, Inc.	45,008		(3,950)	(1,544)			39,514
SK Industrial Development China Co., Ltd.	86,324		(6,298)	(5,309)			74,717
SK Technology Innovation Company	45,891		162	1,435			47,488
HappyNarae Co., Ltd.	17,095		240	(99)			17,236
SK hynix Inc.(*1)	5,624,493		572,086	8,593		(73,050)	6,132,122
SK MENA Investment B.V.	14,929		63	459			15,451
SKY Property Mgmt. Ltd.	251,166		16,066	(4,007)			263,225
Xian Tianlong Science and Technology Co., Ltd.	25,767		113				25,880
Daehan Kanggun BcN Co., Ltd. and others	161,058	(26,798)	(13,179)	754	(6,972)	318	115,181
Sub-total	6,850,322	(45,658)	593,409	(5,471)	(6,972)	(78,814)	7,306,816
Investments in joint ventures							
Dogus Planet, Inc.	15,118	18,722	(11,008)	(2,751)			20,081
PT. Melon Indonesia(*2)	4,339	(3,488)	918	(1,769)			
PT XL Planet Digital	23,108	29,123	(24,719)				27,512
Finnq Co., Ltd		24,580	(406)				24,174
Celcom Planet and others	3,406	43,769	(21,435)				25,740
Sub-total	45,971	112,706	(56,650)	(4,520)			97,507

Total	6,896,293	67,048	536,759	(9,991)	(6,972)	(78,814)	7,404,323

(*1) Dividends received from the associate are deducted from the carrying amount during the year ended December 31, 2016.

(*2) During the year ended December 31, 2016, the Group disposed of all shares of PT. Melon Indonesia and recognized gain on disposal of 11,634 million.

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For the years ended December 31, 2017, 2016 and 2015

(7) The Group discontinued the application of equity method to the following investees due to their carrying amounts being reduced to zero. The details of cumulative unrecognized equity method losses as of December 31, 2017 are as follows:

(In millions of won)

	Unrecognized loss (profit)		Unrecognized change in equity	
	Year ended December 31, 2017	Cumulative loss	Year ended December 31, 2017	Cumulative loss
Wave City Development Co., Ltd.	(1,190)	2,100		
Daehan Kanggun BcN Co., Ltd. and others	(5,475)	5,316		365
	(6,665)	7,416		365

13. Property and Equipment

(1) Property and equipment as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Carrying amount
Land	862,861			862,861
Buildings	1,638,749	(756,099)		882,650
Structures	866,909	(488,334)		378,575
Machinery	30,343,739	(23,262,762)	(1,179)	7,079,798
Other	1,722,441	(1,188,893)	(2,491)	531,057
Construction in progress	409,941			409,941
	35,844,640	(25,696,088)	(3,670)	10,144,882

(In millions of won)

	December 31, 2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Carrying amount
Land	835,909			835,909
Buildings	1,604,863	(704,891)		899,972
Structures	812,010	(453,055)		358,955
Machinery	29,705,088	(22,667,047)	(1,991)	7,036,050
Other	1,701,794	(1,138,303)	(457)	563,034
Construction in progress	680,292			680,292
	35,339,956	(24,963,296)	(2,448)	10,374,212

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For the years ended December 31, 2017, 2016 and 2015

(2) Changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017								
	Beginning balance	Acquisition	Disposal	Transfer(*)	Depreciation	Impairment	Business Combination	Other	Ending balance
Land	835,909	13,093	(4,449)	18,308					862,861
Buildings	899,972	5,098	(477)	29,614	(51,557)				882,650
Structures	358,955	46,614	(74)	8,386	(35,306)				378,575
Machinery	7,036,050	656,731	(41,692)	1,644,045	(2,214,524)	(778)		(34)	7,079,798
Other	563,034	720,431	(9,252)	(597,404)	(143,261)	(2,234)	315	(572)	531,057
Construction in progress	680,292	1,317,389	(4,172)	(1,583,560)				(8)	409,941
	10,374,212	2,759,356	(60,116)	(480,611)	(2,444,648)	(3,012)	315	(614)	10,144,882

(*) Includes reclassification to intangible assets.

(In millions of won)

	2016						
	Beginning balance	Acquisition	Disposal	Transfer(*)	Depreciation	Impairment	Ending balance
Land	812,947	2,464	(3,514)	24,012			835,909
Buildings	911,129	4,637	(9,176)	43,910	(50,528)		899,972
Structures	344,221	33,802	(33)	15,145	(34,180)		358,955
Machinery	7,342,009	660,629	(45,672)	1,234,737	(2,152,725)	(2,928)	7,036,050
Other	473,438	807,047	(6,052)	(568,644)	(142,700)	(55)	563,034
Construction in progress	487,512	1,154,424	(9,710)	(951,934)			680,292
	10,371,256	2,663,003	(74,157)	(202,774)	(2,380,133)	(2,983)	10,374,212

(*) Includes reclassification to intangible assets.

14. Investment Property

(1) There are no investment property as of December 31, 2017 and 2016.

(2) Changes in investment properties for the year ended December 31, 2016 are as follows:

(In millions of won)

	2016			
	Beginning balance	Reclassification(*)	Depreciation	Ending balance
Land	10,634	(10,634)		
Buildings	4,437	(4,334)	(103)	
	15,071	(14,968)	(103)	

(*) Includes reclassification to property and equipment.

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(3) Income and expenses from investment property for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Rent revenue	386	850
Operating expense	(114)	(240)

15. Goodwill

(1) Goodwill as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Goodwill related to acquisition of Shinsegi Telecom, Inc.	1,306,236	1,306,236
Goodwill related to acquisition of SK Broadband Co., Ltd.	358,443	358,443
Other goodwill	250,338	267,773
	1,915,017	1,932,452

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

goodwill related to Shinsegi Telecom, Inc.(*1): cellular services;

goodwill related to SK Broadband Co., Ltd.(*2): fixed-line telecommunication services; and

other goodwill: e-commerce and other.

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

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.6% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 0.4% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group s long-term wireless telecommunication business growth rate. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

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

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 5.1% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 1.0% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group s long-term wireless telecommunication business growth rate. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

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(2) Details of the changes in goodwill for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	1,932,452	1,908,590
Acquisition	35,221	19,974
Impairment loss	(33,441)	
Other	(19,215)	3,888
	1,915,017	1,932,452

Accumulated impairment losses as of December 31, 2017 and 2016 are 50,710 million and 17,269 million, respectively.

16. Intangible Assets

(1) Intangible assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017			
	Acquisition cost	Accumulated amortization	Accumulated impairment	Carrying amount
Frequency usage rights	4,843,955	(2,667,015)		2,176,940
Land usage rights	65,841	(50,091)		15,750
Industrial rights	166,082	(54,735)		111,347
Development costs	140,460	(134,828)	(1,529)	4,103
Facility usage rights	153,438	(116,987)		36,451
Customer relations	20,796	(16,761)		4,035
Club memberships(*1)	108,382		(34,768)	73,614
Other(*2)	3,911,749	(2,733,485)	(13,539)	1,164,725
	9,410,703	(5,773,902)	(49,836)	3,586,965

(In millions of won)

	December 31, 2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment	Carrying amount
Frequency usage rights	4,843,955	(2,263,127)		2,580,828
Land usage rights	65,148	(44,314)		20,834
Industrial rights	160,897	(39,697)		121,200
Development costs	141,727	(136,446)	(410)	4,871
Facility usage rights	151,906	(110,118)		41,788
Customer relations	19,742	(13,090)		6,652
Club memberships(*1)	113,161		(39,122)	74,039
Other(*2)	3,315,921	(2,386,992)	(2,787)	926,142
	8,812,457	(4,993,784)	(42,319)	3,776,354

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

(*2) Other intangible assets primarily consist of computer software and usage rights to a research facility which the Group built and donated, and the Group is given rights-to-use for a definite number of years in turn.

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For the years ended December 31, 2017, 2016 and 2015

(2) Details of the changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017								
	Beginning balance	**Acquisition**	**Disposal**	**Transfer (*1)**	**Amortization**	**Impair-ment (*2)**	**Business combina-tion(*3)**	**Others**	**Ending balance**
Frequency usage rights	2,580,828				(403,888)				2,176,940
Land usage rights	20,834	3,689	(972)	200	(8,001)				15,750
Industrial rights	121,200	2,677	(28)	(5,635)	(6,870)		4	(1)	111,347
Development costs	4,871	3,813	(9)	(793)	(2,660)	(1,119)			4,103
Facility usage rights	41,788	2,805	(36)	129	(8,235)				36,451
Customer relations	6,652	1,054			(3,671)				4,035
Club memberships	74,039	5,023	(3,452)	122		(769)		(1,349)	73,614
Other	926,142	127,396	(19,698)	503,277	(369,546)	(16,605)	14,118	(359)	1,164,725
	3,776,354	146,457	(24,195)	497,300	(802,871)	(18,493)	14,122	(1,709)	3,586,965

(*1) Includes reclassification from advance payments and property and equipment.

(*2) The Group recognized the difference between recoverable amount and the carrying amount of club memberships amounting to 18,493 million as impairment loss for the year ended December 31, 2017.

(*3) Includes intangible assets acquired as a result of IRIVER LIMITED s purchase and merge of S.M. LIFE DESIGN COMPANY INC. and SM mobile communications Co., Ltd. during the year ended December 31, 2017.

(In millions of won)

	2016							
	Beginning balance	**Acquisition**	**Disposal**	**Transfer (*2)**	**Amortiza -tion**	**Impair-ment(*3)**	**Business combina-**	**Ending balance**

							tion	
Frequency usage rights(*1)	1,103,517	1,810,076			(332,765)			2,580,828
Land usage rights	26,576	5,338	(1,921)		(9,159)			20,834
Industrial rights	116,542	6,226	(148)	5,004	(6,424)			121,200
Development costs	7,472	1,404		338	(3,933)	(410)		4,871
Facility usage rights	48,019	2,181	(50)	231	(8,593)			41,788
Customer relations	7,175	499			(4,051)		3,029	6,652
Club memberships	91,507	7,983	(7,624)			(17,827)		74,039
Other	903,976	141,045	(20,306)	228,110	(323,397)	(3,286)		926,142
	2,304,784	1,974,752	(30,049)	233,683	(688,322)	(21,523)	3,029	3,776,354

(*1) During the year ended December 31, 2016, the Parent Company acquired the frequency right for bandwidth blocs in the 2.6 GHz band for 1,330,100 million at the spectrum auction held by the Ministry of Science, ICT and Future Planning (MSIP) of Korea and made the initial payment in accordance with the terms of the agreement in August 2016. The remaining consideration will be paid on an annual installment basis for 10 years from August 2016. In addition, the Parent Company extended frequency usage rights for 2.1 GHz band for 568,500 million with the initial payment made to MSIP during the year ended December 31, 2016. The remaining consideration will be paid on an annual installment basis for 5 years from December 2016.

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For the years ended December 31, 2017, 2016 and 2015

(*2) Includes reclassification from advance payments and property and equipment.

(*3) The Group recognized the difference between recoverable amount and the carrying amount of intangible assets, amounting to 21,523 million as impairment loss for the year ended December 31, 2016.

(3) Research and development expenditures recognized as expense for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	**2016**	**2015**
Research and development costs expensed as incurred	395,276	344,787	315,790

(4) The carrying amount and residual useful lives of frequency usage rights as of December 31, 2017 are as follows, all of which are amortized on a straight-line basis:

(In millions of won)

	Amount	**Description**	**Commencement of amortization**	**Completion of amortization**
800MHz license	141,904	Frequency usage rights relating to CDMA and LTE service	Jul. 2011	Jun. 2021
1.8GHz license	502,480	Frequency usage rights relating to LTE service	Sept. 2013	Dec. 2021
WiBro license	2,957	WiBro service	Mar. 2012	Mar. 2019
2.6GHz license	1,092,770	Frequency usage rights relating to LTE service	Sept. 2016	Dec. 2026
2.1GHz license	436,829	Frequency usage rights relating to W-CDMA and LTE service	Dec. 2016	Dec. 2021
	2,176,940			

17. Borrowings and Debentures

(1) Short-term borrowings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	Lender	Annual interest rate (%)	December 31, 2017	December 31, 2016
Short-term borrowings	Shinhan Bank	2.85	30,000	
	Woori Bank	2.88		2,614
Commercial paper	KEB Hana Bank	1.67	50,000	
Bank overdraft	KEB Hana Bank	3.17	30,000	
	Shinhan Bank	3.38	20,000	
			130,000	2,614

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For the years ended December 31, 2017, 2016 and 2015

(2) Long-term borrowings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

Lender	Annual interest rate (%)	Maturity	December 31, 2017	December 31, 2016
Korea Development Bank(*1)	3.20	Mar. 31, 2020	30,000	
KEB Hana Bank	3.18	Feb. 28, 2019	40,000	
Kookmin Bank	1.29	Mar. 15, 2017		500
Kookmin Bank	1.95	Mar. 15, 2018	717	3,583
Korea Development Bank(*2)	1.99	Jul. 30, 2019	22,750	35,750
Korea Development Bank(*2)	1.99	Jul. 30, 2019	5,833	9,167
Korea Development Bank(*2)	2.27	Dec. 20, 2021	49,000	49,000
Korea Development Bank(*2)	2.37	Dec. 21, 2022	50,000	
Export Kreditnamnden(*3)	1.70	Apr. 29, 2022	55,471	76,493
			(USD 51,775)	(USD 63,296)
Sub-total			253,771	174,493
Less present value discount			(954)	(1,586)
			252,817	172,907
Less current portion			(41,331)	(33,191)
			211,486	139,716

(*1) SK Planet Co., Ltd., one of the subsidiaries of the Parent Company entered into a floating-to-fixed interest rate swap agreement to hedge the interest rate risk.

(*2) SK Broadband Co., Ltd., one of the subsidiaries of the Parent Company entered into a floating-to-fixed interest rate swap agreement to hedge the interest rate risk.

(*3) The long-term borrowings are to be repaid by installments on an annual basis from 2014 to 2022.

(3) Debentures as of December 31, 2017 and 2016 are as follows:

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

	Purpose	Maturity	Annual interest rate (%)	December 31, 2017	December 31, 2016
Unsecured corporate bonds	Other fund	2018	5.00	200,000	200,000
Unsecured corporate bonds	Operating fund	2021	4.22	190,000	190,000
Unsecured corporate bonds	Operating and refinancing fund	2019	3.24	170,000	170,000
Unsecured corporate bonds		2022	3.30	140,000	140,000
Unsecured corporate bonds		2032	3.45	90,000	90,000
Unsecured corporate bonds	Operating fund	2023	3.03	230,000	230,000
Unsecured corporate bonds		2033	3.22	130,000	130,000
Unsecured corporate bonds		2019	3.30	50,000	50,000
Unsecured corporate bonds		2024	3.64	150,000	150,000
Unsecured corporate bonds(*1)		2029	4.72	60,278	59,600
Unsecured corporate bonds	Refinancing fund	2019	2.53	160,000	160,000
Unsecured corporate bonds		2021	2.66	150,000	150,000
Unsecured corporate bonds		2024	2.82	190,000	190,000
Unsecured corporate bonds	Operating and refinancing fund	2022	2.40	100,000	100,000
Unsecured corporate bonds	refinancing fund	2025	2.49	150,000	150,000

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For the years ended December 31, 2017, 2016 and 2015

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

	Purpose	Maturity	Annual interest rate (%)	December 31, 2017	December 31, 2016
Unsecured corporate bonds		2030	2.61	50,000	50,000
Unsecured corporate bonds	Operating fund	2018	1.89	90,000	90,000
Unsecured corporate bonds		2025	2.66	70,000	70,000
Unsecured corporate bonds		2030	2.82	90,000	90,000
Unsecured corporate bonds	Operating and refinancing fund	2018	2.07	80,000	80,000
Unsecured corporate bonds		2025	2.55	100,000	100,000
Unsecured corporate bonds		2035	2.75	70,000	70,000
Unsecured corporate bonds	Operating fund	2019	1.65	70,000	70,000
Unsecured corporate bonds		2021	1.80	100,000	100,000
Unsecured corporate bonds		2026	2.08	90,000	90,000
Unsecured corporate bonds		2036	2.24	80,000	80,000
Unsecured corporate bonds		2019	1.62	50,000	50,000
Unsecured corporate bonds		2021	1.71	50,000	50,000
Unsecured corporate bonds		2026	1.97	120,000	120,000
Unsecured corporate bonds		2031	2.17	50,000	50,000
Unsecured corporate bonds	Refinancing fund	2020	1.93	60,000	
Unsecured corporate bonds		2022	2.17	120,000	
Unsecured corporate bonds		2027	2.55	100,000	
Unsecured corporate bonds	Operating and refinancing fund	2032	2.65	90,000	
Unsecured corporate bonds	Operating fund	2020	2.39	100,000	
Unsecured corporate bonds	Operating and refinancing fund	2022	2.63	80,000	
Unsecured corporate bonds	Refinancing fund	2027	2.84	100,000	
Unsecured corporate bonds(*2)	Operating fund	2017	4.28		100,000
Unsecured corporate bonds(*2)		2017	3.27		120,000
Unsecured corporate bonds(*2)		2019	3.49	210,000	210,000
Unsecured corporate bonds(*2)		2019	2.76	130,000	130,000
Unsecured corporate bonds(*2)		2018	2.23	50,000	50,000
Unsecured corporate bonds(*2)		2020	2.49	160,000	160,000
Unsecured corporate bonds(*2)		2020	2.43	140,000	140,000
Unsecured corporate bonds(*2)		2020	2.18	130,000	130,000
Unsecured corporate bonds(*2)		2019	1.58	50,000	50,000
Unsecured corporate bonds(*2)	Operating and	2021	1.77	120,000	120,000

	refinancing fund			
Unsecured corporate bonds(*2)	Operating fund	2022	2.26	150,000

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For the years ended December 31, 2017, 2016 and 2015

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

	Purpose	Maturity	Annual interest rate (%)	December 31, 2017	December 31, 2016
Unsecured corporate bonds(*2)	Refinancing fund	2022	2.34	30,000	
Unsecured corporate bonds(*2)	Operating and refinancing fund	2022	2.70	140,000	
Unsecured corporate bonds(*3)	Operating fund	2017	3.48		20,000
Convertible bonds(*4)		2019	1.00	5,558	
Unsecured global bonds		2027	6.63	428,560	483,400
				(USD 400,000)	(USD 400,000)
Unsecured private Swiss bonds		2017	1.75		354,399
bonds					(CHF 300,000)
Unsecured global bonds		2018	2.13	749,980	845,950
				(USD 700,000)	(USD 700,000)
Unsecured corporate Australian bonds		2017	4.75		261,615
					(AUD 300,000)
Floating rate notes(*5)		2020	3M Libor + 0.88	321,420	362,550
				(USD 300,000)	(USD 300,000)
Foreign global bonds(*2)		2018	2.88	321,420	362,550
				(USD 300,000)	(USD 300,000)
Sub-total				7,107,216	7,220,064
Less discounts on bonds				(21,029)	(25,858)
				7,086,187	7,194,206
Less current portion of bonds				(1,489,617)	(855,276)
				5,596,570	6,338,930

(*1)

The Group eliminated a measurement inconsistency of accounting profit or loss between the bonds and related derivatives by designating the structured bonds as financial liabilities at fair value through profit or loss. The carrying amount of financial liabilities designated at fair value through profit or loss exceeds the principal amount required to pay at maturity by 10,278 million as of December 31, 2017.

(*2) Unsecured corporate bonds were issued by SK Broadband Co., Ltd.

(*3) Unsecured corporate bonds were issued by PS&Marketing Corporation.

(*4) During the year ended December 31, 2017, the Parent Company sold the convertible bonds issued by IRIVER LIMITED to third parties.

(*5) As of December 31, 2017, 3M LIBOR rate is 1.69%.

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For the years ended December 31, 2017, 2016 and 2015

18. Long-term Payables Other

(1) Long-term payables other as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Payables related to acquisition of frequency usage rights	1,328,630	1,602,943
Other(*)	18,133	21,647
	1,346,763	1,624,590

(*) Other includes other long-term employee compensation liabilities.

(2) As of December 31, 2017 and 2016, details of long-term payables other which consist of payables related to the acquisition of frequency usage rights are as follows (See Note 16):

(In millions of won)

	December 31, 2017	December 31, 2016
Long-term payables other	1,710,255	2,013,122
Present value discount on long-term payables other	(79,874)	(108,406)
	1,630,381	1,904,716
Less current portion of long-term payables other	(301,751)	(301,773)
Carrying amount at December 31	1,328,630	1,602,943

(3) The repayment schedule of the principal amount of long-term payables other related to acquisition of frequency usage rights as of December 31, 2017 is as follows:

(In millions of won)

	Amount
Less than 1 year	302,867
1~3 years	605,734
3~5 years	402,624
More than 5 years	399,030
	1,710,255

19. Provisions

(1) Changes in provisions for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	For the year ended December 31, 2017						As of December 31, 2017	
	Beginning balance	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for installment of handset subsidy(*1)	24,710	2	(8,898)	(11,940)		3,874	3,874	
Provision for restoration(*2)	64,679	12,066	(2,517)	(1,006)	45	73,267	40,598	32,669
Emission allowance(*3)	2,788	4,663	(518)	(2,283)		4,650	4,650	
Other provisions	5,740	952	(3,757)			2,935	2,935	
	97,917	17,683	(15,690)	(15,229)	45	84,726	52,057	32,669

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For the years ended December 31, 2017, 2016 and 2015

(In millions of won)

	For the year ended December 31, 2016						As of December 31, 2016	
	Beginning balance	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for installment of handset subsidy(*1)	5,670	37,530	(18,490)			24,710	19,939	4,771
Provision for restoration(*2)	59,954	6,677	(1,082)	(913)	43	64,679	37,760	26,919
Emission allowance(*3)	1,477	1,480	(169)			2,788	2,788	
Other provisions	3,104	3,237	(601)			5,740	5,740	
	70,205	48,924	(20,342)	(913)	43	97,917	66,227	31,690

(*1) The Group recognizes a provision for handset subsidies given to the subscribers who purchase handsets on an installment basis. The amount recognized as a provision for handset subsidies is the Group s best estimate of the expenditure required to settle the current obligations to the relevant subscribers at the end of the reporting period, which is calculated as of the present values of estimated handset subsidies to be granted over the relevant service periods, taking into account the customer retention rate for the relevant subscribers. The discount rate used in calculating the present values is based on AAA-rated corporate bonds with a two-year maturity. The customer retention rate is based on the Group s historical retention rate.

(*2) In the course of the Group s activities, base station and other assets are installed on leased premises which are expected to have costs associated with restoring the premises to their original conditions where these assets are situated upon ceasing their use on those premises. The associated cash outflows, which are long-term in nature, are generally expected to occur at the dates of the termination of lease contracts to which the assets relate. These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management s best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Forecasts of estimated future cash outflows are revised in light of future changes in business conditions or technological requirements. The Group records these restoration costs as property and equipment and subsequently expenses them using the straight-line method over the asset s useful life, and records the accretion of the liability as a charge to finance costs.

(*3) The Group recognizes estimated future payment for the number of emission certificates required to settle the Group s obligation exceeding the actual number of certificates on hand as emission allowances according to the

Act on Allocation and Trading of Greenhouse Gas Emission Permits.

(2) The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period.

	Key assumptions
Provision for handset subsidy	estimation based on historical service retention period data
Provision for restoration	estimation based on cost of demolition and inflation with an assumption of demolishing the relevant assets after six years

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20. Lease

In 2012, the Group disposed a portion of its property and equipment and investment property, and entered into lease agreements with respect to those assets. These sale and leaseback transactions were accounted for as operating leases. The Group entered into operating lease agreements and sublease agreements in relation to rented office space and the expected future lease payments and lease revenues as of December 31, 2017 are as follows:

(In millions of won)

	Minimum lease payments	Revenues
Less than 1 year	49,289	1,926
1~5 years	101,872	916
	151,161	2,842

21. Defined Benefit Liabilities(Assets)

(1) Details of defined benefit liabilities(assets) as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	679,625	595,667
Fair value of plan assets	(663,617)	(555,175)
Defined benefit assets(*)	(45,952)	(30,247)
Defined benefit liabilities	61,960	70,739

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

(2) Principal actuarial assumptions as of December 31, 2017 and 2016 are as follows:

	December 31, 2017	**December 31, 2016**
Discount rate for defined benefit obligations	2.58%~4.03%	1.90%~2.96%
Expected rate of salary increase	3.08%~5.93%	2.49%~6.09%

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

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(3) Changes in defined benefit obligations for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	595,667	525,269
Current service cost	125,526	114,528
Interest cost	15,991	13,441
Remeasurement		
- Demographic assumption	(287)	677
- Financial assumption	(20,731)	(2,462)
- Adjustment based on experience	11,561	6,229
Benefit paid	(60,883)	(55,350)
Others	12,781	(6,665)
Ending balance	679,625	595,667

(4) Changes in plan assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	555,175	426,413
Interest income	13,821	9,826
Remeasurement	(5,540)	(6,320)
Contributions	155,834	159,687
Benefit paid	(60,006)	(34,247)
Others	4,333	(184)
Ending balance	663,617	555,175

The Group expects to make a contribution of 146,086 million to the defined benefit plans in 2018.

(5) Total amount of expenses recognized in profit and loss (included in labor in the consolidated statement of income) and capitalized into construction-in-progress for the years ended December 31, 2017, 2016 and 2015 are as

follows:

(In millions of won)

	2017	2016	2015
Current service cost	125,526	114,528	106,764
Net interest cost	2,170	3,615	3,257
	127,696	118,143	110,021

(6) Details of plan assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Equity instruments	15,567	13,640
Debt instruments	134,710	95,359
Short-term financial instruments, etc.	513,340	446,176
	663,617	555,175

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For the years ended December 31, 2017, 2016 and 2015

(7) As of December 31, 2017, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

(In millions of won)

	0.5% Increase	0.5% Decrease
Discount rate	(24,702)	26,808
Expected salary increase rate	26,988	(25,138)

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

A weighted average duration of defined benefit obligations as of December 31, 2017 is 8.17 years.

22. Derivative Instruments

(1) Currency and interest rate swap contracts under cash flow hedge accounting as of December 31, 2017 are as follows:

(In millions of won and thousands of foreign currencies)

Borrowing date	Hedging Instrument(Hedged item)	Hedged risk	Financial institution	Duration of contract
Jul. 20, 2007	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)	Foreign currency risk	Morgan Stanley and four other banks	Jul. 20, 2007 ~ Jul. 20, 2027
Nov. 1, 2012	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)	Foreign currency risk	Standard Chartered and eight other banks	Nov. 1, 2012~ May. 1, 2018
Mar. 7, 2013	Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)	Foreign currency risk and interest rate risk	DBS bank	Mar. 7, 2013 ~ Mar. 7, 2020
Oct. 29, 2013	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)	Foreign currency risk	Korea Development Bank and	Oct. 29, 2013 ~ Oct. 26, 2018

			others	
Dec. 16, 2013	Fixed-to-fixed cross currency swap (U.S. dollar borrowing amounting to USD 51,775)	Foreign currency risk	Deutsche bank	Dec. 16, 2013 ~ Apr. 29, 2022
Dec. 20, 2016	Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 49,000)	Interest rate risk	Korea Development Bank	Dec. 20, 2016~ Dec. 20, 2021
Jan. 30, 2017	Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 28,583)	Interest rate risk	Korea Development Bank	Nov. 10, 2016~ Jul. 30, 2019
Mar. 31, 2017	Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 30,000)	Interest rate risk	Korea Development Bank	Mar. 31, 2017- Mar. 31, 2020
Dec. 21, 2017	Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 50,000)	Interest rate risk	Korea Development Bank	Dec. 5, 2017- Dec. 21, 2022

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(2) As of December 31, 2017, details of fair values of the above derivatives recorded in assets or liabilities are as follows:

(In millions of won and thousands of foreign currencies)

Hedging instrument(Hedged item)	Cash flow hedge	Held for trading	Embedded derivatives	Fair value
Non-current assets:				
Redeemable convertible preferred shares issued by Bluehole INC.			222,257	222,257
Structured bond(face value of KRW 50,000)		9,054		9,054
Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)	21,554			21,554
Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 49,000)	307			307
Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 28,583)	43			43
Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 50,000)	(2)			(2)
Total assets				253,213
Current liabilities:				
Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)	(27,791)			(27,791)
Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)	(615)			(615)
Non-current liabilities:				
Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)	(7,613)			(7,613)
Fixed-to-fixed long-term borrowings (U.S. dollar borrowing amounting to USD 51,775)	(3,106)			(3,106)
Floating-to-fixed interest rate swap (Korean won borrowing amounting to KRW 30,000)	(345)			(345)
Total liabilities				(39,470)

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23. Share Capital and Capital Surplus (deficit) and Others

The Parent Company s outstanding share capital consists entirely of common shares with a par value of 500. The number of authorized, issued and outstanding common shares and the details of capital surplus (deficit) and others as of December 31, 2017 and 2016 are as follows:

(In millions of won, except for share data)

	December 31, 2017	December 31, 2016
Number of authorized shares	220,000,000	220,000,000
Number of issued shares(*1)	80,745,711	80,745,711
Share capital		
Common share	44,639	44,639
Capital surplus (deficit) and others:		
Paid-in surplus	2,915,887	2,915,887
Treasury shares(Note 24)	(2,260,626)	(2,260,626)
Share option(Note 26)	414	
Others(*2)	(857,912)	(854,000)
	(202,237)	(198,739)

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

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

There were no changes in share capital during the years ended December 31, 2017 and 2016 and details of shares outstanding as of December 31, 2017 and 2016 are as follows:

(In shares)	2017			2016		
	Issued shares	Treasury shares	Outstanding shares	Issued shares	Treasury shares	Outstanding shares

Shares outstanding	80,745,711	10,136,551	70,609,160	80,745,711	10,136,551	70,609,160

24. Treasury Shares

The Parent Company acquired treasury shares to provide share dividends, merge with Shinsegi Telecom, Inc. and SK IMT Co, Ltd., increase shareholder value and stabilize its share prices.

Treasury shares as of December 31, 2017 and 2016 are as follows:

(In millions of won, shares)

	December 31, 2017	December 31, 2016
Number of shares	10,136,551	10,136,551
Acquisition cost	2,260,626	2,260,626

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25. Hybrid Bonds

Hybrid bonds classified as equity as of December 31, 2017 are as follows:

(In millions of won)

	Type	Issuance date	Maturity(*1)	Annual interest rate(%)(*2)	Amount
Private hybrid bonds	Unsecured subordinated bearer bond	June 7, 2013	June 7, 2073	4.21	400,000
Issuance costs					(1,482)
					398,518

Hybrid bonds issued by the Parent Company are classified as equity as there is no contractual obligation for delivery of financial assets to the bond holders. These are subordinated bonds which rank before common shares in the event of a liquidation or reorganization of the Parent Company.

(*1) The Parent Company has a right to extend the maturity under the same terms at issuance without any notice or announcement. The Parent Company also has the right to defer interest payment at its sole discretion.

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

26. Share option

(1) At the shareholders meeting held on March 24, 2017, the Parent Company established a share option program that entitles key management personnel the option to purchase common shares of the Parent Company. The terms and conditions related to the grants of the share options under the share option program are as follows:

	Series		
	1-1	**1-2**	**1-3**
Grant date		March 24, 2017	
Types of shares to be issued		66,504 of registered common shares	
Grant method		Reissue of treasury shares	
Number of shares (in shares)	22,168	22,168	22,168
Exercise price (in won)	246,750	266,490	287,810
Exercise period	Mar. 25, 2019 ~ Mar. 24, 2022	Mar. 25, 2020 ~ Mar. 24, 2023	Mar. 25, 2021 ~ Mar. 24, 2024
Vesting conditions	2 years service from the grant date	3 years service from the grant date	4 years service from the grant date

(2) Share compensation expense recognized during the year ended December 31, 2017 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

(In millions of won)	**Share compensation expense**
During the year ended December 31, 2017	414
In subsequent periods	977
	1,391

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For the years ended December 31, 2017, 2016 and 2015

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

	1-1	1-2	1-3
Risk-free interest rate	1.86%	1.95%	2.07%
Estimated option s life	5 years	6 years	7 years
Share price (Closing price on the preceding day in won)	262,500	262,500	262,500
Expected volatility	13.38%	13.38%	13.38%
Expected dividends	3.80%	3.80%	3.80%
Exercise price (in won)	246,750	266,490	287,810
Per share fair value of the option (in won)	27,015	20,240	15,480

27. Retained Earnings

(1) Retained earnings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Appropriated:		
Legal reserve	22,320	22,320
Reserve for research & manpower development		60,001
Reserve for business expansion	10,171,138	9,871,138
Reserve for technology development	3,071,300	2,826,300
	13,264,758	12,779,759
Unappropriated	4,571,188	3,173,405
	17,835,946	15,953,164

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

28. Reserves

(1) Details of reserves, net of taxes, as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Valuation gain on available-for-sale financial assets	168,211	12,534
Other comprehensive loss of investments in associates	(320,060)	(179,167)
Valuation loss on derivatives	(73,828)	(96,418)
Foreign currency translation differences for foreign operations	(9,050)	36,868
	(234,727)	(226,183)

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For the years ended December 31, 2017, 2016 and 2015

(2) Changes in reserves for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017				
	Valuation gain on available-for-sale financial assets	Other comprehensive loss of investments in associates	Valuation gain (loss) on derivatives	Foreign currency translation differences for foreign operations	Total
Balance at January 1, 2017	12,534	(179,167)	(96,418)	36,868	(226,183)
Changes, net of taxes	155,677	(140,893)	22,590	(45,918)	(8,544)
Balance at December 31, 2017	168,211	(320,060)	(73,828)	(9,050)	(234,727)

(In millions of won)

	2016				
	Valuation gain (loss) on available-for-sale financial assets	Other comprehensive loss of investments in associates	Valuation loss on derivatives	Foreign currency translation differences for foreign operations	Total
Balance at January 1, 2016	232,316	(169,520)	(83,200)	29,707	9,303
Changes, net of taxes	(219,782)	(9,647)	(13,218)	7,161	(235,486)
Balance at December 31, 2016	12,534	(179,167)	(96,418)	36,868	(226,183)

(3) Changes in valuation gain on available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Balance at January 1	12,534	232,316
Amount recognized as other comprehensive income during the year, net of taxes	132,586	4,606

Amount reclassified through profit or loss, net of taxes 23,091	23,091	(224,388)
Balance at December 31	168,211	12,534

(4) Changes in valuation gain (loss) on derivatives for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)	**2017**	**2016**
Balance at January 1	(96,418)	(83,200)
Amount recognized as other comprehensive loss during the year, net of taxes	17,965	(12,213)
Amount reclassified through profit or loss, net of taxes	4,625	(1,005)
Balance at December 31	(73,828)	(96,418)

SK TELECOM CO., LTD. and Subsidiaries

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For the years ended December 31, 2017, 2016 and 2015

29. Other Operating Income and Expenses

Details of other operating income and expenses for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Other Operating Income:			
Gain on disposal of property and equipment and intangible assets	13,991	6,908	7,140
Others(*)	18,006	59,640	23,795
	31,997	66,548	30,935
Other Operating Expenses:			
Communication	27,973	31,196	43,979
Utilities	299,825	277,497	270,621
Taxes and dues	27,819	35,020	36,118
Repair	333,101	326,076	312,517
Research and development	395,276	344,787	315,790
Training	32,853	33,303	37,278
Bad debt for accounts receivable trade	34,584	37,820	60,450
Travel	24,095	25,263	27,860
Supplies and other	111,170	113,930	176,248
Loss on disposal of property and equipment and intangible assets	60,086	63,797	21,392
Impairment loss on other investment securities	9,003	24,033	42,966
Impairment loss on property and equipment and intangible assets	54,946	24,506	35,845
Donations	112,634	96,633	72,454
Bad debt for accounts receivable other	5,793	40,312	15,323
Others(*)	101,589	49,593	55,536
	1,630,747	1,523,766	1,524,377

(*) See Note 5-(2).

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30. Finance Income and Costs

(1) Details of finance income and costs for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Finance Income:			
Interest income	76,045	54,353	45,884
Gain on sale of accounts receivable trade	18,548	18,638	
Dividends	12,416	19,161	16,102
Gain on foreign currency transactions	13,676	14,186	18,923
Gain on foreign currency translations	7,110	5,085	5,090
Gain on disposal of long-term investment securities	4,890	459,349	10,786
Gain on valuation of derivatives	223,943	4,132	1,927
Reversal of impairment loss on available-for-sale financial assets	9,900		
Gain relating to financial assets at fair value through profit or loss	33	25	
Gain relating to financial liability at fair value through profit or loss		121	5,188
	366,561	575,050	103,900
Finance Costs:			
Interest expense	299,100	290,454	297,662
Loss on sale of accounts receivable trade	9,682		
Loss on foreign currency transactions	19,263	16,765	17,931
Loss on foreign currency translations	8,419	3,991	4,750
Loss on disposal of long-term investment securities	36,024	2,919	2,599
Loss on settlement of derivatives	10,031	3,428	4,845
Loss relating to financial liability at fair value through profit or loss	678	4,018	526
Impairment loss on long-term investment securities(*)	14,519	5,255	21,787
Other finance costs	35,900		
	433,616	326,830	350,100

(*) See Note 30-(5).

(2) Details of interest income included in finance income for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	**2016**	**2015**
Interest income on cash equivalents and short-term financial instruments	28,130	20,203	20,009
Interest income on installment receivables and others	47,915	34,150	25,875
	76,045	54,353	45,884

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For the years ended December 31, 2017, 2016 and 2015

(3) Details of interest expenses included in finance costs for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Interest expense on borrowings	11,774	7,962	19,577
Interest expense on debentures	228,568	239,560	238,450
Interest on finance lease liabilities			58
Others	58,758	42,932	39,577
	299,100	290,454	297,662

(4) Finance income and costs by category of financial instruments for the years ended December 31, 2017, 2016 and 2015 are as follows. Bad debt expense (reversal of allowance for doubtful accounts) for accounts receivable trade, loans and receivables are presented and explained separately in Note 7.

(i) Finance income

(In millions of won)

	2017	2016	2015
Financial Assets:			
Financial assets at fair value through profit or loss	223,976	4,157	1,927
Available-for-sale financial assets	30,598	484,300	31,220
Loans and receivables	111,677	86,256	64,749
Sub-total	366,251	574,713	97,896
Financial Liabilities:			
Financial liabilities at fair value through profit or loss		121	5,188
Financial liabilities measured at amortized cost	310	216	816
Sub-total	310	337	6,004
	366,561	575,050	103,900

(ii) Finance costs

(In millions of won)

	2017	2016	2015
Financial Assets:			
Financial assets at fair value through profit or loss		2,791	4,188
Available-for-sale financial assets	86,445	8,174	24,386
Loans and receivables	37,040	15,810	15,861
Derivatives designated as hedging instruments		637	657
Sub-total	123,485	27,412	45,092
Financial Liabilities:			
Financial liabilities at fair value through profit or loss	678	4,018	526
Financial liabilities measured at amortized cost	299,422	295,400	304,482
Derivatives designated as hedging instruments	10,031		
Sub-total	310,131	299,418	305,008
	433,616	326,830	350,100

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For the years ended December 31, 2017, 2016 and 2015

(iii) Other comprehensive income (loss)

(In millions of won)

	2017	2016	2015
Financial Assets:			
Available-for-sale financial assets	158,440	(223,981)	(3,661)
Derivatives designated as hedging instruments	1,554	(172)	(3,248)
Sub-total	159,994	(224,153)	(6,909)
Financial Liabilities:			
Derivatives designated as hedging instruments	21,032	(13,046)	1,977
Sub-total	21,032	(13,046)	1,977
	181,026	(237,199)	(4,932)

(5) Details of impairment losses for financial assets for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Available-for-sale financial assets(*)	14,519	5,255	21,787
Accounts receivable trade	34,584	37,820	60,450
Other receivables	5,793	40,312	15,323
	54,896	83,387	97,560

(*) This is included in other finance costs (See Note 30-(1)).

31. Income Tax Expense

(1) Income tax expenses for the years ended December 31, 2017, 2016 and 2015 consist of the following:

(In millions of won)

	2017	2016	2015
Current tax expense			
Current year	424,773	473,543	417,022
Current tax of prior years(*)	(105,158)	(11,925)	(4,124)
	319,615	461,618	412,898
Deferred tax expense			
Changes in net deferred tax assets	426,039	(25,580)	106,399
Others (tax rate differences, etc.)			183
Income tax expense	745,654	436,038	519,480

(*) Current tax of prior years are mainly composed of the income tax refund due to a change in the interpretation of the tax authority in relation to the income tax previously recognized by the Group.

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For the years ended December 31, 2017, 2016 and 2015

(2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2017, 2016 and 2015 is attributable to the following:

(In millions of won)

	2017	2016	2015
Income taxes at statutory income tax rate	823,124	506,804	492,096
Non-taxable income	(40,080)	(38,989)	(85,589)
Non-deductible expenses	31,285	52,648	44,770
Tax credit and tax reduction	(34,300)	(29,484)	(25,756)
Changes in unrecognized deferred taxes	31,857	(84,276)	83,623
Others (income tax refund, etc.)(*)	(66,232)	29,335	10,336
Income tax expense	745,654	436,038	519,480

(*) Based on the amendment to Korean Tax Law that was enacted in 2017, the income tax rate for taxable income in excess of 300,000 million is changed from 24.2% to 27.5%, which will be effective from January 1, 2018. The Group remeasured deferred tax assets and liabilities as a result of this rate change.

Tax rates applied for the above taxable income for the years ended December 31, 2017, 2016 and 2015 are corporate income tax rates applied to taxable income in the Republic of Korea, in which the Parent Company is located.

(3) Deferred taxes directly charged to (credited from) equity for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Valuation gain (loss) on available-for-sale financial assets	(55,883)	82,993	2,461
Share of other comprehensive income (loss) of associates	(260)	2	(63)
Valuation gain (loss) on derivatives	(3,019)	4,454	(448)
Remeasurement of defined benefit liabilities	1,618	3,174	2,719
	(57,544)	90,623	4,669

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For the years ended December 31, 2017, 2016 and 2015

(4) Details of the changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017				
	Beginning	Deferred tax expense (income)	Directly charged to (credited from) equity	Others	Ending
Deferred tax assets (liabilities) related to temporary differences:					
Allowance for doubtful accounts	61,911	5,091			67,002
Accrued interest income	(616)	(1,851)			(2,467)
Available-for-sale financial assets	101,472	8,192	(55,883)		53,781
Investments in subsidiaries, associates and joint ventures	(476,098)	(461,271)	(260)		(937,629)
Property and equipment (depreciation)	(253,323)	17,980			(235,343)
Provisions	7,448	(5,136)			2,312
Retirement benefit obligation	35,505	1,237	1,618		38,360
Valuation gain on derivatives	28,975		(3,019)		25,956
Gain or loss on foreign currency translation	19,369	2,562			21,931
Reserve for research and manpower development	(4,775)	2,388			(2,387)
Goodwill	3,105	(938)			2,167
Others	34,911	(29,248)		(2,324)	3,339
	(442,116)	(460,994)	(57,544)	(2,324)	(962,978)
Deferred tax assets related to unused tax loss carryforwards and tax credit carryforwards					
Tax loss carryforwards	37,462	34,955			72,417
	(404,654)	(426,039)	(57,544)	(2,324)	(890,561)

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For the years ended December 31, 2017, 2016 and 2015

(In millions of won)

	2016			
	Beginning	Deferred tax expense (income)	Directly charged to (credited from) equity	Ending
Deferred tax assets (liabilities) related to temporary differences:				
Allowance for doubtful accounts	59,957	1,954		61,911
Accrued interest income	(2,567)	1,951		(616)
Available-for-sale financial assets	30,365	(11,886)	82,993	101,472
Investments in subsidiaries, associates and joint ventures	(355,273)	(120,827)	2	(476,098)
Property and equipment (depreciation)	(327,572)	74,249		(253,323)
Provisions	2,485	4,963		7,448
Retirement benefit obligation	28,327	4,004	3,174	35,505
Valuation gain on derivatives	24,521		4,454	28,975
Gain or loss on foreign currency translation	19,517	(148)		19,369
Reserve for research and manpower development	(7,162)	2,387		(4,775)
Goodwill	3,713	(608)		3,105
Unearned revenue (activation fees)	2,065	(2,065)		
Others	(23,782)	58,693		34,911
	(545,406)	12,667	90,623	(442,116)
Deferred tax assets related to unused tax loss carryforwards and tax credit carryforwards				
Tax loss carryforwards	24,549	12,913		37,462
	(520,857)	25,580	90,623	(404,654)

(5) Details of temporary differences, unused tax loss carryforwards and unused tax credits carryforwards which are not recognized as deferred tax assets, in the consolidated statements of financial position as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Allowance for doubtful accounts	88,521	165,935

Investments in subsidiaries, associates and joint ventures	168,268	228,025
Other temporary differences	425,653	320,260
Unused tax loss carryforwards	921,309	755,050
Unused tax credit carryforwards	4,092	1,211

(6) The amount of unused tax loss carryforwards and unused tax credit carryforwards which are not recognized as deferred tax assets as of December 31, 2017 are expiring within:

(In millions of won)

	Unused tax loss carryforwards	Unused tax credit carryforwards
Less than 1 year		869
1 ~ 2 years	7,686	101
2 ~ 3 years	358,237	119
More than 3 years	555,386	3,003
	921,309	4,092

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32. Earnings per Share

(1) Basic earnings per share

1) Basic earnings per share for the years ended December 31, 2017, 2016 and 2015 are calculated as follows:

(In millions of won, shares)

	2017	**2016**	**2015**
Basic earnings per share attributable to owners of the Parent Company:			
Profit attributable to owners of the Parent Company	2,599,829	1,675,967	1,518,604
Interest on hybrid bonds	(16,840)	(16,840)	(16,840)
Profit attributable to owners of the Parent Company on common shares	2,582,989	1,659,127	1,501,764
Weighted average number of common shares outstanding	70,609,160	70,609,160	71,551,966
Basic earnings per share (in won)	36,582	23,497	20,988

2) The weighted average number of common shares outstanding for the years ended December 31, 2017, 2016 and 2015 are calculated as follows:

(In shares)

	2017	**2016**	**2015**
Issued common shares at January 1	80,745,711	80,745,711	80,745,711
Effect of treasury shares	(10,136,551)	(10,136,551)	(9,193,745)
Weighted average number of common shares outstanding at December 31	70,609,160	70,609,160	71,551,966

(2) Diluted earnings per share

For the years ended December 31, 2017, 2016 and 2015, diluted earnings per share are the same as basic earnings per share as there are no dilutive potential common shares.

33. Dividends

(1) Details of dividends declared

Details of dividend declared for the years ended December 31, 2017, 2016 and 2015 are as follows:

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

Year	Dividend type	Number of shares outstanding	Face value (in won)	Dividend ratio	Dividends
2017	Cash dividends (Interim)	70,609,160	500	200%	70,609
	Cash dividends (Year-end)	70,609,160	500	1,800%	635,482
					706,091
2016	Cash dividends (Interim)	70,609,160	500	200%	70,609
	Cash dividends (Year-end)	70,609,160	500	1,800%	635,482
					706,091
2015	Cash dividends (Interim)	72,629,160	500	200%	72,629
	Cash dividends (Year-end)	70,609,160	500	1,800%	635,482
					708,111

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(2) Dividends yield ratio

Dividends yield ratios for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In won)

Year	Dividend type	Dividend per share	Closing price at year-end	Dividend yield ratio
2017	Cash dividends	10,000	267,000	3.75%
2016	Cash dividends	10,000	224,000	4.46%
2015	Cash dividends	10,000	215,500	4.64%

34. Categories of Financial Instruments

(1) Financial assets by category as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives hedging instrument	Total
Cash and cash equivalents			1,457,735		1,457,735
Financial instruments			618,002		618,002
Short-term investment securities	97,003	47,383			144,386
Long-term investment securities		887,007			887,007
Accounts receivable trade			2,138,755		2,138,755
Loans and other receivables(*)			1,962,083		1,962,083
Derivative financial assets	231,311			21,902	253,213
	328,314	934,390	6,176,575	21,902	7,461,181

(In millions of won)

	December 31, 2016				
	Financial assets at fair value through profit or loss	**Available-for-sale financial assets**	**Loans and receivables**	**Derivatives hedging instrument**	**Total**
Cash and cash equivalents			1,505,242		1,505,242
Financial instruments			469,705		469,705
Short-term investment securities		107,364			107,364
Long-term investment securities		828,521			828,521
Accounts receivable trade			2,261,311		2,261,311
Loans and other receivables(*)			1,701,249		1,701,249
Derivative financial assets	7,368			207,402	214,770
	7,368	935,885	5,937,507	207,402	7,088,162

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For the years ended December 31, 2017, 2016 and 2015

(*) Details of loans and other receivables as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Short-term loans	62,830	58,979
Accounts receivable other	1,260,835	1,121,444
Accrued income	3,979	2,780
Other current assets	3,927	3,937
Long-term loans	50,874	65,476
Long-term accounts receivable other	287,048	149,669
Guarantee deposits	292,590	298,964
	1,962,083	1,701,249

(2) Financial liabilities by category as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017			
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives hedging instrument	Total
Accounts payable trade		351,711		351,711
Derivative financial liabilities			39,470	39,470
Borrowings		382,817		382,817
Debentures(*1)	60,278	7,025,909		7,086,187
Accounts payable other and others(*2)		4,865,519		4,865,519

	60,278	12,625,956	39,470	12,725,704

(In millions of won)

	December 31, 2016			
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivatives hedging instrument	Total
Accounts payable trade		402,445		402,445
Derivative financial liabilities			87,153	87,153
Borrowings		175,521		175,521
Debentures(*1)	59,600	7,134,606		7,194,206
Accounts payable other and others (*2)		4,842,734		4,842,734
	59,600	12,555,306	87,153	12,702,059

(*1) Bonds classified as financial liabilities at fair value through profit or loss as of December 31, 2017 and 2016 are structured bonds and they were designated as financial liabilities at fair value through profit or loss in order to eliminate a measurement inconsistency with the related derivatives.

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(*2) Details of accounts payable other and others as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	December 31, 2016
Accounts payable other	1,867,074	1,767,799
Withholdings	1,736	1,525
Accrued expenses	1,327,906	1,125,816
Current portion of long-term payables other	302,703	301,773
Long-term payables other	1,346,763	1,624,590
Other non-current liabilities	19,337	21,231
	4,865,519	4,842,734

35. Financial Risk Management

(1) Financial risk management

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

The Group s financial assets consist of cash and cash equivalents, financial instruments, available-for-sale financial assets, accounts receivable trade and other. Financial liabilities consist of accounts payable trade and other, borrowings, and debentures.

1) Market risk

(i) Currency risk

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

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2017 are as follows:

(In millions of won, thousands of foreign currencies)

	Assets		**Liabilities**	
	Foreign currencies	**Won equivalent**	**Foreign currencies**	**Won equivalent**
USD	124,901	133,836	1,817,808	1,947,599
EUR	15,669	20,044	63	80
JPY	596,059	5,658	169,729	1,611
Others		530		195
		160,068		1,949,485

In addition, the Group has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures. (Refer to Note 22)

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As of December 31, 2017, a hypothetical change in exchange rates by 10% would have increase (reduce) the Group s income before income tax as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	5,590	(5,590)
EUR	1,997	(1,997)
JPY	405	(405)
Others	34	(34)
	8,026	(8,026)

(ii) Equity price risk

The Group has listed and non-listed equity securities for its liquidity management and operating purpose. As of December 31, 2017, available-for-sale equity instruments measured at fair value amount to 734,487 million.

(iii) Interest rate risk

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

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

As of December 31, 2017, the floating-rate borrowings and bonds of the Group are 228,300 million and 321,420 million, respectively, and the Group has entered into interest rate swap agreements, as described in Note 22, for all floating-rate borrowings and debentures to hedge interest rate risk.

If the interest rate increases (decreases) 1% with all other variables held constant, income before income taxes for the year ended December 31, 2017, would change by 707 million in relation to floating-rate borrowings that are exposed to interest rate risk.

2) Credit risk

The maximum credit exposure as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Cash and cash equivalents	1,457,416	1,505,082
Financial instruments	618,002	469,705
Available-for-sale financial assets	19,928	6,755
Accounts receivable trade	2,138,755	2,261,311
Loans and other receivables	1,962,083	1,701,249
Derivative financial assets	30,956	214,770
	6,227,140	6,158,872

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations.

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To manage credit risk, the Group evaluates the credit worthiness of each customer or counterparty considering the party s financial information, its own trading records and other factors. Based on such information, the Group establishes credit limits for each customer or counterparty.

The Group establishes an allowance for doubtful account that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Also, the Group s credit risk can arise due to transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Group has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets as of December 31, 2017.

3) Liquidity risk

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

Contractual maturities of financial liabilities as of December 31, 2017 are as follows:

(In millions of won)

	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**1 - 5 years**	**More than 5 years**
Accounts payable trade	351,711	351,711	351,711		
Borrowings(*1)	382,817	397,776	177,910	219,866	
Debentures(*1)	7,086,187	8,230,952	1,682,206	3,675,178	2,873,568
Accounts payable other and others(*2)	4,865,519	5,030,105	3,519,489	1,093,611	417,005
	12,686,234	14,010,544	5,731,316	4,988,655	3,290,573

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

(*1) Includes interest payables.

(*2) The Group provides with USD 12,240,000 of payment guarantees for Celcom Planet, one of the joint ventures of the Group, in relation to its borrowings. The contractual cash flows for accounts payable other and others include the maximum amount that the Group is required to pay in connection with the guarantees.

As of December 31, 2017, periods in which cash flows from cash flow hedge derivatives are expected to occur are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Assets	21,902	17,118	7,446	28,075	(18,403)
Liabilities	(39,470)	(40,220)	(28,960)	(11,260)	
	(17,568)	(23,102)	(21,514)	16,815	(18,403)

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(2) Capital management

The Group manages its capital to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity structure. The overall strategy of the Group is the same as that of the Group as of and for the year ended December 31, 2016.

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

Debt-equity ratio as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	December 31, 2017	**December 31, 2016**
Total liabilities	15,399,474	15,181,233
Total equity	18,029,195	16,116,430
Debt-equity ratios	85.41%	94.20%

(3) Fair value

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2017 are as follows:

(In millions of won)

	December 31, 2017				
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets that are measured at fair value					
Financial assets at fair value through profit or loss	328,314		106,057	222,257	328,314
Derivative financial assets	21,902		21,902		21,902
Available-for-sale financial assets	734,487	589,202	47,383	97,902	734,487
	1,084,703	589,202	175,342	320,159	1,084,703
Financial liabilities that are measured at fair value					

Financial liabilities at fair value through profit or loss	60,278	60,278	60,278
Derivative financial liabilities	39,470	39,470	39,470
	99,748	99,748	99,748
Financial liabilities that are not measured at fair value			
Borrowings	382,817	383,748	383,748
Debentures	7,025,909	7,325,370	7,325,370
Long-term payables other	1,649,466	1,766,451	1,766,451
	9,058,192	9,475,569	9,475,569

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2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2016 are as follows:

(In millions of won)

	December 31, 2016				
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value:					
Financial assets at fair value through profit or loss	7,368		7,368		7,368
Derivative financial assets	207,402		207,402		207,402
Available-for-sale financial assets	741,285	526,363	107,364	107,558	741,285
	956,055	526,363	322,134	107,558	956,055
Financial liabilities that are measured at fair value:					
Financial liabilities at fair value through profit or loss	59,600		59,600		59,600
Derivative financial liabilities	87,153		87,153		87,153
	146,753		146,753		146,753
Financial liabilities that are not measured at fair value:					
Borrowings	175,521		177,600		177,600
Debentures	7,134,606		7,568,361		7,568,361
Long-term payables other	1,926,363		2,103,788		2,103,788
	9,236,490		9,849,749		9,849,749

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

Available-for-sale financial assets amounting to 199,903 million and 194,600 million as of December 31, 2017 and December 31, 2016, respectively, are measured at cost in accordance with IAS 39 since they are equity instruments which do not have quoted price in an active market for the identical instruments and for which fair value cannot be reliably measured using other valuation methods.

Fair value of the financial instruments that are traded in an active market (available-for-sale financial assets, financial liabilities at fair value through profit or loss, etc.) is measured based on the bid price at the end of the reporting date.

The Group uses various valuation methods for determination of fair value of financial instruments that are not traded in an active market. Fair value of available-for-sale securities is determined using the market approach methods and financial assets through profit or loss are measured using the option pricing model. In addition, derivative financial contracts and long-term liabilities are measured using the discounted present value methods. Inputs used to such valuation methods include swap rate, interest rate, and risk premium, and the Group performs valuation using the inputs which are consistent with natures of assets and liabilities measured.

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For the years ended December 31, 2017, 2016 and 2015

Interest rates used by the Group for the fair value measurement as of December 31, 2017 are as follows:

	Interest rate
Derivative instruments	1.54% ~ 2.67%
Borrowings and debentures	2.48% ~ 2.55%
Long-term payables other	2.23% ~ 2.60%

3) There have been no transfers from Level 2 to Level 1 in 2017 and changes of financial assets classified as Level 3 for the year ended December 31, 2017 are as follows:

(In millions of won)

	Balance at beginning	Valuation	Transfer	Other comprehensive loss	Disposal	Balance at ending
Financial assets at fair value through profit or loss(*)		222,257				222,257
Available-for-sale financial assets	107,558		3,938	(8,942)	(4,652)	97,902

(*) The Group holds redeemable convertible preferred shares issued by Bluehole INC. The conversion rights attached to the investments are bifurcated from the host contract as embedded derivatives and the Group recognized 222,257 million as financial assets at FVTPL and gain on valuation of derivatives, respectively, as of and during the year ended December 31, 2017. The host contract was recognized as available-for-sale financial assets of 15,342 million measured by discounting the amount of collection at maturity including the principal, guaranteed interests, and dividend. The fair value of the conversion rights were measured using the binomial option pricing model by considering inputs such as expected volatility, exercise price, and common share price.

The major inputs used and their correlations with the fair value measurements are as follows.

Significant non-observable inputs	Correlations between inputs and fair value measurements
Value of common shares	

	If the value of common share increases (decreases), Fair value will increase (decrease)
Exercise price	If the exercise price increases (decreases), Fair value will decrease (increase)
Discount rate	If the discount rate increases (decreases), Fair value will decrease (increase)
Volatility	If the share price volatility increases (decreases), Fair value will increase (decrease)

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(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2017 and 2016 are as follows:

(In millions of won)	2017				
	Gross financial instruments recognized	**Amount offset**	**Net financial instruments presented on the statements of financial position**	**Relevant amount not offset on the statements of financial position Financial instruments**	**Net amount**
Financial assets:					
Derivatives(*)	26,645		26,645	(19,875)	6,770
Accounts receivable trade and others	93,146	(92,409)	737		737
	119,791	(92,409)	27,382	(19,875)	7,507
Financial liabilities:					
Derivatives(*)	19,875		19,875	(19,875)	
Accounts payable other and others	92,409	(92,409)			
	112,284	(92,409)	19,875	(19,875)	

(In millions of won)	2016				
	Gross financial instruments recognized	**Amount offset**	**Net financial instruments presented on the statements of financial position**	**Relevant amount not offset on the statements of financial position Financial instruments**	**Net amount**
Financial assets:					
Derivatives(*)	87,566		87,566	(87,153)	413
Accounts receivable trade and others	114,135	(103,852)	10,283		10,283

	201,701	(103,852)	97,849	(87,153)	10,696
Financial liabilities:					
Derivatives(*)	87,153		87,153	(87,153)	
Accounts payable other and others	103,852	(103,852)			
	191,005	(103,852)	87,153	(87,153)	

(*) The Group entered into derivative contracts which include enforceable master netting arrangement in accordance with International Swap and Derivatives Association (ISDA). Generally, all contracts made with the identical currencies are settled from one party to another by combining one net amount. In this case, all contracts are liquidated and paid off at net amount by evaluating liquidation value if credit events such as bankruptcy occur.

ISDAagreements do not allow the Group to exercise rights of set-off unless credit events such as bankruptcy occur. Therefore, assets and liabilities recognized in accordance with the agreements cannot be offset as the Group does not have enforceable rights of set-off.

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36. Related Parties and Others

(1) List of related parties

Relationship	Company
Ultimate Controlling Entity	SK Holdings Co., Ltd.
Joint ventures	Dogus Planet, Inc. and 3 others
Associates	SK hynix Inc. and 40 others
Others	The Ultimate Controlling Entity s subsidiaries and associates, etc.

(2) Compensation for the key management

The Parent Company considers registered directors who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Salaries	2,169	1,645	1,971
Defined benefits plan expenses	258	424	626
Share option	414		
	2,841	2,069	2,597

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

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For the years ended December 31, 2017, 2016 and 2015

(3) Transactions with related parties for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

		2017			
Scope	**Company**	**Operating revenue and others**	**Operating expense and others**	**Acquisition of property and equipment**	**Collection of loans**
Ultimate Controlling Entity	SK Holdings Co., Ltd.(*1)	25,049	600,600	283,556	
Associates	F&U Credit information Co., Ltd.	3,431	52,150	153	
	HappyNarae Co., Ltd.	3,025	29,276	68,472	
	SK hynix Inc(*2)	123,873	251		
	KEB HanaCard Co., Ltd.	17,873	15,045		
	Others(*3)	10,720	33,389	940	204
		158,922	130,111	69,565	204
Others	SK Engineering & Construction Co., Ltd.	5,865	1,077		
	SK Networks Co., Ltd.	21,694	1,220,251	671	
	SK Networks Services Co., Ltd.	510	96,949	6,346	
	SK Telesys Co., Ltd.	417	51,394	152,659	
	SK TNS Co., Ltd.	137	37,051	494,621	
	SK Energy Co., Ltd.	8,505	779		
	SK Gas Co., Ltd.	2,727	4		
	SK Innovation Co., Ltd.	7,639	950		
	SK Shipping Co., Ltd.	3,183	35		
	Ko-one energy service Co., Ltd	5,164	44		
	SK infosec Co., Ltd.	1,185	52,634	15,648	
	SKC INFRA SERVICE Co., Ltd.	19	46,900	47,163	
	Others	18,233	28,209	17	
		75,278	1,536,277	717,125	

Total	259,249	2,266,988	1,070,246	204

(*1) Operating expense and others include 203,635 million of dividends paid by the Parent Company.

(*2) Operating revenue and others include 87,660 million of dividends received from SK Hynix Inc. which was deducted from the investment in associates.

(*3) Operating revenue and others include 6,597 million of dividends received from the Korea IT Fund and others.

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For the years ended December 31, 2017, 2016 and 2015

(In millions of won)		2016				
Scope	**Company**	**Operating revenue and others**	**Operating expense and others**	**Acquisition of property and equipment**	**Loans**	**Collection of loans**
Ultimate Controlling Entity	SK Holdings Co., Ltd.(*1)	23,104	652,855	235,502		
Associates	F&U Credit information Co., Ltd.	2,865	47,905			
	HappyNarae Co., Ltd.	304	15,506	38,984		
	SK hynix Inc.(*2)	100,861	306			
	KEB HanaCard Co., Ltd.	19,730	14,804			
	Others(*3)	8,018	21,853	1,573	1,100	3,194
		131,778	100,374	40,557	1,100	3,194
Others	SK Engineering & Construction Co., Ltd.	5,916	1,739	10,694		
	SK Networks Co., Ltd.	13,756	1,131,567			
	SK Networks Services Co., Ltd.	1,248	94,906	6,793		
	SK Telesys Co., Ltd.	419	52,488	142,605		
	SK TNS Co., Ltd.	109	48,192	387,496		
	SK Energy Co., Ltd.	7,670	834			
	SK Gas Co., Ltd.	2,500	4			
	SK Innovation Co., Ltd.	9,757	915	1,080		
	SK Shipping Co., Ltd.	5,435				
	Ko-one energy service Co., Ltd	6,005	46			
	SK infosec Co., Ltd.	230	53,068	19,882		
	SKC INFRA SERVICE Co., Ltd.	43	30,663	32,141		
	Others	13,437	17,626	246		
		66,525	1,432,048	600,937		
Total		221,407	2,185,277	876,996	1,100	3,194

(*1) Operating expense and others include 203,635 million of dividends paid by the Parent Company.

(*2) Operating revenue and others include 73,050 million of dividends paid by the associate which was deducted from the investment in associates.

(*3) Operating revenue and others include 6,082 million of dividends received from the Korea IT Fund.

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(In millions of won)

		2015				
Scope	**Company**	**Operating revenue and others**	**Operating expense and others**	**Acquisition of property and equipment**	**Loans**	**Collection of loans**
Ultimate Controlling Entity	SK Holdings Co., Ltd. (formerly, SK C&C Co., Ltd.)(*1)	20,260	324,078	236,414		
	SK Holdings Co., Ltd. (formerly, SK Holdings Co., Ltd.)(*2,3)	1,299	212,378	117		
		21,559	536,456	236,531		
Associates	F&U Credit information Co., Ltd.	2,510	43,967			
	HappyNarae Co., Ltd.	297	6,886	13,495		
	SK hynix Inc.(*4)	55,949	2,384			
	SK Wyverns Baseball Club., Ltd.	3,849	18,544			204
	KEB HanaCard Co., Ltd.	21,414	16,057			
	Xian Tianlong Science and Technology Co., Ltd.				8,287	
	Others(*5)	6,397	11,917	1,864	690	
		90,416	99,755	15,359	8,977	204
Other	SK Engineering & Construction Co., Ltd.	15,598	27,243	240,701		
	SK Networks Co., Ltd.	11,923	1,257,975	2		
	SK Networks Services Co., Ltd.	10,491	94,097	6,472		
	SK Telesys Co., Ltd.	397	48,900	141,870		
	SK Energy Co., Ltd.	9,930	978			
	SK Gas Co., Ltd.	3,561	2			
	Others	29,409	71,314	194,945		
		81,309	1,500,509	583,990		
Total		193,284	2,136,720	835,880	8,977	204

(*1) On August 1, 2015, SK C&C Co., Ltd., the ultimate controlling entity of the Parent Company merged with SK Holdings Co., Ltd., its equity method investee, and changed its name to SK Holdings Co., Ltd.

(*2) These relates to transactions occurred before July 31, 2015, the date of merger with SK C&C Co., Ltd.

(*3) Operating expense and others include 191,416 million of dividends paid by the Parent Company.

(*4) Operating revenue and others include 43,830 million of dividends paid by SK hynix Inc. and was deducted from the investment in associates.

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(*5) Operating revenue and others include 2,103 million and 457 million of dividends paid by Korea IT Fund and UniSK, respectively, and was deducted from the investments in associates.

(4) Account balances with related parties as of December 31, 2017 and 2016 are as follows:

(In millions of won)

		December 31, 2017		
		Accounts receivable		Accounts payable
Scope	**Company**	**Loans**	**Accounts receivable-trade and others**	**Accounts payable-other and others**
Ultimate Controlling Entity	SK Holdings Co., Ltd.		2,068	148,066
Associates	HappyNarae Co., Ltd.		15	6,865
	F&U Credit information Co., Ltd.		21	1,612
	SK hynix Inc.		2,803	94
	Wave City Development Co., Ltd.		38,412	
	Daehan Kanggun BcN Co., Ltd.(*)	22,147		
	KEB HanaCard Co., Ltd.		1,427	11,099
	S.M. Culture & Contents Co., Ltd.		448	8,963
	Xian Tianlong Science and Technology Co., Ltd.	7,032		
	Others	611	2,272	1,164
		29,790	45,398	29,797
Other	SK Engineering & Construction Co., Ltd.		2,033	69
	SK Networks. Co., Ltd.		3,050	267,297
	SK Networks Services Co., Ltd.		15	9,522
	SK Telesys Co., Ltd.		36	58,346
	SK TNS Co., Ltd.		3	140,311
	SK Innovation Co., Ltd.		4,112	599
	SK Energy Co., Ltd.		2,965	582

	SK Gas Co., Ltd.		1,941	9
	Others		2,998	27,318
			17,153	504,053
Total		29,790	64,619	681,916

(*) The Parent Company has recognized allowances for doubtful accounts on the entire balance of loans to Daehan Kanggun BcN Co., Ltd as of December 31, 2017.

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(In millions of won)

		December 31, 2016		
		Accounts receivable		Accounts payable
Scope	**Company**	**Loans**	**Accounts receivable-trade and others**	**Accounts payable-other and others**
Ultimate Controlling Entity	SK Holdings Co., Ltd.		3,519	149,574
Associates	HappyNarae Co., Ltd.		18	21,063
	F&U Credit information Co., Ltd.		34	1,328
	SK hynix Inc.		22,379	92
	Wave City Development Co., Ltd.		38,412	
	Daehan Kanggun BcN Co., Ltd.(*)	22,147		
	KEB HanaCard Co., Ltd.		1,619	7,676
	Xian Tianlong Science and Technology Co., Ltd.	8,287		
	Others	813	4,191	945
		31,247	66,653	31,104
Other	SK Engineering & Construction Co., Ltd.		1,808	4,975
	SK Networks. Co., Ltd.		3,254	247,728
	SK Networks Services Co., Ltd.		13	13,913
	SK Telesys Co., Ltd.		20	24,918
	SK TNS Co., Ltd.		3	68,276
	SK Innovation Co., Ltd.		1,350	892
	SK Energy Co., Ltd.		1,213	113
	SK Gas Co., Ltd.		1,769	9
	Others		2,783	30,209
			12,213	391,033
Total		31,247	82,385	571,711

(*) The Parent Company has recognized allowances for doubtful accounts on the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as of December 31, 2016.

(5) SK m&service Co., Ltd., a subsidiary of the Parent Company, has entered into a performance agreement with SK Energy Co., Ltd. and provided a blank note to SK Energy Co., Ltd., with regard to this transaction.

(6) As of December 31, 2017, the Group provides with USD 12,240,000 of payment guarantees for the borrowings of the Celcom Planet, the joint ventures of the Group.

(7) There were additional investments in associates and joint ventures during the years ended December 31, 2017 and 2016 as presented in Note 12.

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37. Commitments and Contingencies

(1) Collateral assets and commitments

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases on buildings in the amount of 4,144 million as of December 31, 2017.

SK Broadband Co., Ltd., has guaranteed for employees borrowings relating to employee stock ownership program and provided short-term financial instruments amounting to 300 million as collateral as of December 31, 2017.

(2) Legal claims and litigations

As of December 31, 2017 the Group is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. In connection with those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Group s financial position or operating results in the event an outflow of resources is ultimately necessary.

(3) Accounts receivables from sale of handsets

The sales agents of the Parent Company sell handsets to the Parent Company s subscribers on an installment basis. During the year ended December 31, 2017, the Parent Company entered into a comprehensive agreement to purchase the accounts receivables from handset sales with agents and to transfer the accounts receivables from handset sales to special purpose companies which were established with the purpose of liquidating receivables, respectively.

The accounts receivables from sale of handsets amounting to 1,111,614 million as of December 31, 2017, which the Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable other and long-term accounts receivable other.

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Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

38. Statements of Cash Flows

(1) Adjustments for income and expenses from operating activities for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Interest income	(76,045)	(54,353)	(45,884)
Dividend	(12,416)	(19,161)	(16,102)
Gain on foreign currency translation	(7,110)	(5,085)	(5,090)
Gain on disposal of long-term investment securities	(4,890)	(459,349)	(10,786)
Gain on valuation of derivatives	(223,943)	(4,132)	(1,927)
Gain relating to investments in associates and joint ventures, net	(2,245,732)	(544,501)	(786,140)
Gain on sale of accounts receivable trade	(18,548)	(18,638)	
Gain on disposal of property and equipment and intangible assets	(13,991)	(6,908)	(7,140)
Gain relating to financial assets at fair value through profit or loss	(33)	(25)	
Gain related to financial liabilities at fair value through profit or loss		(121)	(5,188)
Reversal of impairment loss on available-for-sale financial assets	(9,900)		
Other income	(1,129)	(2,123)	(7,577)
Interest expenses	299,100	290,454	297,662
Loss on foreign currency translation	8,419	3,991	4,750
Loss on disposal of long-term investment securities	36,024	2,919	2,599
Other finance costs	14,519	5,255	21,787
Loss on sale of accounts receivable trade	9,682		
Loss on settlement of derivatives	10,031	3,428	4,845
Income tax expense	745,654	436,038	519,480
Expense related to defined benefit plan	127,696	118,143	110,021
Share option	414		
Depreciation and amortization	3,247,519	3,068,558	2,993,486
Bad debt expense	34,584	37,820	60,450
Loss on disposal of property and equipment and intangible assets	60,086	63,797	21,392
Impairment loss on property and equipment and intangible assets	54,946	24,506	35,845
Loss relating to financial liabilities at fair value through profit or loss	678	4,018	526
Bad debt for accounts receivable other	5,793	40,312	15,323
Loss on impairment of investment assets	9,003	24,033	42,966
Other expenses	46,353	30,685	4,845
	2,096,764	3,039,561	3,250,143

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(2) Changes in assets and liabilities from operating activities for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Accounts receivable trade	46,144	88,549	7,554
Accounts receivable other	(159,960)	(446,286)	(11,108)
Accrued income	14	445	116
Advance payments	(1,269)	47,615	(35,906)
Prepaid expenses	(28,362)	(30,311)	(40,464)
Value-Added Tax refundable	(3,080)	(4,587)	1,385
Inventories	(17,958)	798	(7,814)
Long-term accounts receivable other	(137,979)	(147,117)	
Guarantee deposits	14,696	4,844	(11,238)
Accounts payable trade	(26,151)	75,585	12,442
Accounts payable other	134,542	316,464	(107,114)
Advanced receipts	(13,470)	37,429	6,421
Withholdings	(13,041)	107,516	(191,209)
Deposits received	(4,916)	(2,153)	(9,661)
Accrued expenses	116,065	173,072	(28,845)
Value-Added Tax payable	7,505	(4,072)	3,494
Unearned revenue	(339)	(36,209)	(115,187)
Provisions	(20,488)	20,235	(30,562)
Long-term provisions	(2,449)	4,115	(4,447)
Plan assets	(95,828)	(125,440)	(67,831)
Retirement benefit payment	(60,883)	(55,350)	(58,513)
Others	5,739	(11,378)	2,753
	(261,468)	13,764	(685,734)

(3) Significant non-cash transactions for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Increase of accounts payable other related to acquisition of property and equipment and intangible assets	44,214	1,511,913	39,973

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SK TELECOM CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016 and 2015

(4) Reconciliation of liabilities arising from financing activities for the year ended December 31, 2017 is as follows:

(In millions of won)

	January 1, 2017	Cash flows	Non-cash transactions: Exchange rate changes	Fair value changes	Other changes	December 31, 2017
Total liabilities from financing activities						
Short-term borrowings	2,614	127,386				130,000
Long-term borrowings	172,906	87,299	(7,898)		510	252,817
Debentures	7,194,207	130,558	(245,456)		6,878	7,086,187
Long-term payables other	1,918,024	(305,476)			28,533	1,641,081
Derivative financial liabilities	87,153	(105,269)	13,281	39,267	5,038	39,470
Derivative financial assets	(214,770)	188	922	(40,235)	682	(253,213)
	9,160,134	(65,314)	(239,151)	(968)	41,641	8,896,342
Other cash flows from financing activities						
Payments of cash dividends		(706,091)				
Payments of interest on hybrid bond		(16,840)				
Transactions with non-controlling interests		(38,373)				
		(761,304)				
Total		(826,618)				

39. Cash Dividends paid to the Parent Company

Cash dividends received from the consolidated subsidiaries and associates for the years ended December 31, 2017, 2016 and 2015 are as follows:

(In millions of won)

	2017	2016	2015
Cash dividends received from consolidated subsidiaries		15,693	
Cash dividends received from associates	89,063	79,132	46,390

	89,063	94,825	46,390

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

SK hynix, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of SK hynix, Inc. and subsidiaries (the Group) as of December 31, 2017 and 2016, the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These consolidated financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error of fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Samjong Accounting Corp.

We have served as the Group s auditor since 2012.

Seoul, Korea

April 27, 2018

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SK HYNIX, INC. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

	Note	2017	2016
		(In millions of won)	
Assets			
Current assets			
Cash and cash equivalents	*5,6*	2,949,991	613,786
Short-term financial instruments	*5,6,7*	5,604,663	3,521,893
Trade receivables, net	*5,6,8,31*	5,552,795	3,251,652
Loans and other receivables, net	*5,6,8,31*	37,613	25,611
Inventories, net	*9*	2,640,439	2,026,198
Current tax assets	*29*	1,305	489
Other current assets	*10*	523,638	399,353
		17,310,444	9,838,982
Non-current assets			
Investments in associates and joint ventures	*11*	359,864	131,016
Available-for-sale financial assets	*5,6,12*	43,226	147,779
Loans and other receivables, net	*5,6,8,31*	42,410	39,490
Other financial assets	*5,6,7*	273	423
Property, plant and equipment, net	*13,32*	24,062,601	18,777,402
Intangible assets, net	*14,28*	2,247,290	1,915,591
Investment property, net	*13,15*	2,468	2,573
Deferred tax assets	*20,29*	599,783	792,368
Employee benefit assets	*19*	13,385	
Other non-current assets	*10*	736,720	570,402
		28,108,020	22,377,044
Total assets		45,418,464	32,216,026

See accompanying notes to the consolidated financial statements.

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SK HYNIX, INC. and Subsidiaries

Consolidated Statements of Financial Position, continued

As of December 31, 2017 and 2016

	Note	2017	2016
		(In millions of won)	
Liabilities			
Current liabilities			
Trade payables	*5,6*	758,578	696,144
Other payables	*5,6,31*	2,724,547	1,606,417
Other non-trade payables	*5,6*	1,340,225	685,154
Borrowings	*5,6,16,31*	773,780	704,860
Other financial liabilities	*5,6,21*		288
Provisions	*18,32*	81,351	42,822
Current tax liabilities	*29*	2,385,876	374,666
Other current liabilities	*17*	51,776	50,498
		8,116,133	4,160,849
Non-current liabilities			
Other non-trade payables	*5,6*	3,412	27,426
Borrowings	*5,6,16,31*	3,397,490	3,631,118
Defined benefit liabilities, net	*19*	6,096	306,488
Deferred tax liabilities	*20*	5,554	4,732
Other non-current liabilities	*17*	68,860	61,883
		3,481,412	4,031,647
Total liabilities		11,597,545	8,192,496
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	*1,22*	3,657,652	3,657,652
Capital surplus	*22*	4,143,736	4,143,736
Other equity	*22*	(771,100)	(771,913)
Accumulated other comprehensive loss	*23*	(502,264)	(79,103)
Retained earnings	*24*	27,287,256	17,066,583
Total equity attributable to owners of the Parent Company		33,815,280	24,016,955
Non-controlling interests		5,639	6,575
Total equity		33,820,919	24,023,530
Total liabilities and equity		45,418,464	32,216,026

See accompanying notes to the consolidated financial statements.

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SK HYNIX, INC. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017, 2016 and 2015

	Note	2017	2016	2015
		(In millions of won, except per share information)		
Revenue	*4,31*	30,109,434	17,197,975	18,797,998
Cost of sales	*26,31*	12,701,843	10,787,139	10,515,353
Gross profit		17,407,591	6,410,836	8,282,645
Selling and administrative expense	*25,26*	(3,686,265)	(3,134,090)	(2,946,545)
Finance income	*27*	996,468	814,892	846,752
Finance expenses	*27*	(1,249,617)	(846,328)	(829,913)
Share of profit of equity-accounted investees	*11*	12,367	22,752	24,642
Other income	*28*	77,882	52,371	40,479
Other expenses	*28*	(118,860)	(103,979)	(148,939)
Profit before income tax		13,439,566	3,216,454	5,269,121
Income tax expense	*29*	2,797,347	255,971	945,526
Profit for the year		10,642,219	2,960,483	4,323,595
Other comprehensive income (loss)				
Item that will never be reclassified to profit or loss:				
Remeasurements of defined benefit liability, net of tax	*19*	2,762	106,822	(21,871)
Items that are or may be reclassified to profit or loss:				
Foreign operations foreign currency translation differences, net of tax	*23*	(387,683)	(82,066)	33,479
Loss on valuation of available-for-sale financial assets, net of tax	*12,29*	(10,735)		
Equity-accounted investees share of other comprehensive income, net of tax	*11,23*	(26,386)	4,088	6,487
Other comprehensive income (loss) for the year, net of tax		(422,042)	28,844	18,095
Total comprehensive income for the year		10,220,177	2,989,327	4,341,690
Profit attributable to:				
Owners of the Parent Company		10,641,512	2,953,774	4,322,356
Non-controlling interests		707	6,709	1,239
Total comprehensive income (loss) attributable to:				

Owners of the Parent Company		10,221,113	2,982,703	4,340,700
Non-controlling interests		(936)	6,624	990
Earnings per share	*30*			
Basic earnings per share (in won)		15,073	4,184	6,002
Diluted earnings per share (in won)		15,072	4,184	6,002

See accompanying notes to the consolidated financial statements.

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SK HYNIX, INC. and Subsidiaries

Consolidated Statements of Changes in Equity

For the year ended December 31, 2015

	Attributable to owners of the Parent Company							
	Capital stock	Capital surplus	Other components of equity	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
	(In millions of won)							
Balance at January 1, 2015	3,657,652	4,143,736	(24)	(41,815)	10,276,904	18,036,453	(150)	18,036,303
Total comprehensive income								
Profit for the year					4,322,356	4,322,356	1,239	4,323,595
Other comprehensive income (loss)				40,215	(21,871)	18,344	(249)	18,095
Total comprehensive income				40,215	4,300,485	4,340,700	990	4,341,690
Transactions with owners of the Parent Company								
Dividends paid					(218,401)	(218,401)		(218,401)
Acquisition of treasury shares			(771,889)			(771,889)		(771,889)
Total transactions with owners of the Parent Company			(771,889)		(218,401)	(990,290)		(990,290)
Balance at December 31, 2015	3,657,652	4,143,736	(771,913)	(1,600)	14,358,988	21,386,863	840	21,387,703

See accompanying notes to the consolidated financial statements.

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SK HYNIX, INC. and Subsidiaries

Consolidated Statements of Changes in Equity, continued

For the years ended December 31, 2017 and 2016

	Attributable to owners of the Parent Company							
	Capital stock	Capital surplus	Other components of equity	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
	(In millions of won)							
Balance at January 1, 2016	3,657,652	4,143,736	(771,913)	(1,600)	14,358,988	21,386,863	840	21,387,703
Total comprehensive income								
Profit for the year					2,953,774	2,953,774	6,709	2,960,483
Other comprehensive income (loss)				(77,893)	106,822	28,929	(85)	28,844
Total comprehensive income				(77,893)	3,060,596	2,982,703	6,624	2,989,327
Transactions with owners of the Parent Company								
Dividends paid					(353,001)	(353,001)		(353,001)
Disposal of a subsidiary				390		390	(889)	(499)
Total transactions with owners of the Parent Company				390	(353,001)	(352,611)	(889)	(353,500)
Balance at December 31, 2016	3,657,652	4,143,736	(771,913)	(79,103)	17,066,583	24,016,955	6,575	24,023,530

Balance at January 1, 2017	3,657,652	4,143,736	(771,913)	(79,103)	17,066,583	24,016,955	6,575	24,023,530
Total comprehensive income								
Profit for the year					10,641,512	10,641,512	707	10,642,219
Other comprehensive income (loss)				(423,161)	2,762	(420,399)	(1,643)	(422,042)
Total comprehensive income				(423,161)	10,644,274	10,221,113	(936)	10,220,177
Transactions with owners of the Parent Company								
Dividends paid					(423,601)	(423,601)		(423,601)
Share-based payment transaction			813			813		813
Total transactions with owners of the Parent Company			813		(423,601)	(422,788)		(422,788)
Balance at December 31, 2017	3,657,652	4,143,736	(771,100)	(502,264)	27,287,256	33,815,280	5,639	33,820,919

See accompanying notes to the consolidated financial statements.

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SK HYNIX, INC. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016 and 2015

	Note	2017	2016	2015
			(In millions of won)	
Cash flows from operating activities				
Cash generated from operating activities	33	15,373,261	6,486,781	10,357,267
Interest received		41,680	42,895	51,610
Interest paid		(120,332)	(125,818)	(124,304)
Dividends received		14,841	20,744	17,045
Income tax paid		(618,836)	(875,680)	(982,098)
Net cash provided by operating activities		14,690,614	5,548,922	9,319,520
Cash flows from investing activities				
Decrease (increase) in short-term financial instruments, net		(2,119,004)	109,803	39,533
Decrease in other financial assets		308	5	
Increase in other financial assets		(167)	(2)	
Collection of loans and other receivables		18,437	15,422	10,692
Increase in loans and other receivables		(22,009)	(13,613)	(14,134)
Proceeds from disposal of available-for-sale financial assets		3,431	2,651	1,319
Acquisition of available-for-sale financial assets		(26,204)	(19,085)	(5,359)
Cash inflows from derivative transactions		902	1,077	1,672
Cash outflows from derivative transactions		(1,201)	(1,525)	(2,088)
Proceeds from disposal of property, plant and equipment		244,897	162,120	220,097
Acquisition of property, plant and equipment		(9,128,303)	(5,956,354)	(6,774,625)
Proceeds from disposal of intangible assets		3,249	1,585	7,963
Acquisition of intangible assets		(784,911)	(530,375)	(623,743)
Proceeds from disposal of assets held for sale				22,630
Receipt of government grants		5,900	133	406
Acquisition of investments in associates		(114,487)	(2,293)	(9,893)
Net cash used in investing activities		(11,919,162)	(6,230,451)	(7,125,530)
Cash flows from financing activities				
Proceeds from borrowings	33	782,330	2,080,343	3,933,056
Repayments of borrowings	33	(710,635)	(1,610,466)	(4,405,023)
Acquisition of treasury shares				(771,889)
Dividends paid		(423,601)	(353,001)	(218,401)
Net cash provided by (used in) financing activities		(351,906)	116,876	(1,462,257)

Effect of movements in exchange rates on cash and cash equivalents	(83,341)	2,720	7,225
Net increase (decrease) in cash and cash equivalents	2,336,205	(561,933)	738,958
Cash and cash equivalents at beginning of the year	613,786	1,175,719	436,761
Cash and cash equivalents at end of the year	2,949,991	613,786	1,175,719

See accompanying notes to the consolidated financial statements.

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SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

1. Reporting Entity

(1) General information about SK hynix, Inc. (the Parent Company or the Company) and its subsidiaries (collectively the Group) is as follows:

The Parent Company is engaged in the manufacture, distribution and sales of semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Parent Company s headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Group has manufacturing facilities in Icheon-si and Cheongju-si, South Korea, and Wuxi and Chongqing, China.

As of December 31, 2017, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
National Pension Service	72,818,475	10.00
Other investors	487,083,320	66.91
Treasury shares	22,000,570	3.02
	728,002,365	100.00

The Parent Company s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange and the Luxembourg Stock Exchange.

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SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

1. Reporting Entity, continued

(2) Details of the Group s consolidated subsidiaries as of December 31, 2017 and 2016 are as follows:

Company	Location	Business	Ownership (%) 2017	2016
SK hyeng Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc.	Korea	Development and manufacturing of electronic component	100.00	100.00
Happy More Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hynix system ic Inc.[1]	Korea	Foundry business	100.00	
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Private Ltd. (SKHYIS)[2]	India	Overseas sales subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)[3]	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
Softeq Flash Solutions LLC. (SOFTEQ)	Belarus	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH)	Hong Kong	Overseas investment subsidiary	100.00	100.00
SK hynix Venture Hong Kong Ltd. (SKH Ventures)	Hong Kong		100.00	100.00

		Overseas investment subsidiary		
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

[1] SK hynix system ic Inc. was established during the year ended December 31, 2017.

[2] Subsidiary of SK hynix Asia Pte. Ltd.

[3] Subsidiary of SK APTECH Ltd.

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SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

1. Reporting Entity, continued

(3) Changes in the consolidated subsidiaries during the year ended December 31, 2017 are follows:

	Company	Description
Newly included	SK hynix system ic Inc.	Newly established

(4) Major subsidiaries summarized separate statements of financial position as of December 31, 2017 and 2016 are as follows:

	2017			2016		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
	(In millions of won)					
SK hynix America Inc. (SKHYA)	2,522,348	2,259,210	263,138	1,584,043	1,279,493	304,550
SK hynix Deutschland GmbH (SKHYD)	108,470	70,430	38,040	83,388	45,575	37,813
SK hynix Asia Pte. Ltd. (SKHYS)	636,286	559,400	76,886	337,506	253,918	83,588
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	1,043,889	918,305	125,584	932,437	810,556	121,881
SK hynix U.K. Ltd. (SKHYU)	325,434	308,999	16,435	146,327	128,807	17,520
SK hynix Semiconductor Taiwan Inc. (SKHYT)	566,155	536,592	29,563	310,933	290,174	20,759
SK hynix Japan Inc. (SKHYJ)	632,590	569,810	62,780	251,274	184,504	66,770
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	414,850	379,888	34,962	46,177	18,595	27,582
SK hynix Semiconductor (China) Ltd. (SKHYCL)	4,043,100	322,545	3,720,555	3,476,086	232,117	3,243,969
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	388,033	195,849	192,184	350,305	171,088	179,217

(5) Major subsidiaries summarized separate statements of comprehensive income for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017		
	Revenue	Profit (Loss)	Total comprehensive

			income (loss)
		(In millions of won)	
SK hynix America Inc. (SKHYA)	11,096,526	(7,243)	(7,243)
SK hynix Deutschland GmbH (SKHYD)	476,709	(120)	(120)
SK hynix Asia Pte. Ltd. (SKHYS)	2,645,084	2,872	2,872
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	8,717,022	19,456	19,456
SK hynix U.K. Ltd. (SKHYU)	1,088,697	953	953
SK hynix Semiconductor Taiwan Inc. (SKHYT)	2,629,453	12,446	12,446
SK hynix Japan Inc. (SKHYJ)	940,254	1,761	1,761
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	1,332,939	8,230	8,230
SK hynix Semiconductor (China) Ltd. (SKHYCL)	2,185,341	338,969	338,969
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	355,982	23,441	23,441

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SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

1. Reporting Entity, continued

	2016		
	Revenue	Profit	Total comprehensive income
	(In millions of won)		
SK hynix America Inc. (SKHYA)	5,398,193	117,848	117,848
SK hynix Deutschland GmbH (SKHYD)	321,309	1,747	1,747
SK hynix Asia Pte. Ltd. (SKHYS)	1,497,869	1,929	1,929
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	5,655,093	20,019	20,019
SK hynix U.K. Ltd. (SKHYU)	532,661	374	374
SK hynix Semiconductor Taiwan Inc. (SKHYT)	1,742,632	2,676	2,676
SK hynix Japan Inc. (SKHYJ)	673,127	867	804
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	345,863	6,073	6,073
SK hynix Semiconductor (China) Ltd. (SKHYCL)	2,137,576	123,753	123,753
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	296,121	2,674	2,674

	2015		
	Revenue	Profit	Total comprehensive income
	(In millions of won)		
SK hynix America Inc. (SKHYA)	7,599,679	89,716	89,716
SK hynix Deutschland GmbH (SKHYD)	414,489	1,072	1,072
SK hynix Asia Pte. Ltd. (SKHYS)	1,612,550	1,303	1,303
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	4,181,208	6,909	6,909
SK hynix U.K. Ltd. (SKHYU)	702,329	1,289	1,289
SK hynix Semiconductor Taiwan Inc. (SKHYT)	1,915,465	5,852	5,852
SK hynix Japan Inc. (SKHYJ)	934,001	1,116	1,322
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	528,670	8,150	8,150
SK hynix Semiconductor (China) Ltd. (SKHYCL)	2,273,536	206,446	206,446
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	350,110	13,328	13,328

(6) There are no significant non-controlling interests to the Group as of December 31, 2017, 2016 and 2015.

2. Basis of Preparation

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issuance by the board of directors on January 24, 2018.

(2) Basis of measurement

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

- derivative financial instruments are measured at fair value

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

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SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

2. Basis of Preparation, continued

available-for-sale financial assets are measured at fair value

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

(3) Functional and presentation currency

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

(4) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes for classification of leases.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following notes for net realizable value of inventories, impairment of development costs and goodwill, recognition and measurement of provisions, measurement of defined benefit obligations, recognition of deferred tax assets.

(c) Fair value measurement

The Group establishes fair value measurement policies and procedures as its accounting policies and disclosures require fair value measurements for various financial and non-financial assets and liabilities. Such policies and procedures are executed by the valuation department, which is responsible for the review of significant fair value measurements including fair values classified as level 3 in the fair value hierarchy.

The valuation department regularly reviews unobservable significant inputs and valuation adjustments. If third party information such as prices available from an exchange, dealer, broker, industry group, pricing service or regulatory agency is used for fair value measurements, the valuation department reviews whether the valuation based on third party information includes classifications by levels within the fair value hierarchy and meets the requirements for the relevant standards.

The Group uses the best observable inputs in market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation methods as follows:

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

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

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SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

2. Basis of Preparation, continued

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

If various inputs used to measure fair value of assets or liabilities fall into different levels of the fair value hierarchy, the Group classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value. The Group recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

Information about assumptions used for fair value measurements are included in note 6.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are explained below. Except for the new accounting standards that are effective for annual periods beginning on or after January 1, 2017, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(1) Operating Segments

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group, 2) whose operating results are reviewed regularly by the Group s chief operating decision maker (CODM) in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. The Group s CODM is the board of directors, who do not receive and therefore do not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic, product and customer information are provided in note 4.

(2) Basis of consolidation

(a) Business combination

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

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree s employees (acquiree s awards), then all or a portion of the amount of the acquirer s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree s awards and the extent to which the replacement awards relate to pre-combination service.

SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

3. Significant Accounting Policies, continued

(b) Non-controlling interests

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

Changes in the Group s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Subsidiaries

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

(d) Loss of control

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

(e) Interests in equity-accounted investees

The Group s interest in equity-accounted investees comprise interests in an associate and a joint venture. An associate is an entity in which the Group has significant influence, but not control or joint control, over the entity s financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in an associate and a joint venture are initially recognized at cost including transaction costs. Subsequent to initial recognition, their carrying amounts are increased or decreased to recognize the Group s share of the profit or loss and changes in equity of the associate or the joint venture. Distributions from equity-accounted investees are accounted for as deduction from the carrying amounts.

(f) Transactions eliminated on consolidation

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

(g) Business combinations under common control

The assets and liabilities acquired in the combination of entities or business under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is added to or deducted from other capital adjustments.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

3. Significant Accounting Policies, continued

(4) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method (except for goods in-transit that is based on the specific identification method), and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing inventories to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

(5) Non-derivative financial assets

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

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

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

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

(b) Held-to-maturity investments

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

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

(d) Available-for-sale financial assets

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

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SK HYNIX, INC. and Subsidiaries

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December 31, 2017, 2016 and 2015

3. Significant Accounting Policies, continued

(e) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, it derecognizes the financial assets when it does not retain control over the transferred financial assets. If the Group has retained control over the transferred financial assets, it continues to recognize the assets to the extent of its continuing involvement. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(f) Offsetting between financial assets and financial liabilities

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

(6) Derivative financial instruments

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

(a) Embedded derivatives

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

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

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

(b) Other derivative financial instruments

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

(7) Impairment of financial assets

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

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SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

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3. Significant Accounting Policies, continued

Objective evidence that a financial asset is impaired includes:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified with the individual financial assets in the group

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

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset s original effective interest rate. If it is not practicable to obtain the financial asset s estimated future cash flows, impairment losses would be measured based on prices from any observable current market transactions. Impairment losses are deducted through an allowance account or directly from the carrying amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(c) Available-for-sale financial assets

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

(8) Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable

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SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

3. Significant Accounting Policies, continued

to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset s future economic benefits are expected to be consumed.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other income or expenses.

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

	Useful lives (years)
Buildings	10 - 50
Structures	10 - 30
Machinery	4 - 15
Vehicles	4 - 10
Other	3 - 15

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

(9) Borrowing costs

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

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

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SK HYNIX, INC. and Subsidiaries

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December 31, 2017, 2016 and 2015

3. Significant Accounting Policies, continued

(10) Intangible assets

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

Goodwill arising from business combinations is recognized as the excess of the consideration transferred in the acquisition over the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

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

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

	Useful lives (years)
Industrial rights	5 - 10
Development costs	2
Other intangible assets	4 - 50

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

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

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

(11) Government grants

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

(a) Grants related to assets

Government grants whose primary condition is that the Group purchases, constructs or otherwise acquires non-current assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the useful lives of depreciable assets.

(b) Grants related to income

Government grants which are intended to compensate the Group for expenses incurred are recognized in profit or loss by as deduction of the related expenses.

SK HYNIX, INC. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017, 2016 and 2015

3. Significant Accounting Policies, continued

(12) Investment property

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

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

Investment property except for land, are depreciated on a straight-line basis over estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

(13) Impairment of non-financial assets

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

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

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from business combination. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(14) Leases

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

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December 31, 2017, 2016 and 2015

3. Significant Accounting Policies, continued

(a) Finance leases

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

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

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

(b) Operating leases

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

(c) Determining whether an arrangement contains a lease

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

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

(15) Non-derivative financial liabilities

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

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

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

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3. Significant Accounting Policies, continued

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The Group derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, canceled or expires).

(16) Employee benefits

(a) Short-term employee benefits

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

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the reporting period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.

(c) Retirement benefits: defined benefit plans

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

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

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

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

(d) Retirement benefits: defined contribution plans

When an employee has provided service for a certain period of time in relation to the defined contribution plan, the contribution to the defined contribution plan is recognized in profit or loss except to be included in the cost of the asset. The contributions to be paid are recognized as liabilities (accrued expenses) less the contributions that have been already paid.

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3. Significant Accounting Policies, continued

(e) Termination benefits

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring. If benefits are not payable within 12 months after the end of the reporting period, then they are discounted to their present value.

(17) Provisions

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

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

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

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

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

(18) Emissions Rights

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

(a) Greenhouse Gases Emission Right

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

Emission rights held for the purpose of performing the obligation is classified as intangible asset and is initially measured at cost and after initial recognition are carried at cost less accumulated impairment losses. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period.

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

(b) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the

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3. Significant Accounting Policies, continued

performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

(19) Foreign currencies

(a) Foreign currency transactions

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

Foreign currency differences arising on the settlement or retranslation of monetary items are recognized in profit or loss, except for differences arising on the retranslation of the net investment in a foreign operation, which are recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(b) Foreign operations

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

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

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

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

(20) Equity capital

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

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

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3. Significant Accounting Policies, continued

(21) Share-based payment

The Group has granted shares or share options to its employees. For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot reliably estimate the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Group measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

(22) Revenue

Revenue from the sale of goods, rendering of services or use of assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

(a) Sale of goods

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

(b) Sale of services

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

(23) Finance income and finance expenses

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

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

(24) Income taxes

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

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3. Significant Accounting Policies, continued

(a) Current tax

Current tax is the expected tax payable or refundable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

(b) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes deferred tax assets for all deductible temporary differences including unused tax loss and tax credit to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If there are any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.

(25) Earnings per share

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

(26) Change in Accounting Policies

The Group adopted the amendments to IAS 7 Statement of Cash Flows in the period beginning January 1, 2017. The amendment requires the Group to provide disclosures that enable users of financial statements to evaluate

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3. Significant Accounting Policies, continued

changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has disclosed the reconciliation of the opening and closing balances of liabilities arising from financing activities including changes from financing cash flows; changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes in note 33.

(27) Standards issued but not yet adopted

The following new standards, amendments to standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

(a) IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. The Group plans to adopt IFRS 9 for the year beginning on January 1, 2018.

IFRS 9 will generally be applied retrospectively; however, the Group plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement (including impairment) changes. New hedge accounting requirements will generally be applied prospectively except for certain exemptions including the accounting for the time value of options.

Key features of the new standard, IFRS 9, are 1) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, 2) impairment methodology that reflects expected credit loss (ECL) model for financial assets, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

IFRS 9 will require the Group to assess the financial impact from application of IFRS 9 and revise its accounting processes and internal controls related to financial instruments. Actual impact of adopting IFRS 9 will be dependent on the financial instruments the Group holds and economic conditions at that time as well as accounting policy elections and judgment that it will make in the future.

During the year ended December 31, 2017, the Group assessed the impacts of adoption of IFRS 9 on its consolidated financial statements, the accounting system and the internal controls. The potential general impact on its consolidated financial statements resulting from the application of new standard are as follows:

(i) Classification and measurement of financial assets

Under IFRS 9, financial assets are classified into three principal categories; measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on the business model in which assets are managed and their cash flow characteristics, as detailed in the below table.

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3. Significant Accounting Policies, continued

Under IFRS 9, derivatives embedded in hybrid contracts where the host is a financial asset are not bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model	Contractual cash flows are solely payments of principal and interests	All other cases
To collect contractual cash flows	At amortized cost[1]	
Both to collect contractual cash flows and sell financial assets	At FVOCI[1]	FVTPL[2]
For trading, and others	At FVOCI	

[1] The Group may irrevocably designate as at FVTPL to eliminate or significantly reduce an accounting mismatch.

[2] The Group may irrevocably designate equity investments that is not held for trading as at FVOCI.

As there are additional requirements for a financial asset to be classified as measured at amortized costs or FVOCI under IFRS 9 compared to the existing guidance in IAS 39, the adoption of IFRS 9 would potentially increase the proportion of financial assets that are measured at FVTPL, increasing volatility in the Group s profit or loss.

As of December 31, 2017, the Group has loans and receivables amounting to 13,257,944 million, available-for-sale financial assets amounting to 43,226 million, and financial assets at fair value through profit or loss amounting to 929,801 million.

Under IFRS 9, a financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Under IFRS 9, a financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and 2) the contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

Under IFRS 9, on initial recognition of equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI, and will not reclassify(recycle) the those items in OCI to profit or loss subsequently.

Under IFRS 9, a financial asset is measured at FVTPL if the contractual terms of the financial asset give rise to specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding, the debt instrument is held within a business model whose objective is to sell the asset, or the equity instruments that are not elected to be designated as measured at FVOCI.

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3. Significant Accounting Policies, continued

Based on the evaluation to date, the expected impact on classification and measurement on financial assets that existed as of December 31, 2017 resulting from the adoption of the new standard is as follows.

	Under IAS 39	Under IFRS 9	Under IAS 39	Under IFRS 9
		(In millions of won)		
Cash and cash equivalents	Loans and receivables	Amortized cost	2,949,991	2,949,991
Short-term financial instruments	Financial assets at fair value through profit or loss	FVTPL	929,801	929,801
Short-term financial instruments	Loans and receivables	Amortized cost	4,674,862	4,674,862
Trade receivables	Loans and receivables	Amortized cost	5,552,795	5,552,795
Loans and other receivables	Loans and receivables	Amortized cost	80,023	80,023
Other financial assets	Loans and receivables	Amortized cost	273	273
Available-for-sale financial assets	Available-for-sale financial assets	FVTPL	43,226	43,226
			14,230,971	14,230,971

(ii) Classification and measurement of financial liabilities

Under IFRS 9, the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities is presented in OCI, not recognized in profit or loss, and the OCI amount will not be reclassified (recycled) to profit or loss. However, if doing so creates or increase an accounting mismatch, the amount of change in the fair value is recognized in profit or loss.

As a portion of fair value change, which was recognized in profit or loss under the existing standard, IAS 39, will be presented in OCI under IFRS 9, profit or loss related to valuation of financial liabilities is likely to decrease. As of December 31, 2017, there was no financial liabilities measured at FVTPL.

(iii) Impairment: Financial assets and contract assets

IFRS 9 replaces the incurred loss model in the existing standard with a forward-looking expected credit loss (ECL) model for debt instruments, lease receivables, contractual assets, loan commitments, financial guarantee contracts.

Under IFRS 9, impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in IAS 39 as loss allowances will be measured on either of the 12-month or lifetime ECL based on the extent of increase in credit risk since inception as shown in the below table.

	Classification[1]	**Loss allowances**
Stage 1	Credit risk has not increased significantly since the initial recognition[2]	12-month ECL: ECLs that resulted from possible default events within the 12 months after the reporting date
Stage 2	Credit risk has increase significantly since the initial recognition	Lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument
Stage 3	Credit-impaired	

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3. Significant Accounting Policies, continued

1 Under IFRS 15, for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under IFRS 15, the Group may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Group may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.

2 The Group may determine that a financial asset s credit risk has not increased significantly if the asset has low credit risk at the end of reporting period.

Under IFRS 9, financial assets of which the credit was impaired at the initial recognition, cumulative changes in lifetime ECL since the initial recognition are recognized as loss allowances.

As of December 31, 2017, the Group has financial instruments (loans and receivables) measured at amortized cost amounting to 13,260,404 million, and has recognized loss allowances for 2,460 million.

Upon adoption of IFRS 9, the Group expects to measure the loss allowance based on the amount of expected credit losses over the entire period for trade receivables, contract assets and lease receivables that have significant financial elements. In addition, the Group plans to use the practical expedient by considering that the financial assets credit risks had not increased significant from initial recognition through January 1, 2018.

(b) IFRS 15, Revenue from Contracts from Customers

IFRS 15 Revenue from Contracts from Customers , published in May 2014, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts, SIC 31 Revenue- Barter transactions involving advertising services, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers. The Group plans to adopt IFRS 15 in its consolidated financial statements for the year beginning on January 1, 2018, and in regards with transition to IFRS 15, the Group has decided to apply the cumulative effect method, i.e. recognizing the cumulative effect of applying IFRS 15 at the date of initial application, which is January 1, 2018, without restatement of the comparative periods presented. In doing so, the Group also decided to apply the practical expedients as allowed by IFRS 15 by applying the new standard only to those contracts that are not considered as completed contracts at the date of initial application.

Existing IFRS standards and interpretations including IAS 18 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, IFRS 15, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

The Group established a separate task force team to prepare for the adoption of IFRS 15 during the year ended December 31, 2017. The Group analyzed the revenue transactions of the Group with assistance from external professional accounting advisory firm and IT system service advisors, improved the internal control processes and established the related financial reporting system. As the adoption of IFRS 15 is expected to affect not only the accounting function, but also overall business practices including product sales strategy and business behavior, the Group are in the process of training employees on the changes as a result of the adoption of the new standard. The adoption plan and progress status of the new standard are reported to management on a regular basis. The information of expected impacts upon adoption of IFRS 15 disclosed herein is subject to change as management obtains new information and completes its transition efforts.

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3. Significant Accounting Policies, continued

(i) Identification of performance obligations in the contract

The Group is engaged in the research and development, manufacture, distribution and sales of semiconductor products (DRAM, NAND flash and others), which generates a substantial portion of the consolidated revenue.

When applying IFRS 15, sales of products and delivery of products (i.e. shipping service) are identified as separate performance obligations in the contracts with customers. However, for transactions for which the shipping terms are on delivery basis, which is the Group s most common transaction term, those two performance obligations are not separately identified as the control over the products is transferred upon the completion of delivery. However, for the export transactions for which the shipping terms are on shipment basis (C-terms) and the customer pays shipping costs or insurance premiums, the two performance obligations are separately accounted for because delivery of products is performed after the control over the products is transferred to the customer. The transaction price allocated to the performance obligation of delivery service will be recognized when the obligation of delivery of the product is completed.

In estimating the financial impact of the Group in connection with the adoption of IFRS 15, the Group s revenue in relation to the performance obligation of delivery of products under C-terms is expected to be deferred, however, the impact is not expected to be material.

(ii) Performance obligations that are satisfied over time: Foundry service

SK hynix system ic Inc., a subsidiary of the Parent Company, is engaged in providing foundry services to semi-conductor manufacturers and the period from the receipt of the customer s order to the completion of production and delivery is generally within two months. Under the current standards, the Group recognized revenue upon the completion of delivery of items produced and the revenue recognized 116,083 million for the year ended December 31, 2017.

According to IFRS 15, the revenue in connection with the above transactions can be recognized over time under completion of percentage method when the produced items do not have any alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Based on the result of analysis for the contract conditions for foundry services and any past experience in which the Group billed intermediate payments for services performed on unfinished items, management of the Group does not believe enforceable right to payment existed for the services performed on partially completed items. Therefore, in connection with the adoption of IFRS 15, the Group does not expect any financial impact in relation to the above foundry service performance obligation that is satisfied over time.

(iii) Variable consideration

In general, the Group s contract with customers allows a customer to return the products. Under IFRS 15, the Group initially recognizes revenue, which is measured at the gross transaction price, less the expected level of returns using the guidance on estimating variable considerations and the constraint. The expected level of returns is estimated by using the method the Group expects to better predict the amount of consideration to which it will be entitled. Also, the Group includes an amount of variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the return period expires. The Group recognizes the amounts received or receivable for which the Group does not expect to be entitled as a refund liability.

Based on the evaluation to date, upon adoption of IFRS 15 on January 1, 2018, the Group s provisions are expected to decrease by 30,672 million and Group s other current assets and other current liabilities are expected to increase by 17,884 million and 48,556 million, respectively.

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3. Significant Accounting Policies, continued

(iv) Allocation of the transaction price to performance obligations

In applying IFRS 15, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. To estimate the stand-alone selling price, adjusted market assessment approach will be used; however, for certain transactions, expected cost plus a margin approach will be used under exceptional cases.

(v) The adoption of IFRS 15 does not have any impact on the Group s consolidated statements of cash

flows.

(c) IFRS 16, Leases

IFRS 16 Leases is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 replaces existing leases guidance including IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC 15, *Operating Leases Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 provides a single model where leasee recognize assets and liabilities in relation with lease contract on financial statements. Lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. However, there are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard of IAS 17.

The Group started initial assessment on the adoption of IFRS 16, however more detailed assessment has not been conducted. The actual financial impact at the date of initial adoption when IFRS 16 is applied is determined by a future economic environments at the date of initial application such as the borrowing interest rate and a portfolio of lease contracts as of January 1, 2019, execution of lease renewal option and coverage in use of a practical expedient and lease recognition exemption and others.

Based on the evaluation to date, the most significant impact identified is that the Group shall recognize assets and liabilities for the warehouses and manufacturing facilities used under an operating lease.

As a result of the adoption of IFRS 16, the nature of costs in relation with leases will be changed as the operating lease expenses previously recognized on a straight-line basis will be changed to depreciation expenses of right-of-use assets and interest expenses of lease liabilities.

(i) Determining whether arrangement contains a lease

There are certain arrangements, which are not in the legal form of a lease but determined to contain lease under IFRIC 4. In applying IFRS 16, the Group may elect either:

- applying the definition of lease under IFRS 16 for the Group s entire lease contracts; or

- applying a practical expedient that the Group does not reassess whether an arrangement is, or contains, a lease

The Group plans to apply the practical expedient that maintains the definition of lease for the lease contracts existing at the date of initial application. When the practical expedient is applied, leases contracted before January 1, 2019 and identified as a lease under IAS 17 or IFRIC 4 are accounted for by applying IFRS 16 without reassessing whether the contracts satisfy the definition of lease under the new standard.

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3. Significant Accounting Policies, continued

(ii) Transition

As a lessee, the Group can apply the IFRS 16 using either:

- a full retrospective approach; or
- a modified retrospective approach with a practical expedient.

Lessee should apply one of the approach consistently for lessee s entire lease contracts. Modified retrospective approach requires the lessee to recognize the cumulative effect of initial application in retained earnings as of January 1, 2019 and the comparative financial statement will not be restated.

When modified retrospective approach is applied for the lease contracts classified as an operating lease under IAS 17, leasee may elect the application of various practical expedients for each existing lease contracts at the date of adoption of the standard. The Group is assessing the financial impact when the practical expedient is applied.

4. Geographic, Product and Customer Information

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products. The management of the Group reviews the operation result of the semiconductor business for reporting information used and reviewed when establishing the Group s business strategy.

(1) Details of the Group s revenue for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
		(In millions of won)	
Sale of goods	30,035,297	17,146,961	18,739,177
Sale of services	74,137	51,014	58,821
	30,109,434	17,197,975	18,797,998

(2) Details of the Group s revenue by product and service types for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
		(In millions of won)	
DRAM	22,887,259	12,340,767	14,045,339
NAND Flash	6,648,748	4,347,535	4,148,315
Other	573,427	509,673	604,344
	30,109,434	17,197,975	18,797,998

(3) The Group s revenue information by region based on the location of selling entities for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
		(In millions of won)	
Korea	1,207,464	1,099,426	1,204,642
China	10,074,686	5,960,235	4,496,357
Taiwan	2,626,577	1,732,573	1,899,649
Asia (other than China and Taiwan)	3,574,788	2,165,201	2,536,009
U.S.A.	11,063,503	5,397,944	7,549,622
Europe	1,562,416	842,596	1,111,719
	30,109,434	17,197,975	18,797,998

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SK HYNIX, INC. and Subsidiaries

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4. Geographic, Product and Customer Information, continued

(4) The Group s non-current assets (excluding financial assets, loans and other receivables, equity-accounted- investees and deferred tax assets) information by region based on the location of subsidiaries as of December 31, 2017 and 2016 are as follows:

	2017	2016
	(In millions of won)	
Korea	23,959,991	18,078,337
China	2,768,494	2,805,712
Taiwan	5,752	6,835
Asia (other than China and Taiwan)	1,100	1,522
U.S.A.	318,567	364,188
Europe	8,560	9,374
	27,062,464	21,265,968

(5) Revenue from customer A constituting more than 10% of the Group s consolidated revenue for the year ended December 31, 2017 amounts to 4,113,904 million (2016: 2,195,935 million, 2015: 3,485,795 million) and revenue from customer B constituting more than 10% of the Group s consolidated revenue for the year ended December 31, 2017 amounted to 3,690,504 million (2016: 1,503,256 million, 2015: 2,078,835 million), respectively.

5. Categories of Financial Instruments

(1) Categories of financial assets as of December 31, 2017 and 2016 are as follows:

	2017			
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
	(In millions of won)			
Cash and cash equivalents			2,949,991	2,949,991
Short-term financial instruments	929,801		4,674,862	5,604,663

Trade receivables			5,552,795	5,552,795
Loans and other receivables			80,023	80,023
Other financial assets			273	273
Available-for-sale financial assets		43,226		43,226
	929,801	43,226	13,257,944	14,230,971

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5. Categories of Financial Instruments, continued

	2016			
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
	(In millions of won)			
Cash and cash equivalents			613,786	613,786
Short-term financial instruments	1,570,172		1,951,721	3,521,893
Trade receivables			3,251,652	3,251,652
Loans and other receivables			65,101	65,101
Other financial assets			423	423
Available-for-sale financial assets		147,779		147,779
	1,570,172	147,779	5,882,683	7,600,634

(2) Categories of financial liabilities as of December 31, 2017 and 2016 are as follows:

	2017		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	(In millions of won)		
Trade payables		758,578	758,578
Other payables		2,724,547	2,724,547
Other non-trade payables[1]		1,343,637	1,343,637
Borrowings		4,171,270	4,171,270
		8,998,032	8,998,032

	2016		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
	(In millions of won)		
Trade payables		696,144	696,144
Other payables		1,606,417	1,606,417
Other non-trade payables[1]		712,580	712,580
Borrowings		4,335,978	4,335,978
Other financial liabilities	288		288
	288	7,351,119	7,351,407

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SK HYNIX, INC. and Subsidiaries

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December 31, 2017, 2016 and 2015

5. Categories of Financial Instruments, continued

[1] Details of other non-trade payables as of December 31, 2017 and 2016 are as follows:

	2017	2016
	(In millions of won)	
Current		
Accrued expenses	1,340,225	685,154
Non-current		
Rent deposits payable	3,412	2,554
Long-term other payables		24,872
	3,412	27,426
	1,343,637	712,580

(3) Details of gain and loss on financial assets and liabilities by category for the years ended December 31, 2017, 2016 and 2015 are as follows:

(a) profit or loss

	2017	2016	2015
	(In millions of won)		
Loans and receivables			
Interest income	54,275	34,174	40,715
Foreign exchange differences	(679,287)	167,736	300,163
Reversal of impairment	2,119	5,617	82
	(622,893)	207,527	340,960
Available-for-sale financial assets			
Dividend income	13	18	1,265
Gain on disposal	30,920		

	30,933	18	1,265
Financial assets at fair value through profit or loss			
Gain on valuation	1,399	1,133	2,280
Gain on disposal	15,754	15,348	33,814
	17,153	16,481	36,094
Financial liabilities measured at amortized cost			
Interest expenses	(123,918)	(120,122)	(118,505)
Foreign exchange differences	447,707	(129,670)	(242,532)
	323,789	(249,792)	(361,037)
Financial liabilities at fair value through profit or loss			
Gain on valuation from derivative instruments		395	25
Loss on transaction from derivative instruments	(11)	(448)	(386)
	(11)	(53)	(361)
	(251,029)	(25,819)	16,921

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5. Categories of Financial Instruments, continued

(b) Other comprehensive income

	2017	2016	2015
	(In millions of won)		
Loss on valuation of available-for-sale financial assets , net of tax	(10,735)		

6. Financial Risk Management

(1) Financial risk management

The Group s activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group s financial performance.

Risk management is carried out by the Parent Company s corporate finance division in accordance with policies approved by the board of directors. The Parent Company s corporate finance division identifies, evaluates and hedges financial risks in close cooperation with the Group s operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk; use of derivative financial instruments and non-derivative financial instruments; and the investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions; recognized assets and liabilities in foreign currencies; and net investments in foreign operations.

Monetary foreign currency assets and liabilities as of December 31, 2017 are as follows:

	Assets		Liabilities	
	Foreign currencies	Korean won	Foreign currencies	Korean won

		equivalent		equivalent
	(In millions of won and millions of foreign currencies)			
USD	11,622	12,452,053	5,182	5,551,604
EUR	18	22,871	91	116,751
JPY	1,659	15,746	64,691	613,991

As of December 31, 2017, the impacts from foreign exchange risks on each monetary foreign currency assets and liabilities assuming change in exchange rate by 10% are as follows:

	If increased by 10%	If decreased by 10%
	(In millions of won)	
USD	690,045	(690,045)
EUR	(9,388)	9,388
JPY	(59,825)	59,825

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6. Financial Risk Management, continued

(ii) Interest rate risk

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings, and is partially offset by interests received from floating rate financial assets.

As of December 31, 2017, the Group is partially exposed to a risk of increase in interest rates. If interest rates on borrowings were 100 basis points higher/lower with all other variables held constant, profit before income tax for the following year would be 20,571 million (2016: 22,277 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

The Group invests in equity and debt securities resulted from its business needs and the purpose of liquidity management. The Group s equity and debt securities are exposed to price risk as of December 31, 2017.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from operating and investing activities. In order to manage credit risk, the Group periodically evaluates the credit worthiness of each customer or counterparty through the analysis of its financial information, historical transaction records and other factors, based on which the Group establishes credit limits for each customer or counterparty.

(i) Trade and other receivables

For each new customer, the Group individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Group is consistently managing trade and other receivables by reevaluating the customer s credit worthiness and securing collaterals in order to limit its credit risk exposure.

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of December 31, 2017 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of December 31, 2017 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Group forecasts its cash flow and liquidity status and sets action plans on a regular basis to manage liquidity risk proactively.

The Group invests surplus cash in interest-bearing current accounts, time deposits, demand deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

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6. Financial Risk Management, continued

Contractual maturities of financial liabilities as of December 31, 2017 and 2016 are as follows:

	2017				
	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
	(In millions of won)				
Borrowings (other than finance lease liabilities)	732,902	1,155,876	2,248,059	81,038	4,217,875
Finance lease liabilities	10,773	10,773	32,254	34,748	88,548
Trade payables	758,578				758,578
Other payables	2,724,885				2,724,885
Other non-trade payables	1,317,032		3,412		1,320,444
Financial guarantee contract	8				8
	5,544,178	1,166,649	2,283,725	115,786	9,110,338

	2016				
	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
	(In millions of won)				
Borrowings (other than finance lease liabilities)	785,989	706,827	2,853,218	235,562	4,581,596
Finance lease liabilities	27,043	5,350	16,050	18,725	67,168
Trade payables	696,144				696,144
Other payables	1,610,757				1,610,757
Other non-trade payables	667,485	25,224	2,554		695,263
Derivatives	288				288
Financial guarantee contract	8				8
	3,787,714	737,401	2,871,822	254,287	7,651,224