NON-FINANCIAL STATEMENTS

Section 1. Human Capital

MD&A		2014	2015	2016
1.1 Total Employment	Total Number of Employees	4,253	4,046	4,399
	Special Employment and Minorities	210	186	190
	Total Number of Oversees Employees	99	79	73
1.2 Recruitment and Turnover	Total Number of New Employees	396	563	734
	Total Number of Turnover Employees	265	681	359
1.3 Maternity and Parental Leave	Number of Employees on Maternity Leave	161	170	185
	Number of Employees on Parental Leave	40	48	42
1.4 Human Capital Improvement	Training Expense per Employee (KRW million)	3.46	2.84	2.03
	Number of Training Courses(T class)Participants Annually	14,368	17,125	17,303
	Rate of Employees' Performance Evaluations (%)	96	96	98
1.5 Labor Practices	Labor Union Membership Rate (%)	83.4	85.0	87.3
1.6 Employee Health, Safety and Well- Being	Number of Occupational Accidents (person)	0	0	1

Section 2. Social Capital

MD&A		2014	2015	2016
2.1 Access to Service	LTE Subscribers Rate (%)	59.2	66.3	71.2
	Total Rate of Reduction for Disadvantaged Groups (KRW million)	196,806	188,453	190,413
	Participation in Education to Resolve the ICT Informational Divide	1,353	1,404	758
	Support for Areas with Weak Telecommunication Services (Sites)	3,441	5,649	3,649
2.2 Network Quality and Risk Management	Wireless Network Capacity (wireless lines in thousands)	33,120	36,160	39,620
	Annual Data Traffic Processed(TB)	594,943	838,775	1,208,543
	Number of Large-scale Network Failure Cases (*)	1	1	0
2.3 R&D Investment	Total R&D Expenditure (KRW billion)	496.5	585.7	640.9
	R&D Personnel (person)	971	998	1,248
2.4 Customer Satisfaction and Customer Safety Indicators	NCSI (Korea Productivity Center)(*)	74	76	76
	Rate of Micropayment Fraud VOC (%)	0.043	0.026	0.014
2.5 Privacy Protection (Data Privacy)	Customer Information Leakages	0	0	0
	No. of Store Assessment on Customer Information Protection in Distribution Network	1,800	4,700	3,397
	Rate of Audits Conducted Among Total Products/Services(%)	41.9	100	75.4
2.6 Electromagnetic Fields	No. of intensity measurements taken at wireless stations	30,606	37,504	23,535
	Rate of wireless stations at level of the electromagnetic field rating system	99.9	99.9	99.9
2.7 Mutual Growth with Partners	No. of Companies Participated in Mutual Growth Cooperation	291	325	376

(*) According to the number of large-scale network failure cases submitted to the Ministry of Science, ICT and Future Planning: More than 1 failure of a switchboard; more than 10 failures at sites in the same city/district/area; and failures of a similar scale must be reported

Section 2. Social Capital

MD&A		2014	2015	2016
2.8 Assessment of the Supply Chain's Sustainability	Total Number of Newly Registered Partners	712	706	725
	Human Rights - Environment - Ethics - Social Screening	100	100	100
	Total Number of Registered Partners	1,510	2,346	1,881
	Assessment Rate of Partners	67	67	91
2.9 Community Investment	BRAVO! Restart Support for Startups (cumulative, number of teams)	23	34	46
	Cumulative danations collected on Give U (KRW million)	890	1,030	1,234
	Cumulated volunteer opportunities registered on With U	40,755	67,529	165,380

(*) Scored 76 in 2017, No.1 for 20 consecutive years

Section 3. Natural Capital

MD&A		2014	2015	2016
3.1 GHG Emissions	Total Emissions (tCO$_2$e)	742,859	686,118	828,073
	Intensity (tCO$_2$e/KRW billion)	57.09	54.64	67.05
3.2 Energy Consumption	Total Energy Consumption (TJ)	15,271	14,081	17,012
	Energy Intensity (TJ/KRW billion)	1.17	1.12	1.38
3.3 Water Consumption	Volume of Water Consumption (m^3)	695,725	757,658	712,910
	Intensity (m^3/KRW billion)	53.46	60.34	57.72
3.4 Waste and Recycling	Total Waste (ton)	1,763	1,928	1,691
	Waste Discharge Intensity (ton/KRW billion)	0.135	0.154	0.137
	Recycling Rate(%)	31	35	35
3.5 Resources	Rate of New Subscriptions (%)	77	84	87
	Rate of T membership Mobile Card Issuance to New Customers (%)	97	97	98
	Device Retrieval Rate (%)	4.5	3.6	3.1
3.6 Environmental Coasts and Investments	Total Environmental Costs(*) (KRW million)	475	709	754
	Annual Cost of Purchasing GHG Emissions Credits (KRW million)	7,368	89,125	45,150

(*) Excl. Green Procurement, GHG Emissions Credits

NON-FINANCIAL MD&A (Management Discussion & Analysis)

Basis of Preparation

Reporting Standards and Principles

The purpose of this Non-Financial Management Discussion & Analysis is to present our management's analytical opinions on the key non-financial performances of the company in terms of human capital, social capital, environmental capital, etc. from the reporting period of January 1st to December 31st 2016. This Non-Financial MD&A complies with international reporting principles as follows:

01   International Integrated Reporting Council <IR> Framework   The <IR> Framework of the International Integrated Reporting Council (IIRC) requires a concise report on how an organization's strategies, governance, performance and future outlook are connected to its short-, mid-, and long-term value creation in the economic, social, and environmental context. Please refer to pp.26-27 for the capital model implemented to adhere to the integrated reporting principles of IIRC, and pp.36-41 for the assessment of importance to define key subjects according to the impact on value creation.

02   Global Reporting Initiatives (GRI) Sustainability Reporting Guidelines G4   The GRI provides information on the aspects and indicators of reporting from economic, social and environmental perspectives so that stakeholders can discern the organization's performance. It defines the subject according to the correlation of each aspect from the impact on stakeholders and from economic, social and environmental perspectives. Please refer to pp.36-41 for the results of the Materiality Assessment conducted in accordance with the GRI requirements.

03   AccountAbility AA1000   The AA1000 series identifies and prioritizes sustainability issues in relation to the organization and de- fines its framework and principles. The information in this report is verified by third parties according to the Assurance Standard (AA1000AS). Please refer to pp.115-117 for the result of the third-party assurance performed by an independent institute.

References

01   UNGC COP (UN Global Compact Communication on Progress)   A guideline for reporting compliance to the Ten Principles of the UNGC by its members

02   ISO26000   An international social responsibility standard presented in November 2010 by ISO (International Standard Institution)

03   CDSB Reporting Framework   Standard for carbon disclosure put forth by the Climate Disclosure Standard Board (CDSB) in September 2010

04   SASB (Sustainability Accounting Standard Board) - Telecommunication Standards   Core issues and key performance indicators in the telecommunications industry released in April 2014 by the U.S. SASB

Scope of Data

The scope of the Non-Financial Statement of Social & Environmental Performances is limited to the data of SK Telecom without the inclusion of the data of its subsidiaries and supply chain, unless stated otherwise. This coincides with the scope of unclassified sales of SK Telecom, which is a holding company according to K-IFRS. The environmental data on energy, greenhouse gases (GHG), waste, and water is estimated based on 28 domestic business sites* (including networks and data centers). More than 95% of SK Telecom's sales are generated in South Korea, and accordingly, the data coverage meets the 95% requirement against the sales.

* 28 business sites: T-Tower, Namsan, Guro, Jangan, Seoul National University, FMI, Yongin, Boramae, Seongsu, Suyu, Incheon, Bundang, Dunsan (Old & New), Busan, Cheongju, Wonju, Taepyeong, Bolli, Sincheon, Buam, Data Center, Anrak, Wusan, Song- jeong, Jeonju, Jeju, Jungdong, Myeongryun

Section 1. Human Capital

1.1   Total Employment

Total employment is a key indicator that shows a company's job creation status. The total number of employees includes those who are permanent employees, who have signed employment contracts directly with SK Telecom, and temporary (contract-based) employees, and this figure does not include the employees and executives of its subsidiaries or related businesses. As the number of new employees grew owing to the expansion of new recruitment and the T map operation headquarters move-in, the total number of employees increased by 8.7% compared to 2015 to reach 4,399 as of the end of 2016.

The percentage of female employees, a key diversity indicator, increased by 0.47%p compared to last year to 13.9%, and the percentage of female managers is demonstrating a steady trend of 4.1%. In terms of age group, the percentage of employees in their 20s to 30s increased to 9.2%, which is a 1.1%p increase compared to last year. The percentage of permanent employees continues to stand at 96%.

To increase the employment of individuals classified as minorities, SK Telecom is making efforts such as applying additional points to job candidates from disadvantaged groups and implementing a 'Special Screening System for the Disabled,' which includes the expanded separate hiring of handicapped individuals. In 2016, the number of veterans employed by the company decreased by one individual, but five disabled employees were additionally recruited. The total number of overseas personnel including expatriate employees and local employees is 73 and compared to the total number of employees, the percentage of those overseas is low. The percentage of local managers at overseas business locations is 33.3% and after this percentage rose above 30% in 2014, it has held steady at a constant rate.
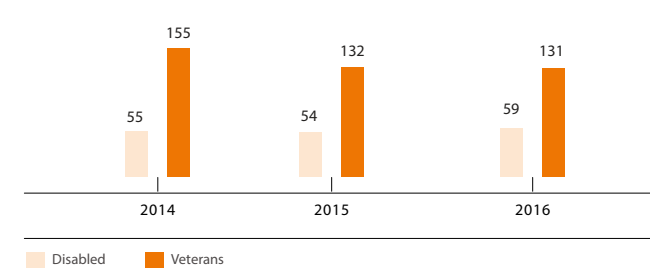
TOTAL NUMBER OF EMPLOYEES

	2014	2015	2016
	4,253	4,046	4,399
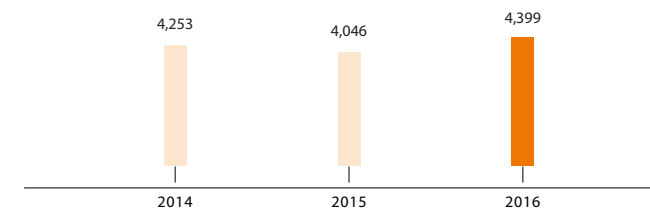
TOTAL NUMBER OF EMPLOYMENT

		2014	2015	2016
Total Number of Employees		4,253	4,046	4,399
Employment Type	Permanent	4,147	3,925	4,242
	Temporary	106	121	157
Gender	Male	3,662	3,504	3,789
	Female	591	542	610
Age	Under 30	290	326	405
	Over 30 - Under 50	3,727	3,533	3,707
	Over 50	236	187	287

SPECIAL EMPLOYMENT AND MINORITIES

	2014	2015	2016
Disabled	55	54	59
Veterans	155	132	131

OVERSEAS EMPLOYMENT

	2014	2015	2016
Expatriate Employees	26	20	20
Local Employees	73	59	53
Total Number of Overseas Employees	99	79	73
Total Number of Overseas Managers	19	15	15
Total Number of Local Managers	6	5	5
Percentage of Local Managers	31.6%	33.3%	33.3%

FOSTERING FEMALE TALENT

	2014	2015	2016
Total Number of Managers	422	444	462
Number of Female Managers	15	17	19
Percentage of Female Managers Compared to the Total Number of Managers (%)	3.6	3.8	4.1

*The total number of managers was calculated by adding up the number of managers including those above the team-leader level as well as executives

1.2   Recruitment and Turnover

The number of new employees by age and gender as well as the number of turnover employees is calculated according to the personnel who are permanent employees, who have signed employment contracts directly with SK Telecom, and temporary (contract-based) employees.

In 2016, SK Telecom actively carried out new recruitment and it is expanding the human capital base necessary to become a new ICT company that is able to lead the 4th Industrial Revolution while also contributing to the creation of jobs in society. In 2016, the total number of new employees was 734, an increase of 30.4% compared to last year. The number of employees in their 20s who were hired, directly related to solving the youth unemployment problem, was 283 individuals, with the company maintaining a similar level as the previous year. By age, the percentage of employees in their 30s and 40s increased temporarily following the T map operations headquarters move-in to reach 56.4%, a 10.4%p increase.

In 2016, the turnover rate decreased 8.7%p compared to last year to reach 8.1%. This was because the turnover rate, which temporarily increased due to the voluntary retirements and the transfer of work to subsidiaries and investment companies that took place in 2015, recovered to the rate of average years. SK Telecom conducts a wide and diverse range of welfare systems including the 'Health-On' program and flexible time, 'Refresh' vacation time for long-time employees, company housing that allows employees to live alone as well as greater support for clubs, thereby contributing to greater employment and work productivity.

NEW EMPLOYEES

		2014	2015	2016
Total Number of New Employees		396	563	734
Gender	Male	302	421	593
	Female	94	142	141
Age	Under 30	220	296	283
	Over 30 - Under 50	163	259	414
	Over 50	13	8	37

TURNOVER

|		2014	2015	2016
Total Number of Turnover Employees		265	681	359
Gender	Male	181	467	289
	Female	84	213	70
Age	Under 30	157	180	133
	Over 30 - Under 50	99	351	178
	Over 50	9	149	48

1.3   Maternity and Parental Leave

SK Telecom is actively implementing policies to support employees and lighten the burdens that they face related to maternity and childcare. These policies are not limited to maternity and parental leave, but also comprise systems to ensure reduced workloads for employees and prevent them from experiencing any disadvantages, for instance, preventing maternity and paternal leave users from being at a disadvantage during evaluations. Additionally, the company offers related welfare programs such as nursing rooms and congratulatory allowances to commemorate the birth of employees' children. Other programs to support childcare include scholarships for children, the operation of in-house daycares and children's camps. In 2017, SK Telecom has implemented a program for telecommuting during pregnancy and a childcare system for children entering school, thereby strengthening the systematic structure to support employees' childbirth and childcare plans. Parental leave is available to both male and female employees for a maximum of one year per child. In the case that a female employee chooses to use her maternity and parental leave consecutively, the company offers a maximum of two years' parental leave. The number of individuals using paternal leave surpassed 40 people during the year and the rate of male employees using paternal leave is notable for reaching 16.7%, a 6.3%p increase year-over-year. Furthermore, the rate of employees returning from parental leave, which is a key indicator related to job security for users of parental leave, stands at 92.9% in 2016, a 13.7%p increase and demonstrates that rates have returned to normal levels after the voluntary retirements that took place in 2015.

MATERNITY/PATERNITY LEAVE AND PARENTAL LEAVE

	2014	2015	2016
Number of Employees on Maternity Leave	161	170	185
Maternity Leave Users - Female	35	37	20
Paternity Leave Users - Male	126	133	165
Rate of Return after Childbirth (%)	100	100	100
Number of Employees on Parental Leave	40	48	42
Parental Leave Users - Female	35	43	35
Parental Leave Users - Male	5	5	7
Rate of Return after Taking Leave (%)	97.5	79.2	92.9
Rate of Retirement within 12 Months after Return (%)	4.0	30.8	5.3

PARENTAL LEAVE

	2014	2015	2016
Rate of Return after Taking Leave (%)	97.5	79.2	92.9
Number of Individuals Who Took Parental Leave	40	48	42

■ Number of Individuals Who Took Parental Leave   ○ Rate of Return after Taking Leave (%)
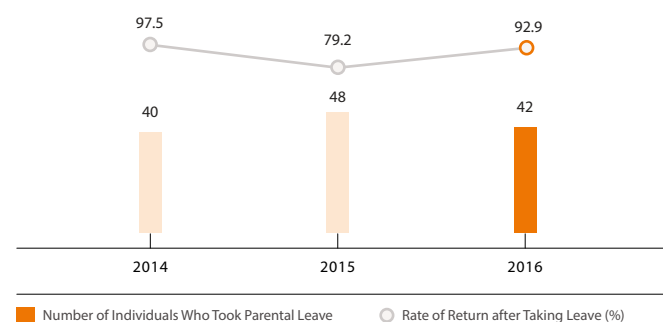
1.4   Human Capital Improvement

SK Telecom introduced a companywide capabilities diagnosis in 2016 and is progressing towards fostering market top experts by business area. Approximately 80% of all employees participated in the capabilities diagnosis in order to find out their skill levels and the results will be used to develop new efforts to nurture business experts in each area. Since 2015, SK Telecom has continued to carry out the Market Top Expert (MTE) program for developing specialists at the section level and has made progress in gaining qualitative change by expanding the weight of the course from 34% the previous year to 75% in 2016.

In order to improve the ability of the organizational units to drive change in the leadership sphere, SK Telecom has strengthened the capabilities and leadership of the team leaders. The company runs a skill fostering program for team leaders focused on the core capabilities for managing organizations, which has a total of 7 courses, and was held 35 times. Company executives were invited to teach the courses, successfully creating an atmosphere of 'leaders nurturing leaders.' Furthermore, through team leader group coaching, SK Telecom sought to induce the proposal of practical solutions to resolve organizational and personal issues and put change into practice. Looking forward, aiming to foster the next generation of leaders, the company is building a pipeline for fostering key personnel and reorganizing the fostering system.

SK Telecom runs a differentiated fostering program for key personnel by rank from managers to executives and has cemented a systematic annual operation program including a year-round/annual follow-up process that was newly introduced. Especially as the SKMS was revised in 2016, the company has actively implemented education to improve employees' VWBE (Voluntary, Willingly, Brain Engagement) level. In order to enhance the ability to execute SKMS, SK Telecom has held customized need-based workshops such as business models and working methods by each area. Moreover, in order to improve the organizations' and employees' VWBE, SK Telecom upgraded the organizational development programs and reformed/implemented real problem resolution programs through advance diagnoses.

In 2016, the total number of training hours invested per employee was 68 hours, and the training expense per employee was KRW 2.03 million. This appears to be a numerical decrease since last year, but it is essentially a result of SK Telecom's continuous efforts to utilize more in-house instructors and strengthen the connection with actual work by vitalizing the internal educational system. Indeed, despite the fact that the expenditures for investing in training decreased in scale through the enforcement of greater efficiency in training expenses, in 2016, the number of annual training courses offered by SK Telecom's human resource development center stood at 133, the number of participants in training courses reached 17,303, increasing by 35.7% and 1.0% respectively year-over-year.

STATUS OF EMPLOYEE TRAINING

	2014	2015	2016
Training Expense per Employee (KRW million)	3.46	2.84	2.03
Average Annual Training Hours (*) (hours)	91	82	68
Number of Training Courses Given Annually (**) (number of courses)	108	98	133
Number of Training Courses (T class) Participants Annually (**) (person)	14,368	17,125	17,303

(*) According to the total number of training hours including internal and external courses
(**) According to SK Telecom's in-house training courses excluding external training courses

RATE OF PERFORMANCE EVALUATIONS CONDUCTED

	2014	2015	2016
Rate of Employees' Performance Evaluations	96	96	98

The rate of performance evaluations means the number of employees out of the total number of employees that received evaluations according to the pre-defined performance evaluation system. SK Telecom is conducting performance evaluations of all employees and from 2014 to 2016, the company has maintained this at a level greater than 96%. In 2016, SK Telecom has improved the evaluation and compensation system across the company and enhanced the system so that it could carry out performance evaluations that have been optimized by area. In particular, besides profit sharing in the area of incentives, the suitable performance systems are applied in the areas such as long-term incentives, target incentives and betting, and they are differentiated by area. The company keeps a cumulative record of annual performance evaluation results in order to add points toward promotion and reflect them in incentives in the long-term.

1.5   Labor Practices

SK Telecom actively protects employees' freedom of association based on ILO Convention 87 and 98 as well as Korean labor laws. In accordance with freedom of association, SK Telecom's employees have voluntarily formed a labor union and join the labor union according to each individual's free will. The labor union membership rate is the ratio of current members of the labor union to total number of members eligible for membership. The rate of current labor union membership is calculated among those workers eligible for such membership and as of the end of 2016 the membership rate was 87.3%, as part of a continuous increase for the past three years.

To achieve ideal labor-management relations, SK Telecom is making efforts to promote a mutually beneficial labor-management culture and improve employees' working conditions. To this end, it resolved the regular wage issue, introduced the wage peak system, reached an agreement to extend the retirement age in 2014, and introduced the pension support system in 2015. In 2016, SK Telecom has expanded benefits such as a downward adjustment of interest rates on company loans and expanding the eligibility to receive medical examinations, clearly demonstrating labor-management efforts to promote employees' welfare and improve morale.

LABOR UNION MEMBERSHIP

	2014	2015	2016
Number of Employees Eligible for Labor Union Membership (Person)	2,497	2,316	2,479
Labor Union Members (Person)	2,082	1,968	2,164
Labor Union Membership Rate (%)	83.4	85.0	87.3

1.6   Employee Health, Safety and Well-Being

SK Telecom currently operates a diverse range of programs to improve employees' health and for their well-being including creating a pleasant working environment by maintaining a suitable temperature, humidity, lighting intensity and noise level. The company also supports employees so that they can manage their mental health including physical fitness and stress levels by operating an in-house physical fitness space called 'Actium' and Ki Training.

Furthermore, to help employees to enjoy a flexible work environment, SK Telecom has introduced a Flexible Time system and a system for pregnant women to telecommute. The company is making great efforts to ensure employees' work life balance by providing maternity and parental leaves beyond what is legally required and aiding employees in raising their children.

SK Telecom analyzes and assesses employees' health status each year through the Health-On Index (health questionnaire). In 2016, the Health-On Index showed a favorable increase of 0.5 points to 72.2 points.

Employee Health and Well-Being Programs

| Type	Key Program and Support Details
Creating a Healthy Work Environment	– Building of an automated temperature and humidity control system and twice–daily measurements. Operation of an air–conditioning and exhaust fan and management of internal dust/CO2 through batch ventilation before the start of work hours. Management of light intensity and sound levels (Yearly fixed measurements to check for illumination levels of greater than 500 Lux / sound levels below 60dB, *office standard)
	- Creation of an ergonomic work environment by introducing height-adjustable desks, ergonomic chairs and open standing conference rooms.
Fitness	– Operation of an in-house physical training center, Actium, and support for scientific exercise management including the management of online exercise prescriptions and exercise records through the companywide fitness system and custom exercise instruction.
Nutrition	– Supporting balanced eating habits by operating an in-house cafeteria(T-Patio)
	– As part of the Actium Health-On program, the company offers nutrition education 'Food Therapy' and 'Eliminating Addictions' and even a 'Team Nutrition Class' for team leaders.
Stress Management	– Operation of an employee counsler service program 'My Counsler' (Provide counsel about stress and difficulties in workplace, health, etc.)
	– Operation of the Actium Health-On mentalife program (for emotional health letter, health lectures, laughter exercise, healing yoga, etc.)
Flexible Work Hours	- Operating Ki Training program
Telecommuting	– Operation of a Flexible Time system to allow employees to conclude work hours flexibly.
	– In 2016, SK Telecom shifted to a cloud PC that allows all employees to access their work with a remote PC from a variety of devices anytime, anywhere, enabling them to work outside the office.
Childcare and Children's Education	– System for telecommuting during pregnancy (after the 29th week of pregnancy, requires consultation and registration)
	– Execution of a wide range of childcare support programs including the operation of an in-house daycare, support for children's educational expenses (preschool, elementary/middle/high school, university) and support for children's camps.
Maternity/Parental Leave	– Reduced work hours during pregnancy: 6-hour workday throughout the length of pregnancy.
	– Maternity leave: The company offers 90 days of leave after birth, 120 days after the birth of twins and 5 days of paid leave when a spouse gives birth.
	– Parental Leave: The company offers 1 year of paid leave for a child under 8 years of age. If a female employee uses maternity and parental leave consecutively, she can register to use one additional year of parental leave.
	– Parental leave automatic transfer: When maternity leave is about to expire, an employee can automatically begin to use parental leave consecutively without registering separately.
	– Care leave for children entering school: The company offers a 90 day leave once a year for employees with children entering elementary school.

Section 2. Social Capital

2.1 Access to Service

SK Telecom's expansion of service accessibility lays the groundwork for providing even more convenient mobile telecommunications services by securing and maintaining the absolute number of subscribers and expanding telecommunications devices. It consists of promoting digital inclusion for disadvantaged groups including low-income individuals and senior citizens. Efforts to improve service accessibility can potentially lead to the potential growth of the subscriber base and average revenue per user (ARPU). This may not only have a positive impact on SK Telecom's future revenue, but from a social standpoint, it improves access to information and the quality of people's lives.

The rate of LTE subscribers and the number of 2nd device subscribers is an indicator for mobile internet access. In 2016, the ratio of SK Telecom's LTE subscribers increased 4.9%p year-over-year and was recorded as 71.2%. In the 2nd device space, through the launch of differentiated products that identified customers' needs including T kids phone, T outdoor and T pocket-fi, SK Telecom is leading the market. In 2016, the total number of 2nd device subscribers increased 1.8 times compared to last year to about 1.09 million and this included T kids phone, T outdoor and T pocket-fi subscribers. Due to the consistent growth of the 2nd device market, SK Telecom's mobile service accessibility and usability is expected to increase.

LTE SERVICE AND SMARTPHONE PENETRATION

	2014	2015	2016
LTE Subscribers Rate (%)	59.2	66.3	71.2
Total Number of Subscribers (1,000 people)	28,279	28,626	29,595
Number of LTE Subscribers (1,000 people)	16,737	18,980	21,078

LTE SUBSCRIBERS RATE (%)

2014	2015	2016
59.2	66.3	71.2
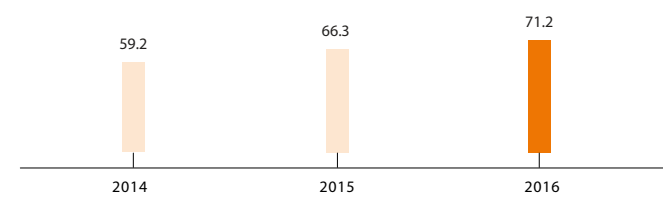
Furthermore, SK Telecom is dedicatedly pursuing greater access to service through rate reductions for disadvantaged groups. The total amount of rate reductions for disabled and low-income individuals aimed at increasing access to information was KRW 190 billion, the scale of which is being maintained at a steady level. In 2015, for reasons such as the departure of target subscribers, the total rate reductions for special groups appeared temporarily reduced. However, in 2016, the amount of rate reduction per person increased and the total amount of rate reductions given to special groups in fact rose by 1.04% year-over-year to reach KRW 190 billion.

RATE REDUCTION
Unit: KRW million

	2014	2015	2016
Total Rate Reduction for Disadvantaged Groups	196,806	188,453	190,412
Rate Reduction - Disabled	128,422	122,462	123,187
Rate Reduction - Low-income	58,299	56,058	57,068
Rate Reduction - Veterans	9,931	9,800	10,032
Rate Reduction - Miscellaneous	154	133	125

In order to ease and resolve the digital divide for disadvantaged groups in terms of access to information, SK Telecom is consistently offering education on smartphone use and ICT education that utilizes its ICT capabilities. Since 2007, together with the SK college student volunteer group 'Sunny,' SK Telecom has operated the mobile phone education program 'Happy Mobile World' for senior citizens. Besides this, SK Telecom addresses the smart divide facing different groups by continuously running programs such as the S/W (software) education business and an ICT challenge to ease the informational divide experienced by handicapped youth. In 2016, due to the closing of some programs, a total of 758 people participated in SK Telecom's ICT educational programs, a number that decreased from the previous year.

PARTICIPATION IN EDUCATION TO RESOLVE THE ICT INFORMATION DIVIDE

	Smartphone Education for Senior Citizens	SW Education Business	ICT Challenge
Number of Participants in 2016 by Individual Program	454	200	104

Additionally, SK Telecom is constantly expanding the regional boundaries of telecommunications services for the benefit of residents of areas with weak service accessibility such as remote mountainous areas and island areas. In 2016, the company gave installation support to a total of 3,649 sites in regions with low access to telecommunications services including remote mountainous areas, hiking trails and island areas. This is in addition to the universal loss of services compensation that SK Telecom gives to provide standard telecommunications services to low-income individuals and residents of sparsely populated areas. As of May 2017, out of a total of KRW 44.1 billion in universal loss of services compensation that the Ministry of Science, ICT and Future Planning expanded to telecommunications service providers in 2015, SK Telecom took responsibility for paying KRW 14.9 billion of that amount.

SUPPORT FOR UNDERSERVED AREAS

	2014	2015	2016
Installing Services - Mountainous Areas (Sites)	1,594	5,182	3,195
Installing Services - Hiking Trails (Sites)	337	75	217
Installing Services - Island Areas (Sites)	1,510	392	237
Support Fund for Universal Loss of Service (*) (KRW billion)	17.9	14.9	14.9

(*) In May 2017, due to the fact that SK Telecom's universal loss of services compensation increased in 2015, last year's report utilized data based on estimated amounts. Thus, the 2015 data was correctly amended in this current report and the company's 2016 universal loss of services compensation has been reported using estimated amounts.

2.2 Network Quality and Risk Management

Going beyond leadership in the MNO area, SK Telecom is moving to become a pioneering operator in the new ICT ecosystem on the basis of its network infrastructure. Offering a high-quality network is SK Telecom's fundamental asset in terms of its core service competitiveness and to this end, the company is making the appropriate quantitative network investments and is simultaneously pursuing consistent quality enhancement as well as technology development to provide excellent quality network services.

In 2016, the company's annual wireless telecommunications wireless network capacity was 39.62 million lines and the total number of subscribers was 29.59 million, so it has 134% of retention capacity. The data traffic processed annually increased at a high level, with an increase of 44.1% in 2016 compared to the previous year. SK Telecom is responding flexibly to the growing data traffic by accurately estimating and monitoring demand and making its best efforts to offer the best network services.

In terms of LTE transmission speed, SK Telecom was recognized by the Ministry of Science, ICT and Future Planning's 'Communications Service Quality Evaluation' for being the business that offers the fastest LTE service. Indeed, in 2016, the company was recorded as having transmission speeds that exceeded domestic telecommunications operators' average speeds and maintains its superiority in call quality compared to other companies.
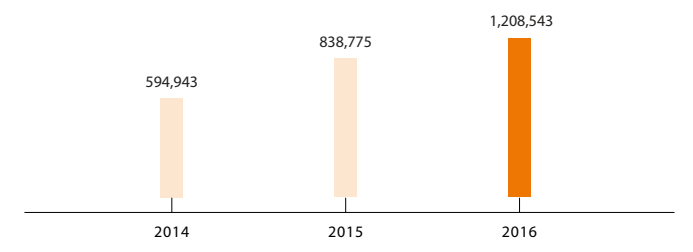
The rate of devices by LTE bandwidth shows broadband and CA devices are 50% and 46% respectively, indicating that the device rate of offering services beyond broadband at a device is 96%. Rather than pausing here, SK Telecom was the first in the country to commercialize LTE-A pro service with a speed of 500 Mbps in June 2016. By securing 900 Mbps in 2017 and 1Gbps in 2018, the company plans to continue providing the industry's highest level of LTE service quality.

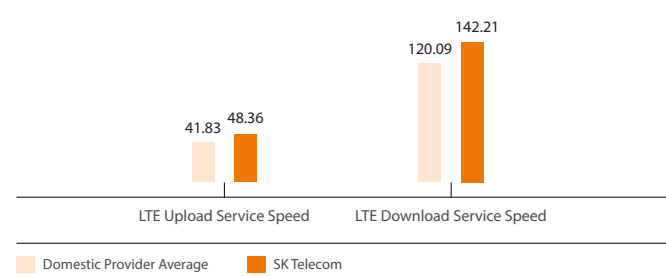#### WIRELESS NETWORK CAPACITY AND DATA TRAFFIC PROCESSED ANNUALLY

	2014	2015	2016
Wireless Network Capacity (wireless lines in thousands)	33,120	36,160	39,620
Annual Data Traffic Processed (*) (TB)	594,943	838,775	1,208,543

(*) Including wireless phones (2G/3G/4G), Wibro and Wifi

ANNUAL DATA TRAFFIC PROCESSED (TB)

2014	2015	2016
594,943	838,775	1,208,543

LTE SERVICE TRANSMISSION SPEED (Mbps)

- 41.83 / 48.36 — LTE Upload Service Speed
- 120.09 / 142.21 — LTE Download Service Speed

Domestic Provider Average ■ SK Telecom

(*) Results of the 2016 'Telecommunications Service Quality Assessment' by the Ministry of Science, ICT and Future Planning

To telecommunications companies, network infrastructure failures have the potential to become business continuity risks, and if failures continue to occur, they may even cause a temporary collapse of economic and social systems. Appropriately absorbing the increasing amount of high-level data traffic and maintaining quality while also minimizing the rate of network failures is one of the challenges for SK Telecom and all telecommunications companies. In 2016, SK Telecom is providing stable telecommunications services by strengthening activities to prevent service failures such as responding in real-time to symptoms, expanding automated service detour solutions and establishing thorough measures to prevent the recurrence of breakdowns.

NETWORK FAILURES

	2014	2015	2016
Number of Large-scale Network Failure Cases (*)	1	1	0

(*) According to the number of large-scale network failure cases submitted to the Ministry of Science, ICT and Future Planning: More than 1 failure of a switchboard; more than 10 failures at sites in the same city/district/area; and failures of a similar scale must be reported

2.3 R&D Investment

In order to make a leap as a new ICT company to lead the 4th Industrial Revolution, SK Telecom, on the basis of expanded investment into R&D, is actively making mid- to long-term R&D investments that will propel growth in the ICT convergence age including 5G and IoT from network and marketing infrastructure investments. On the strength of the policy of expanding R&D investment, the 2016 R&D investment expenditures increased by 9.4% since the previous year to KRW 641 billion. This increase is not only evident in the expenditures, but is also taking place consistently through efforts to recruit human capital in the form of talented researchers. In 2016, following the recruitment of AI R&D personnel at the Institute of Technology and the transfer of control of the T map business from SK Planet, a transfer of personnel took place. Accordingly, as of the end of 2016, SK Telecom had 1,248 R&D personnel, which represents a 25.1% increase since last year.

CAPEX

	2014	2015	2016
Total CAPEX (KRW trillion)	2.1	1.9	2.0
Network CAPEX	1.6	1.4	1.5
Non-Network CAPEX	0.5	0.5	0.5

R&D INVESTMENT (*)

	2014	2015	2016
Total R&D Expenditure (**) (KRW billion)	496.5	585.7	640.9
R&D Personnel (person)	971	998	1,248

(*) In 2016, the T map product planning part was transferred from SK Planet and the calculation standard for R&D expenditures and personnel was readjusted. Past data have been recalculated according to the current standard.
(**) R&D expenditures calculated to include pure R&D (network infra., marketing infra., new growth businesses and mid- to long-term R&D), investment in growth businesses (incl. equity investment) and organizational expenses

2.4 Customer Satisfaction and Customer Safety Indicators

SK Telecom is achieving improvements in long-term customer loyalty through the Customer Experience Management (CEM), which strives for the highest customer value. In 2016, the company was ranked No. 1 in Korea's three major customer satisfaction surveys (NCSI, KCSI, KS-SQI) and became the first in the country to rank No. 1 on NCSI for 20 consecutive years. In addition, according to the internal Customer Satisfaction Index (CSI) Survey conducted biannually by SK Telecom, the company recorded 78 points in 2016, a 2.6% increase since last year. Furthermore, in order to provide a communications environment in which customers may use the company's services with confidence, SK Telecom is continuously strengthening customer safety services centered on preventing bill shock, personal information protection, children's safety as well as eradicating illegal fraudulent messages like spamming and phishing. The rate of micropayment fraud VoC, which is an indicator of customer safety, is the ratio of the number of micropayment fraud complaint VoC to the number of received consultations. The rate of micropayment fraud VoC is noticeably decreasing each year and reached a rate of 0.014% in 2016, half of last year's rate.

CUSTOMER SATISFACTION (Out of 100 points)

	2014	2015	2016	2017	
SK Telecom Internal Customer Satisfaction Index Results (*)	75	76	78	-	
NCSI (Korea Productivity Center)	74	76	76	76	No. 1 for 20 consecutive years
KCSI (Korea Management Association)	75.4	75.7	78.4	-	No. 1 for 19 consecutive years
KS-SQI (Korea Standards Association)	70.6	74.5	72.5	-	No. 1 for 17 consecutive years

(*) The average of internal surveys results conducted twice annually (in the first & second half of the year)

RATE OF MICROPAYMENT FRAUD VOC (%)

- 2014: 0.043
- 2015: 0.026
- 2016: 0.014
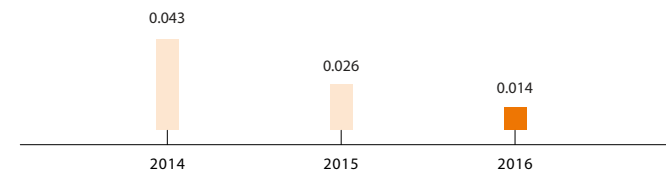
2.5 Privacy Protection (Data Privacy)

SK Telecom recognizes customer data privacy as a key management issue and is taking the utmost care and efforts to identify and remove potential risks in advance, strengthen and give training regarding information protection systems, and enhance inspections of stores and subsidiaries. In 2016, SK Telecom built the Security & Quality Management System (SQMS), which is a companywide dedicated product/service security management system. The company also designed an infrastructure dedicated to precluding information leakages by completely blocking external access to customer information and only such allowing informational access and handling through a virtual secure-access site. As a result of SK Telecom's ongoing privacy protection efforts, there was not a single case of customer information leakage from events such as hacking at SK Telecom since 2011. Customer information leakage is defined as an instance of penetration/breach of SK Telecom's customer personal information security system through hacking, thus leading to the stored customer personal information being leaked externally.

CUSTOMER INFORMATION LEAKAGES

	2014	2015	2016
Customer Information Leakages (cases)	0	0	0

Since 2015, SK Telecom implemented personal data privacy audits of approximately 4,700 stores (100% compliance) in the marketing and solutions areas and is remotely implementing regular assessments of 20,000 distribution network PCs related to information leakage on an annual basis. Continuing from 2015, 3,397 customer data privacy audits and 100% inspections for stores have been implemented in 2016 as well. In addition, 163 data privacy inspections (100%) based on products/services were conducted. In 2016, rather than simply performing diagnoses on regular B2B stores where risk is low, SK Telecom has focused on diagnosing issues related to stores that the company expects may be at high risk of experiencing large-scale information leakages.

Furthermore, SK Telecom has further expanded the scope of privacy protection inspections in 2016 and through conducting deep diagnoses of 31 points of contact including the customer centers, distribution centers and technical support centers of the company's 12 investment companies, customer data privacy and leakage risk inspections and improvement measures were successfully implemented. SK Telecom also conducted focused consulting for each of its investment companies to bolster their privacy protection management capabilities.

In accordance with the Telecommunications Business Act (Article 93, Clause 6) and Protection of Communications Secrets Act (Articles 2 and 13), if a governmental institution makes a request for data, SK Telecom cooperates in providing the relevant data according to the legal criteria and methods. Every year on a quarterly basis, the company gives a report to the relevant ministry and office, the Ministry of Science, ICT and Future Planning, regarding the statistical data about the details provided.

Cooperation regarding 'communications data,' 'communications verification data,' and 'communications restrictions' are carried out according to the strict procedures and limitations specified in current law. SK Telecom minimizes human rights risks with continuous diagnostic activities and internal audits to check for elements of potential violations of users' rights.

Moreover, SK Telecom established human rights principles regarding freedom of expression and misuse of technology through a formalized corporate human rights policy, and is doing its best to protect users' rights and interests as well as human rights such as privacy protection. SK Telecom notifies all subscribers about the categories, purpose and retention period for the personal information collected according to the relevant laws and the company receives prior consent from subscribers through an opt-in method. The collected information is used strictly within the scope of the purpose for which consent has been given and the company is making its best effort to protect personal information such as by providing information to third parties only with customers' optional consent.

DISTRIBUTION NETWORK CUSTOMER INFORMATION PROTECTION

	2014	2015	2016
Rate of Assessments Conducted Among Total Stores (%)	41.9	100(*)	100(**)
Number of Audits on Products/Services Information Protection Management	-	224	163
Rate of Audits Conducted Among Total Products/Services (%)	-	100	100
Areas for Security Improvement Discovered (cases)	-	491	326
Corrective Measures - Rate of completed measures (%)	-	100	100
Short-term measures taken (cases)	-	322	218
Long-term measures taken (cases)	-	169	108

(*) Systemized and enhanced the structure of the methods of managing store data privacy
(**) Audited 100% of all stores except those with an extremely low risk level of information leakages by strengthening the risk management of the distribution network's data privacy and using more advanced audits

RESPONSES TO GOVERNMENTAL INSTITUTIONS' DATA REQUESTS

	Number of 'Communications Data' Requests	Number of 'Communications Verification Data' Requests
No. of Requests Processed (*)	328,262	63,185

(*) Number of cases in which data was provided in response to requests made by governmental institutions, 2016 annual standard
- Communications Data: The user's name, resident registration number, address, phone number, ID, subscription start and end dates. The courts, prosecutors and investigative agencies may request such data when investigating a crime, executing sentences or conducting trials according to the Telecommunications Business Act.
- Communications Verification Data: The other party's subscription number, log records, (date, time) and IP address is classified as communications verification data according to the Protection of Communications Secrets Act. Investigative agencies make the request by receiving permission from the courts with their reasons for the request, connection with the subscriber in question as well as the scope of the data needed.

2.6 Electromagnetic Fields

Following the implementation of mandatory electromagnetic fields measurements since June 2007 until the present, SK Telecom has been fulfilling this regulation, and in 2016, a total of 23,535 cases of electromagnetic fields at wireless stations have been measured. The measurement results show that the actual measurement of SK Telecom's wireless stations is less than merely 1/10 of the standard for

human protection. According to the electromagnetic field rating system introduced in August 2014, almost all of the wireless stations have been recorded at the safest level, level one, and indeed more than 99.9% of the measured wireless stations have received a judgment of a level one standard.

Moreover, since August 2014, SK Telecom has been supporting the five-year research project on electromagnetic fields' human impact conducted by the Korean Institute of Electromagnetic Engineering and Science since August 2014. The project is currently in its third year and the company is bearing 50% of the KRW 1.5 billion won total cost.

MEASUREMENT OF ELECTROMAGNETIC FIELD INTENSITY AT BASE STATIONS

■ Number of intensity measurements taken at wireless stations
○ Rate of wireless stations at level one of the electromagnetic field rating system (%)
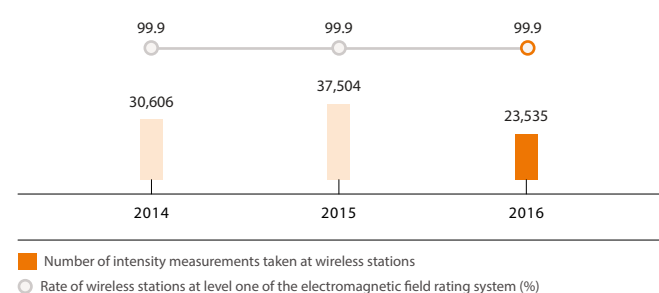
2.7   Mutual Growth with Partners

SK Telecom is contributing to the growth of a healthy invigorated ICT industry by putting mutual growth into practice. In 2015, SK Telecom strengthened its outreach efforts to SMEs by being the first company in Korea to make an agreement with KOTRA to create 'Global Branch Support,' which allows KOTRA's trade centers to be utilized as

MAIN RESULTS OF MUTUAL GROWTH IN 2016

Support for partners to generate increased revenue	- Supported revenue increases of KRW 257.8 billion for 710 companies by commercializing new technology produced by SMEs, fostering ventures and expanding the ICT ecosystem through sharing and openness
Funding (financing)	- Loan support through the Mutual Growth Fund (KRW 167.5 billion)
	- Support for SMEs through equity investments (funds, direct investment, etc. for a total of KRW 40.9 billion in 2016)
	- Direct funding for startups, technology development, management support, etc.
Improvement of payment methods and dates	- 100% cash payments and early payments (SME Care Program)
Technical support and protection	- Free support for technology development (T developers, T open lab, LoRa, etc.)
	- Strengthening technology protection for partner companies by operating a technical database
Education/training and HR/recruitment support	- Customized education by job position such as the Win-Win Growth Academy (CEO seminars, mutual growth MBA)
	- 110 online courses available and the continuous development of new courses
	- Supporting the recruitment and fostering of human resources by operating the SK Stepping Stones program
Other support	- Programs to support the welfare of partner companies (welfare points, scholarships, etc.)
Other voluntary practices	- Total of 81 contracts for performance sharing (monetary compensation, continuous transactions, growth support, etc.)

overseas branches. SK Telecom has also partnered with the Sejong and Daegu Centers for Creative Economy and Innovation (CCEI) to carry out activities to support SMEs.

Beyond this, SK Telecom has continued to faithfully fulfill various Fair Trade Commission (FTC) practices (contract conclusion, partner selection and management, internal review board and written records issuance and retention) by providing SMEs with funds, increasing their sales, as well as offering technical, educational and HR support.

In recognition of such results, in 2016, SK Telecom obtained the Top Excellence grade in the Win-Win Index Assessment (mutual growth agreement by the Korean Commission for Corporate Partnership) for three consecutive years, and was selected as a top honors company.

2.8   Assessment of the Supply Chain's Sustainability

SK Telecom defines the main risks that occur in the supply chain and reflects this in the supply chain responsibility assurance process. The risk factors identified are formalized in the 'Supplier ESG Code of Conduct' and 'Fair Trade/Transparent Transactions & CSR Practice Agreement' and 100% of the company's partners are subject to them. While SK Telecom requires compliance with these principles in the contract process, through a long-term monitoring process, it takes a variety of measures such as requiring corrective measures and terminating business relationships. Please refer to pp. 78-81 for SK Telecom's Supply Chain Report for more detailed information.

SUPPLY CHAIN ESG ASSESSMENT (ADVANCE SCREENING)   Unit: Company

	2014	2015	2016	2020 Target	Notes
Total Number of Newly Registered Partners	712	706	725	750	
Human Rights - Environment - Ethics - Social Screening	712	706	725	750	Service/Construction/ Equipment/Goods Suppliers
Rate of Advance Assessments	100	100	100	100	

SUPPLY CHAIN ESG ASSESSMENT (AUDIT)

		2014	2015	2016	2020 Target
Tier 1	Total Number of Registered Suppliers (*)	1,510	2,346	1,881	2,100
	Number of Suppliers Assessed	1,020	1,582	1,726	2,000
	Number of Suppliers Surveyed in Writing (Audit)	815	1,270	1,351	1,400
	Number of Suppliers Surveyed On-Site (Audit)	205	212	225	242
	Number of Suppliers Surveyed by 3rd Parties	-	100	150	150
	Assessment Rate of Suppliers	67	67	91	95
Non-Tier 1	Total Number of Critical Suppliers (**)	-	20	35	40
	Number of Critical Suppliers Assessed (***)	-	10	21	24
	Rate of Critical Suppliers Assessed (%)	-	50	60	60

(*) This number includes all suppliers including those with which SK Telecom did not have transactions in the past 3 years

(**) Calculation limited to cases when an interim contract instead of a direct contract is made with the small and medium sized suppliers for N/W facilities construction or the supply of general goods (SK E&C, Happynarae)

(***) SK Telecom's N/W facilities construction began in 2015 and an interim contract with Happynarae was implemented starting in 2016
- Number of Suppliers Partners Surveyed On-Site (Audit): Includes separate discussions with Construction/Equipment Partners and 1-on-1 meetings
- Number of Suppliers Surveyed by 3rd Parties: Partner experience survey conducted by the Korean Commission for Corporate Partnership

RISK MONITORING AND ASSESSMENT (AUDIT)

		No. of Companies	
Category	No. of Companies	Assessed	Rate(%)
Critical Suppliers (Tier 1 & Critical Non-Tier 1 Suppliers)	353	321	91
Suppliers at High Risk Level (Tier 1 Suppliers)	52	52	100

* SK Telecom conducts its supply chain ESG assessment on an annual basis and the above assessment rate has been calculated according to the suppliers that were assessed annually.

2.9   Community Investment

SK Telecom approaches the concept of investing in local communities from the perspective of Creating Shared Value (CSV) that creates innovations in social value by utilizing the company's ICT and infrastructure capabilities. Based on this strategic direction, SK Telecom prioritizes 1) Creating ICT-based sharing value, 2) Providing technology-based platforms for local communities, and 3) Minimizing the digital divide. Creating ICT-based sharing value means implementing activities that support the foundation of society through the fostering of ICT-based social enterprises and startups. As SK Telecom's flagship project for both the younger and older generations since 2013, BRAVO! Restart supports the founding of ICT convergence ventures. The program not only contributes to the discovery of SK Telecom's new growth engines, but also combines with its ICT capabilities to play a part in solving social problems. To date, a total of 46 teams participated in BRAVO! Restart and received support for their startups.

In order to serve communities by creating technology-based platforms, SK Telecom has developed and operates a donation platform 'GiveU' and a volunteer matching platform 'WithU.' According to the expansion of the platform-based social contribution culture, the total amount of donations through GiveU in 2016 increased 45.7% since last year to KRW 201 million and a cumulative total of KRW 1.23 billion. The cumulative volunteer opportunities registered on WithU increased greatly to 165,000, a figure which grew 2.4 times since 2015.

Digital inclusion efforts encompass investment activities to increase the level of access to service for groups that are vulnerable to the digital divide including the disabled and senior citizens. Please refer to the 2.1 Access to Service category for detailed information on results.

1) Connected with SDG 9 'Industry, Innovation and Infrastructure'
2) Connected with SDG 1 'No Poverty', SDG 2 'Zero Hunger,' and SDG 4 'Quality Education'
3) Connected with SDG 9 'Industry, Innovation and Infrastructure' and SDG 4 'Quality Education'

MAIN PROGRAM RESULTS

		2014	2015	2016
ICT-based Creating Shared Value	BRAVO! Restart Support for Startups (cumulative, number of teams)	23	34	46
Technology-based Platforms for Local Communities	Cumulative donations collected on GiveU (KRW million)	890	1,030	1,234
	Cumulated volunteer opportunities registered on WithU	40.755	67.529	165,380

In addition, through SK Telecom employees' volunteer activities, the company has been able to contribute to the expansion of the sharing culture. SK Telecom has especially strengthened specialized

volunteer activities such as ICT-related volunteer opportunities based on SK Telecom's capabilities and talent donations in order to improve employees' satisfaction with their volunteer experiences and also to enhance the efficiency of the volunteer programs. The rate of specialized volunteer work has been calculated by dividing the volunteer hours performed by the ICT volunteer and pro-bono volunteer groups by the total number of volunteer hours performed. In 2016, the rate of specialized volunteer work increased 15%p year-over-year to be recorded at 44% and the results show that specialized volunteer work makes up about half of all of the volunteer work performed.

RATE OF SPECIALIZED VOLUNTEERING   (%)
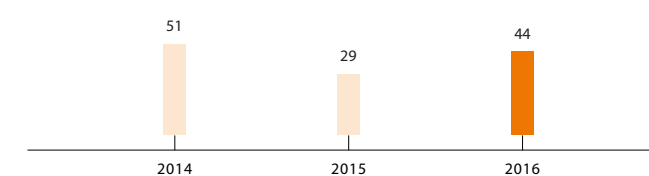
CHARITABLE CONTRIBUTION AND SPONSORSHIP

Program	Organization
ICT education program for youth	Korea National Association of Child Welfare
Smart local food	The Happy ICT Foundation
Scholarships for college students from vulnerable groups	KJChoi Foundation
Youth path camp	Peace Flower Network for Youth
Hackathon competition for disabled youth	Korea Federation of Organization of the disabled
Audio book application "Happy Library"	Korea Blind Union
Education for developmentally disabled youth	Motion and Sound 4 All
Support for vulnerable groups	Community Welfare Centers
Multicultural cooking class and support for visiting hometowns	Citizens United for Better Society
Youth Shinmungo (Consultation Room)	Seoul YMCA
Support for young North Korean defectors and teen-to-teen mentoring	Unification Academy
Establishment of a support center for organ-failure patients	Korea Organ Donation Society
Challenge! English Up!	Busrugy: Leftover Love Sharing Community
Guide senior citizens on how to use a mobile phone	Korea Association of Senior Welfare Centers

2.10   Public Policy

SK Telecom strictly abides by Korea's Political Fund Act, which prohibits companies from making political contributions to businesses or organizations, and does not offer any kind of cash funds for politics including political funds, campaign funds, funds for specific political organizations or funds to lobby a political party. Policy support expenses refers to support given for public policy cooperation including contributions to tax-exempt policy institutions, economic organizations as well as association fees paid to institutions that exert influence upon telecommunications policy.

SK Telecom actively lends its cooperation to help develop public policy and further the public interest including through the development of the information industry, mutual growth and the protection of socially vulnerable groups. The company accomplishes this by supporting institutions with no specific political or party affiliations and which indirectly influence the formation of public policy. This can take the form of donations to tax-exempt policy institutions as well as donations or association fees paid to business associations/organizations that influence telecommunications policy and industry regulations.

Despite this, SK Telecom recognizes that such expenditures related to policy influence may become a potential risk factor from the company's mid- to long-term business perspective and, thus, it is managing the details and scale of all donations from a companywide level. Furthermore, since February 2017, SK Telecom has revised the Board of Directors statutes to ensure the fairness of execution costs that may impact policy related to the company's business as well as to strengthen transparency. For instance, the revised statutes have bolstered the advance approval process by requiring a vote by the BOD for donations that exceed KRW 1 billion.

POLICY SUPPORT EXPENSES

	2014	2015	2016
Direct Political Donations (*) (KRW million)	0	0	0
Policy Support Expenses (**) (KRW million)	9,818	9,562	7,416

(*) Direct political donations: Donations and support for political campaigns and election funds, organizations or politicians related to specific parties or politics, lobbying organizations or lobbyists

(**) Policy support expenses: Donations and support for the purpose of cooperating for public policy such as paying association fees to tax-exempt institutions, economic organizations and institutions that may influence the development of telecommunications policy

(***) Major Policy Support Expenses in 2016 (top five): KRW 3,093 million contribution to the Large, Small and Medium Business Agricultural Cooperative Federation; KRW 1,513 million in support to various economic organizations; KRW 1,500 million donation to the Barun ICT Research Center; KRW 756 million to the Korea Telecommunications Operators Association (KTOA); and KRW 200 million to the Korea Association for ICT Promotion (KAIT)

Section 3. Natural Capital

3.1 Greenhouse Gas (GHG) Emissions

SK Telecom's GHG emissions are calculated based on the company's main 28 buildings including data centers and the guidelines on preparing and managing the statements for the emissions trading system. The scope of this estimation includes emissions from all the network facilities (base stations and equipment), but it does not include emissions from subsidiaries and supply chains. Greenhouse gas intensity, on the other hand, is calculated by dividing the total emissions of greenhouse gas by SK Telecom's parent-only revenues (data coverage).

In 2016, SK Telecom's total GHG emissions amounted to 828,073 tCO$_2$e, a 20.7% increase from the previous year. This was primarily a result of an increase in power consumption from the new establishment of company buildings and installation of more network equipment. Regarding direct GHG emissions, SK Telecom successfully reduced this amount by 15.2%. To reduce GHG emissions, the company put forth a variety of efforts including

the integration of network equipment such as base stations, replacement of worn-out air conditioners and the adjustment of air-conditioning and heating. However, the amount of emissions reduced was small compared to the total amount that increased, resulting in an overall increase in emissions. In the future, SK Telecom has plans to discover and implement independent reduction activities such as the use of high-efficiency relay stations and integrating the management of base stations. In addition, by securing carbon offsets through co-operation with partners and SMEs, SK Telecom will actively participate in the emissions trading scheme and achieve its targets.

GREENHOUSE GAS EMISSIONS

|	2014	2015	2016
Total Emissions (tCO$_2$e)	742,859	686,118	828,073
Intensity (tCO$_2$e/KRW billion)	57.09	54.64	67.05
Direct Emissions (tCO$_2$e)	7,124	8,431	7,152
Stationary Combustion (tCO$_2$e)	4,877	5,650	4,945
Mobile Combustion (tCO$_2$e)	2,248	2,781	2,207
Indirect Emissions (tCO$_2$e)	735,750	677,687	820,921
Electricity (tCO$_2$e)	735,664	677,585	820,836
Steam (tCO$_2$e)	86	102	85

TOTAL GHG EMISSIONS AND INTENSITY
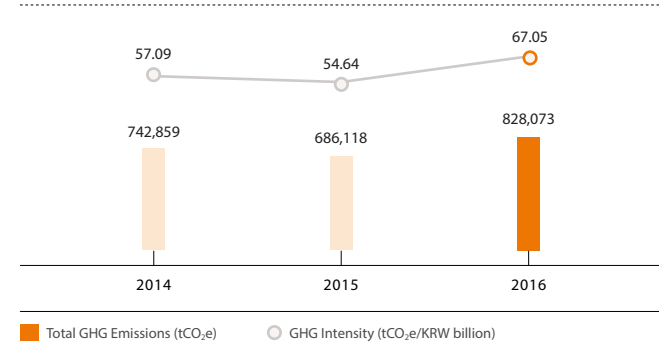
SK Telecom is expanding the scope of managing indirect GHG emissions (Scope 3) through research to reduce social GHG emissions and offering excellent environmental solutions. In terms of reducing social GHGs, SK Telecom refers to using the ICT services it possesses to reduce the GHG emissions that result from the activities of daily life.

As SK Telecom's flagship activity to reduce social GHG emissions, the T map navigation service contributes to reducing fuel use and GHG emissions by informing drivers of optimal routes that account for the distance and real-time road conditions between the user's current location and destination. The volume of social GHGs that T map helped to reduce in 2016 is estimated to be about 0.42 million tons annually. Since opening T map and making it free to use, the number of subscribers has been steadily climbing and considering the increase rate of registered cars and the spread of the navigation service usage, SK Telecom has set a goal to reduce 0.6 million tons of social GHG emissions annually by 2020.

ANNUAL SOCIAL GHG EMISSIONS REDUCTION (*)   (1,000 tCO$_2$e)
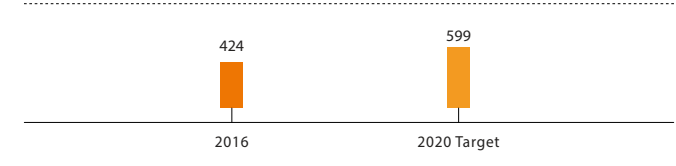
(*) The effect of reduced social GHG from use of the T map service

3.2 Energy Consumption

SK Telecom's energy consumption is managed in compliance with guidelines on preparing and managing the statements for the Emissions Trading System, and the numerical figures are aggregated by entering billing invoices from energy suppliers into the system. The total energy consumption is calculated by including the consumption from all 28 of SK Telecom's company buildings, data centers and network facilities (base stations and equipment), but the energy consumption of the company's subsidiaries and supply chain is not included. The intensity of energy consumption is calculated by dividing the total energy consumption by SK Telecom's parent-only revenues (data coverage). Regarding energy reduction results due to the use of natural air-conditioning and renewable energy development, the estimated value measured data from the previous year (2012~2013) has been equally applied to 2016.

SK Telecom continuously reduced energy consumption through reduction activities such as decreasing the use of energy sources for the heating and cooling systems of company buildings, integrating network equipment such as relay stations and base stations as well as replacing worn-out air conditioners. Despite such efforts, the energy consumption in 2016 was 17,012 TJ, an increase of 20.8% since the previous year due to the establishment of new company buildings and installation of additional network equipment. For SK Telecom, indirect energy consumption resulting from the use of electricity accounts for 99.3% of the total consumption.

Accordingly, SK Telecom seeks to achieve improved energy efficiency

ENERGY CONSUMPTION

	2014	2015	2016
Total Energy Consumption (TJ)	15,271	14,081	17,012
Energy Intensity (TJ/KRW billion)	1.17	1.12	1.38
Direct Consumption (TJ)	121	146	119
Natural Gas (Nm^3)	1,561,961	1,912,250	1,560,708
Diesel (Liter)	66,000	279,084	271,150
Kerosene (Liter)	439,182	495,790	494,765
Indirect Consumption (TJ)	15,150	13,954	16,893
Electricity (MWh)	1,577,830	1,453,265	1,760,535
Steam (GJ)	3,192	2,692	2,311
Total Power Consumption Reduction (MWh)	45,729	44,731	46,838
Reduction from Building Management (MWh)	3,143	2,145	4,252
Reduction from Natural Air-Conditioning System (MWh)	39,857	39,857	39,857
New Renewable Energy Generation Facilities (MWh)	2,729	2,729	2,729

by managing company buildings with a focus on innovating network structures and making networks slimmer as well as generating electricity through renewable energy facilities. Taking into consideration the increased energy consumption due to investing in 5G facilities, SK Telecom plans to achieve 1.7 TJ per KRW billion in revenue by 2020 in terms of energy consumption intensity.

### TOTAL ENERGY CONSUMPTION AND INTENSITY
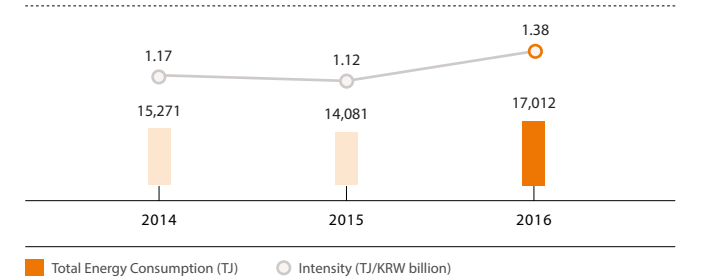
3.3 Water Consumption

Water consumption is estimated based on SK Telecom's 28 company buildings including data centers, according to invoices for water usage, and the calculated total does not include consumption by subsidiaries or the supply chain. The intensity of water consumption is calculated by dividing the total water consumption by SK Telecom's parent-only revenues (data coverage). As part of measures to reduce water consumption, SK Telecom implemented an adjustment of the Seongsu cooling tower drain amount and changes to the cooling tower supply water at the Wonju building. Owing to these efforts, despite an increase in the number of people consuming drinking water and an increase in the cooling tower supplementary water required for the additional telecommunications equipment installed, SK telecom successfully reduced annual water consumption by 5.9% to 712,910m^3 in 2016.

WATER CONSUMPTION

	2014	2015	2016
Volume of Water Consumption	695,725	757,658	712,910
Waterworks Usage	632,304	687,087	648,643
Groundwater Usage	63,421	70,571	64,567
Intensity (m^3/KRW billion)	53.46	60.34	57.72

### WATER CONSUMPTION AND INTENSITY
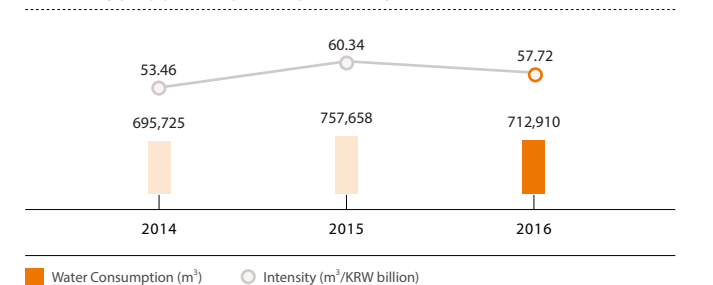
3.4 Waste and Recycling

Waste discharge volume is estimated based on SK Telecom's 28 company buildings including data centers, and the calculated total does not include the waste discharged by subsidiaries or the supply chain. The intensity of waste discharge is calculated by dividing the total waste discharge volume by SK Telecom's parent-only revenues (data coverage). The total volume of waste discharge including domestic, large-size and food waste was reduced overall in 2016 to 1,691 tons, a 13.3% decrease since last year, and the rate of recycling was 35%, a rate that has been steadily maintained at a level over 30%.

WASTE AND RECYCLING

	2014	2015	2016
Total Waste (ton)	1,763	1,928	1,691
Domestic Waste (ton)	685	648	590
Large-sized Waste (ton)	79	91	68
Food Waste (ton)	416	505	406
Designated Waste (ton)	33	18	41
Recyclable Waste (ton)	548	666	587
Waste Discharge Intensity (ton/KRW billion)	0.135	0.154	0.137
Recycling Rate (%)	31	35	35

WASTE VOLUME AND RECYCLING RATE

Total Waste (ton) Recycling Rate (%)
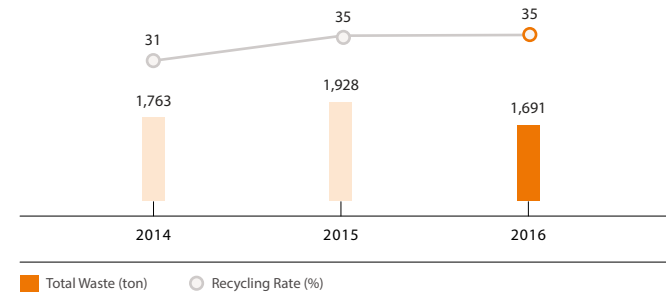
3.5 Resources

Through efforts such as electronic billing, the T membership mobile card and device retrieval, SK Telecom is creating a solid base for reducing resource consumption during the course of customers' use of the company's services. As the company continues to strengthen these efforts, it is putting resource reduction into practice. The total number of electronic bill subscribers includes customers who receive their bills via smart phone, email or MMS. The rate of new subscription indicates customers who subscribed to the electronic billing service among all new subscribers. The electronic billing service has the benefits of improved security of personal information and reduced usage of resources such as paper, and thus, the number of subscribers to the electronic billing service has increased at a steady pace. By the end of 2016, the total number of electronic bill subscribers reached approximately 22 million and since the introduction of the smart billing service in 2010, the number of customers taking advantage of the electronic billing service has grown steadily. The new electronic bill subscription rate was recorded at 87% in 2016, a 3p% increase compared to last year.

ELECTRONIC BILLING SERVICE SUBSCRIPTIONS

	2014	2015	2016
Total Electronic Bill Subscribers (people)	19,604	21,328	22,402
Rate of New Subscriptions (%)	77	84	87

Since August 2013, SK Telecom has completely replaced the plastic card that was previously issued to customers that subscribed to T membership with a mobile eco-card. It is expected that the use of the T membership mobile eco-card will result in saving 4.88 grams of plastic per customer and reducing 12 grams of carbon emissions from being emitted. This is equal to reducing the use of four A4 size pieces of paper or contributing the volume of oxygen from 40 pine trees.

In the past, SK Telecom issued over 5 million plastic membership cards annually to run the T membership service. Once this entire amount is switched over to mobile cards, the company expects that an estimated 24 tons of plastic resources will be conserved and 55 tons of carbon emissions will be reduced annually. In 2016, SK Telecom the T membership mobile card issuance rate was a cumulative 56%. This is a 7%p increase year-over-year and the rate is steadily increasing each year. Of note is the fact that the T membership mobile card issuance rate among new customers in 2016 was 98% and owing to this, the company has found that the carbon emissions reduced has been even greater.

T MEMBERSHIP MOBILE CARD USAGE

	2014	2015	2016
Rate of T membership Mobile Card Issuance to New Customers (%)	97	97	98
Number of T membership Mobile Cards Issued (new annual)	2,831,082	2,031,727	2,031,727
Number of T membership Plastic Cards Issued (new annual)	76,369	79,554	45,981
Cumulative Rate of T membership Mobile Cards Issued (%)	34	49	56
Number of T membership Mobile Cards Issued (cumulative annual)	3,466,419	5,661,830	6,711,262
Number of T membership Plastic Cards Issued (cumulative annual)	6,741,591	5,810,530	5,347,620

T MEMBERSHIP MOBILE CARD ISSUANCE RATE   (%)

Cumulative Customers New Customers
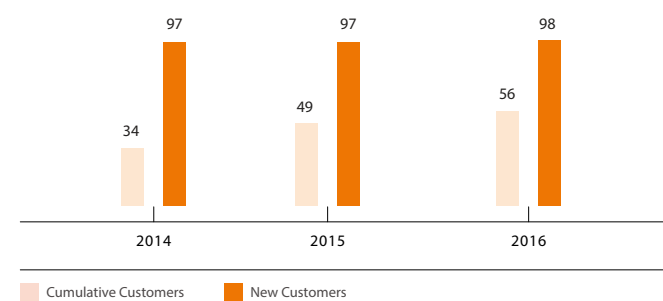
The device retrieval rate was calculated by dividing the number of devices sold by the total annual devices retrieved. In 2016, the device retrieval rate was 3.1%, a similar rate as last year.

DEVICE RETRIEVAL RATE

	2014	2015	2016
T Devices Sold (in thousands)	8,133	9,063	8,726
Devices Retrieved (in thousands)	370	326	222
Device Retrieval Rate (%)	4.50	3.6	3.1

3.6 Environmental Costs and Investment

The environmental investment and cost is estimated on SK Telecom's parent-only basis. The environmental costs are the expenditures for reducing SK Telecom's environmental impact and improving environmental performance. The company classifies and calculates such expenditures into categories including costs and taxes paid to save energy and respond to climate change; waste and recycling disposal; provide education and training; and contribute to nature conservation. In addition, SK Telecom also implements and tracks green procurement. Green procurement costs encompass the purchase of products with an energy efficiency grade and high-efficiency energy certification; high-quality recycled product certification; environmental mark certification; environmental product declaration; carbon performance declaration; and low-carbon product certification, but this does not include environmental costs.

In 2016, the total environmental costs increased 6.3% year-over-year and reached KRW 754 million. The main reasons for the higher environmental costs include increases in expenses to save energy and respond to climate change, waste disposal, recycling service and education/training expenses. Furthermore, following the newly established infrastructure equipment, the company recorded a high level of GHG emissions in preparation for the government's allotment of emissions credits in 2016 and purchased the credits that it lacked, resulting in an emissions purchase cost of KRW 1.3 billion. Due to the expansion of green certification centered on high-price equipment purchases in 2015, a year in which green procurement costs greatly increased, such costs were reduced to nearly half in 2016, but are on a rising trend overall.

TOTAL ENVIRONMENTAL COSTS   (KRW million)

	2014	2015	2016
Total Environmental Costs (Excl. Green Procurement, GHG Emissions Credits)	475	709	754
Energy Saving and Climate Change Response Cost	207	242	271
Waste Disposal Service	101	95	107
Recycling Service	24	20	25
Education/Training Cost	13	24	33
Nature Conservation Cost	7	0	0
Charges & Taxes	123	328	318
Miscellaneous	0	0	0

PURCHASE OF GHG EMISSIONS CREDITS   (KRW million)

	2014	2015	2016
Annual Cost of Purchasing GHG Emissions Credits	-	-	1,316

GREEN PROCUREMENT COSTS   (KRW million)
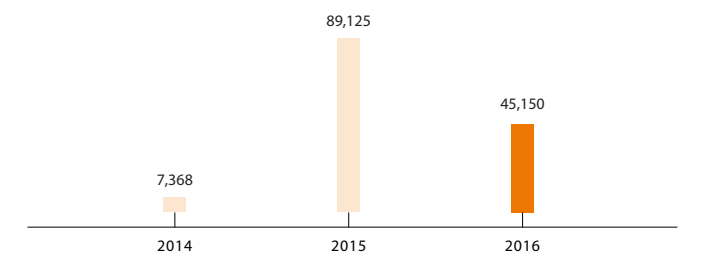
Other Disclosures

SK Telecom is committed to complying with regulations of the supervising agencies including the Fair Trade Commission (FTC), Korea Communications Commission (KCC) and Ministry of Science, ICT and Future Planning (MSIP), and undertakes management activities, while actively reflecting demands made by stakeholders and the government, which expect fair market competition. Despite these efforts, however, SK Telecom was subject to the following sanctions from KCC in 2016, and corrective actions were taken accordingly.

LIST OF SANCTIONS AND CORRECTIVE MEASURES

Date of Sanction	2016. 1. 14
Sanctions and Corrective Measures	Fine of KRW 15 million and corrective action order in relation to the "Case of correction in relation to the violation of the personal information effective term system" by the KCC. Paid the fine and reported the corrective measures to the KCC.