Global
New
ICT Leader

SK Telecom Annual Report

2016

SK telecom

About This Report

As an Integrated Annual Report prepared for the purpose of reporting the annual performance to the investors and stakeholders, this Report comprises not only the financial performance records of SK Telecom, but also comprehensive information on value creation including non-financial performance, future prospects and efforts to improve company value (Value Creation Story). The BOD gave the final approval for this Report in July of 2017.

Integrated Reporting According to International Guidelines

This Report was prepared in accordance with the guiding principles and report content suggested in the <IR> Framework. The International Integrated Reporting Council provides the International Integrated Reporting <IR> Framework, a standard framework for the Integrated Reporting of both financial and non-financial performances. This Report was also prepared in accordance with the comprehensive requirements of the GRI G4 Guidelines, a standards guideline for sustainability reports provided by the Global Reporting Initiative (GRI). As one of the UN Global Compact (UNGC) LEAD companies, SK Telecom has been undertaking management activities conforming to the 10 principles of UNGC, and this Report was prepared in accordance with the documentation principles prescribed in the Communication on Progress (COP) of UNGC.

Scope and Boundary of the Report

In this Report, the terms, "SK Telecom" and "the company," refer to SK Telecom, excluding its subsidiaries that are subject to consolidated financial statements in accordance with the Korean International Financial Reporting Standards (K-IFRS). The financial data is based on consolidated financials, while the non-financial data on the environmental performance and fulfillment of the corporate social responsibility is based on a non-consolidated basis. The data presented in this Report exclude those for SK Telecom's overseas branches, subsidiaries and invested companies unless otherwise indicated in the general descriptions and information section. Such data, however, were included on a separate basis in cases in which they are likely to have a significant impact on the stakeholders' decisions, in consideration of SK Telecom's financial and operational control and the actual influence and effects of its business. As for the geographical boundaries, this Report covers data for the company's major places of business where 95% of revenue is generated, which

is the Republic of Korea, while the temporal scope is between January 1 and December 31, 2016. This Report, however, may disclose a portion of the qualitative data generated until May 2017. In case of any changes in the previously reported data requiring attention, such data were re-calculated based on the 2016 data. The reporting period of this Report is one fiscal year, and the preceding report was the <SK Telecom Annual Report 2015> issued in July 2016.

Third Party Assurance and Disclaimer

Financial data in this Report have been audited by an independent audit corporation, and non-financial data have been assured independently by a third-party entity to secure the credibility of the Report. Greenhouse gas data have been separately assured as well. This Report contains predictive statements regarding SK Telecom's and subsidiaries' financial conditions, operating and sales performances, and plans and goals of management. Despite external assurances, there might be gaps between the future performance specified or inferred through predictive statements and the company's actual performance due to political, economic, and circumstantial uncertainties surrounding business management.
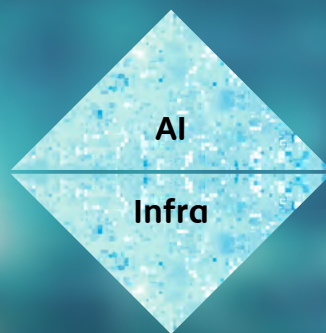
Global Initiatives and Partnerships

In 2007, SK Telecom became a member of the UN Global Compact (UNGC), which was created through cooperation between UN organizations and businesses to improve social ethics and the international environment. Since 2011, SK Telecom has participated as a GC LEAD company to develop and expand best practices in accordance with the UNGC Blueprint for Corporate Sustainability Leadership. Furthermore, SK Telecom complies with the management system standard for social responsibility, ISO 26000, and participates in the Carbon Disclosure Project (CDP) and the business network program of the International Integrated Reporting Council (IIRC). In recognition of its efforts to achieve excellence in sustainability management, SK Telecom was listed in the Dow Jones Sustainability Indices (DJSI) World Index for nine consecutive years since 2008.

SK Telecom:
A Global New ICT Leader

SK Telecom is equipped with the most competitive New ICT capabilities, ranging from media to IoT and commerce platforms, based on AI, Cloud, Big Data, 5G technologies, and strong infrastructures. Our goal is to grow into a global New ICT company, leading the 4th Industrial Revolution that will change the world as we know it.

Global New ICT Leader,
SK Telecom

Internet of Things

Digital Transformation

Media Platform

Future Technology

Leading industry 4.0
through competitive advantage
in AI & Infra

AI
Infra

MNO —— IoT —— Media —— Commerce —— Enabler —— New biz / New tech ——

NEW
ICT
company

Unlocking the potential of ICT Innovation

In the 4th Industrial Revolution, everything is becoming hyper-connected and hyper-intelligent through ICT. SK Telecom is keeping one step ahead of its competitors through hard work and constant innovation. These efforts, along with our mobile communication services, have allowed us to stand as a leader in
this New ICT ecosystem.

We are primed to evolve into a global New ICT leader, encompassing new businesses and technologies in addition to mobile network operator (MNO), media, Internet of Things (IoT), commerce, and digital transformation (DT) services and technologies, backed by differentiated competitive edges in our core assets of network infrastructures and artificial intelligence (AI).

Our New ICT will enrich and innovate our customers' lives, creating a more convenient and prosperous world.

5G networks:
a revolutionary technology
leading the new ICT world

The backbone of New ICT, which will be the heart of the 4th Industrial Revolution, are network infrastructures including 5G technologies. The 5G networks, which enable ultra-high speed, ultra-low latency, and ultra-massive data processing, are the foundations of MNO, AI, media, IoT, and commerce business portfolios, and have been expanded into New ICT businesses such as VR, AR, AI robots, and self-driving cars.

SK Telecom plans to focus on developing key technologies, building infrastructures, and strengthening global partnerships to commercialize 5G technology by 2019. At the same time, we will continue to improve our customers' lives by providing optimized products and services for 5G networks. Based on fast and efficient 5G networks, we will accomplish seamless New ICT infrastructures.

NAME__JASON HOBBES >>>>>>>

GENDER__MALE
AGE__14
INTERESTS__ANIMATION, FAMILY TRIP
FUTURE HOPE__ASTRONAUT
PREFER CATEGORY__ASTRONOMY, SPACE, BIOLOGY
AVERAGE CONNECTION TIME__40 MIN.
BETWEEN PM 4:00~7:00

Enjoying next generation media, beyond the constraints of time and space

SK Telecom's media platforms, which encompass wired and wireless platforms including IPTV and OTT, enable users to access and enjoy desired content on a wide range of devices anytime, anywhere without worrying about being disconnected. Our "oksusu" wired and wireless media platforms in particular are expanding their territories into new viewing experience in linkage with AR and VR, in addition to offering optimized content and services for individual preferences.

Furthermore, IPTV will continue to evolve into an open media and home platform, and "oksusu" will continue to grow into a global media platform through strategic alliances. Offering personalized and differentiated content, our next-generation media platforms will always allow users to have unique and immersive experiences.

ASTRONOMY 90%

75% SPACE

45% BIOLOGY

# Opening a hyper-connected society with boundless and borderless IoT

The Internet of Things (IoT) is a new type of platform that connects all digitalized devices such as speakers, TVs, and automobiles. SK Telecom is embodying true IoT with boundless and borderless connectivity in a variety of future devices, such as smart homes and connected cars, based on its network infrastructures and intelligent cloud technologies.

Notably, we are working with various global companies to develop self-driving cars, and are expected to provide safe and efficient future travel by quickly and accurately sharing data with external equipment while driving. Our differentiated IoT platforms will allow for an unprecedented new and exciting hyper-connected society.

Providing a way to enrich life with personalized AI platforms

Hearing your favorite music, choosing a film on TV, adjusting the temperature and humidity at home, or managing your schedule by a simple voice command, are all quite possible with the voice recognition-based AI assistant, NUGU. This is just the beginning, though: we are working constantly to bring even greater technological wonders to our customers.

SK Telecom will secure the nation's highest levels of AI capabilities by advancing its current natural user interface (NUI) and intelligence technologies. Based on this, we will continue to enhance the competitiveness of our products and services, including MNO, media, IoT and commerce, and take the initiative in the AI ecosystem. Through these efforts, we will introduce evolved AI platforms that will offer personalized search and recommendation services with the ability to converse on a human level. Smooth and convenient daily lives with AI assistants are now just in our imagination, but will soon become a reality.
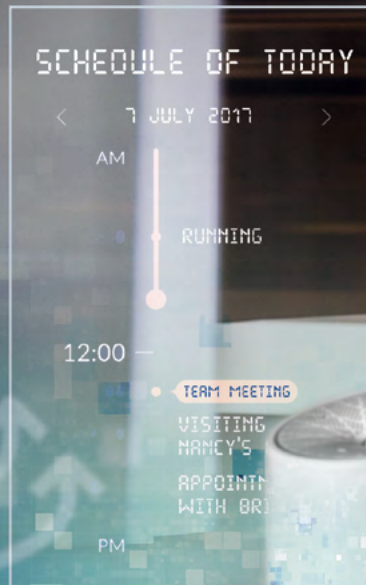
Delivering an intelligent commerce experience that interprets underlying needs

SK Telecom aims to develop a free and convenient global commerce environment, without online and offline borders and restrictions on media or devices. We will offer total life care services which have never before been available, suggesting integrated and individualized commerce for each person by linking with AI and IoT platforms in the future.

This innovation will be based on our extensive commerce capabilities, ranging from the "11street" online open market and offline to online (O2O) services to settlement platforms, digital content, and digital advertising. Our commerce services, which elevate the simple act of shopping to a true life experience, will make our world easier and more convenient.

STYLE 0142
PRICE $ 89.99
SIZES
5
5.5
6
7
7.5

STYLE 0164
PRICE $ 99.99
SIZES
5
5.5
6
6.5
7
7.5

STYLE 0179
PRICE $ 109.99
SIZES
5.5
6
6.5
7

RECOMMENDED ITEM >>>>>>>

SHOES FOR BRENDA'S WEDDING
SIZE :_>230
BALL WIDTH :_>LEFT 225 RIGHT 229
HEEL TO TOE LENGTH :_
>LEFT C RIGHT C

YOUR PURCHASE
PATTERN

BLACK
BLUE
RED
BROWN

Possibilities and opportunities in new ICT centered economy

The 4th Industrial Revolution era is an ICT-centered economy, making ICT a key competitiveness factor in all industries. The Industry 4.0, in which market competition rules are completely changing with a focus on ICT, presents us with a great challenge as well as a new opportunity to become a leader in this new economy.

SK Telecom will lead the Industry 4.0 by going beyond mobile communications and briskly advancing into New ICT-based businesses, while supporting digital transformation of other brick-and-mortar industries by demonstrating strong ICT competencies based on infrastructures and AI. We will be the first to realize the 4th Industrial Revolution that is reshaping the future for all.
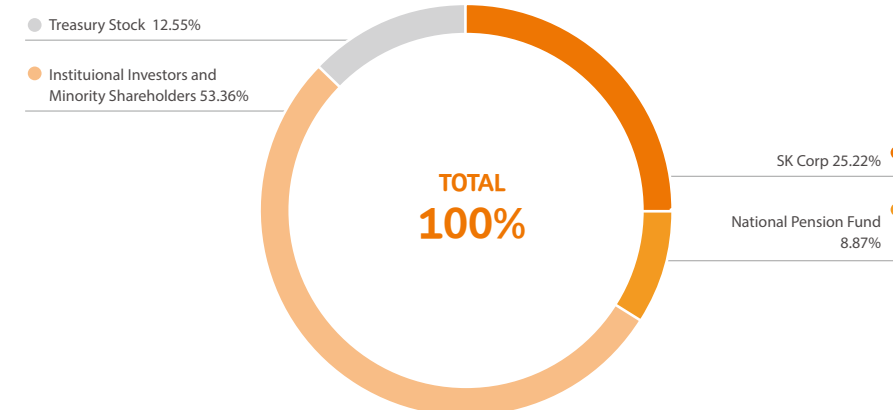
ABOUT US

INSIDE THIS YEAR'S REPORT

On its foundation as a South Korean mobile telecommunications service, SK Telecom is evolving into a New ICT company with core competencies such as AI, media, IoT and commerce. SK Telecom, as of December 31, 2016, had 29.6 million subscribers and is leading South Korea's ICT ecosystem through the world 'best' and 'first' technology services.

HIGHLIGHTS OF SK TELECOM

Date of Establishment	1984.03.29
Number of Subscribers	29.6 million(*)
Number of Executives & Employees	4,399
Number of Subsidiary Companies	38
Stock Exchange Registration Status	Korea Stock Exchange
	New York Stock Exchange
	London Stock Exchange

* Including MVNO, as of December 31, 2016

SHAREHOLDER STATUS

● Treasury Stock 12.55%

● Instituional Investors and
Minority Shareholders 53.36%

TOTAL
100%

SK Corp 25.22% ●

National Pension Fund
8.87%

1

COMPANY OVERVIEW

LETTER TO STAKEHOLDERS

Distinguished Stakeholders,

LAST YEAR, 2016, WAS A YEAR IN WHICH SK TELECOM TOOK A BOLD STEP FORWARD IN THE NEW ICT SECTOR.

The arrival of the 4th Industrial Revolution has become a topic whose significance is touching not only the ICT industry but nearly every imaginable industry. With its differentiated and customer-oriented products and services, SK Telecom has innovated its business model to lead the 4th Industrial Revolution in mobile telecommunications, media, IoT and platform services. As evidence of its ability to meet the challenges of the times, SK Telecom became the first company in the world to successfully demonstrate a 5G-based handover and connected car technologies last year. It also laid the groundwork to lead the new ICT paradigm by launching Korea's first voice recognition artificial intelligence (AI) device, NUGU. As a result of these efforts, SK Telecom reported financial results of KRW 17,091.8 billion in revenue as well as KRW 1,535.7 billion in operating profit on a consolidated basis in 2016. Furthermore, SK Telecom continued making history by receiving the highest levels of external assessments across all of its management activities, as demonstrated by: its efforts as a United Nations Global Compact (UNGC) LEAD company; its status as the first Asian telecommunications company to be included in the Dow Jones Sustainability Indices (DJSI) World for the ninth consecutive year; maintenance of the highest possible grade of "Excellent" in the Win-Win Index for the fourth consecutive year; and its first-place ranking in the National Customer Satisfaction Index (NCSI) for two decades (as of 2017).

SK TELECOM IS COMMITTED TO SUCCESSFULLY BUILDING THE NEW ICT ECOSYSTEM AND LEADING THE 4TH INDUSTRIAL REVOLUTION.

The 4th Industrial Revolution will restructure all industries to center around ICT innovation based on high connectivity and high intelligence while accelerating global competition. Responding to such changes with its key competitive edges in infrastructure and AI, SK Telecom is preparing to become a new global ICT company by expanding the business portfolios of its MNO, media, IoT, commerce and Enabler businesses and optimizing corporate value.

In MNO sector in 2016, SK Telecom differentiated and strengthened the competitiveness of its products and services while leading the new competition paradigm which is customer-retention oriented. It focused on providing customized benefits only available through SK Telecom by launching customer-preferred rate plans such as 'T signature' and 'Band playpack.' SK Telecom will strive to enhance its reputation as the top service

Jung Ho Park
President and CEO, SK Telecom

provider by offering customers services optimized for both wired and wireless networks, while focusing on reinforcing the competitiveness of its MNO services and products as well as customer communication based on thorough data analysis.

The network infrastructure of telecommunication operators is projected to become the key to actualizing and universalizing ICT convergence business models that will lead the 4th Industrial Revolution. SK Telecom participates in 5G technological standardization initiatives with global telecommunication operators and equipment manufacturers. It successfully demonstrated the world's first 5G-based handover mechanism in September and 5G connected car technologies in November 2016, proving the potential of its 5G technologies. It will prepare content and services made for 5G and strive to become a service provider that leads innovative business models with the ultra-high speed, low latency and expandability of 5G, aiming to commercialize 5G services by 2019.

In media/home sector, SK Telecom will increase the number of fixed-line and wireless IPTV subscribers and create continuous growth in content revenue. SK Telecom's mobile media platform, oksusu, improved customer satisfaction by personalizing services, offering more advanced content recommendations and strengthening content competiveness. It has found its place as one of the main growth engines of the media business. SK Telecom's wired and wireless media platform will thrive as a next-generation media platform by offering globally competitive content through exceptional investments and cooperation with various service providers while launching new business models based on AI and big data.

SK Telecom will focus on its digital transformation business in the IoT sector to provide customers with new value by innovating its existing businesses based on the competitiveness of its core infrastructure. It is ready to lead the digitization of the industry by providing smart home services optimized for personalized environments based on seamless connectivity among devices, connected car services and the analysis of big data accumulated with each interaction in the Internet of things (IoT). In the IoT sector, SK Telecom will accelerate growth in the B2C and B2B divisions through the development of innovative services and products by concentrating on the ICT capabilities that exist within the wider Group including SK C&C and SK Hynix.

To become a frontrunner in the global competition, SK Telecom will create top-class platforms centered around its existing services with competitive advantages such as NUGU and T map. Korea's first voice recognition AI device NUGU was launched by SK Telecom in September 2016 and proved the potential of the market for personalized AI platforms. SK Telecom's unique voice recognition AI platform technologies will lead new markets through efforts such as the continuous advancement of key technologies and diversification of services while building open ecosystems and collaborating with commerce-IoT platforms.

SK TELECOM WILL BECOME A GLOBAL NEW ICT COMPANY
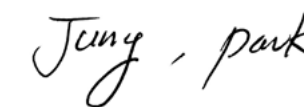
**THAT GROWS WITH SOCIETY
THROUGH INNOVATIVE, WIN-WIN LEADERSHIP.**

SK Telecom revised its Articles of Incorporation at the General Shareholders' Meeting in March 2017 to include the revised version of SKMS, SK Group's management system, and to focus on the satisfaction of all stakeholders. The new Articles of Incorporation declares that companies shall not only contribute to economic development but also grow with society by creating social value. The Group's philosophy now states that its companies shall not only consider short-term growth as the factor of success but also consider sustainable future value creation. This illustrates SK Telecom's management philosophy that a company's success is based not only on short-term growth but also on sustainable value creation with consideration of the stakeholders. To put this philosophy into practice, SK Telecom will simultaneously pursue not only financial outcomes but also the social value that it creates, all with the aim of enjoying growth together with society.

SK Telecom is committed to going beyond telecommunications and growing as a new ICT leader to bring about the changes of the future. SK Telecom will create sustainable results in the new ICT sector by innovating business models while also thriving together with society as it leads the ICT ecosystem.
I would like to thank our loyal customers, investors and stakeholders for your continued interest and support as SK Telecom ushers in a promising future marked by change.

Thank you.

July 2017

Jung Ho Park
President and CEO, SK Telecom

BOARD OF DIRECTORS

TO SECURE TRANSPARENCY IN THE DECISION-MAKING PROCESS AND ACHIEVE EFFICIENCY VIA CHECKS AND BALANCES, SK TELECOM HAS ESTABLISHED AN INDEPENDENT CORPORATE GOVERNANCE STRUCTURE. SK TELECOM'S BOARD OF DIRECTORS (BOD) CONSISTS OF ONE EXECUTIVE DIRECTOR, ONE NON-EXECUTIVE DIRECTOR AND FOUR INDEPENDENT DIRECTORS FOR A TOTAL OF SIX DIRECTORS. ALL INDEPENDENT DIRECTORS SATISFY SK TELECOM'S REQUIREMENTS FOR 'INDEPENDENCE AND EXPERTISE.'=

Jae-Hoon Lee
Chairman of the Board
Independent Director

March 2014

President of Korea Polytechnic University (2014-present)
Vice Minister of the Knowledge & Economy Ministry (2008-2009)
Vice Minister of the Industry & Resources Ministry (2007-2008)

Member of the Audit Committee
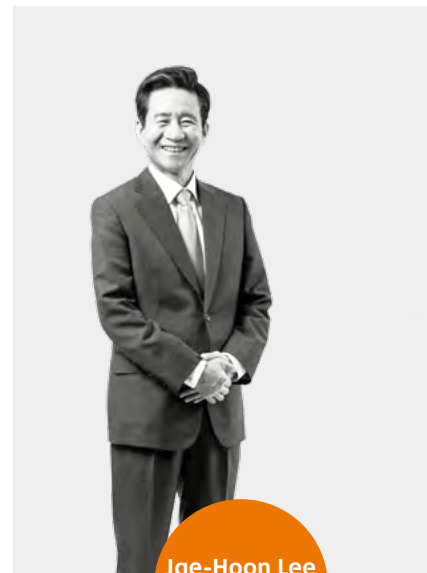Member of the Corporate Citizenship Committee
Member of the Compensation Committee
Member of the CAPEX Review Committee

Jung Ho Park
President & CEO

March 2017

President & CEO of SK Telecom (2017~present)
President & CEO of SK Holdings C&C (2015~2016)
EVP of Corporate Development Division of SK C&C (2013~2014)

Member of the Independent Director
Recommendation Committee

Dae-Shick Oh
Independent Director

March 2013

President of Jeil T&M (2016-present)
Advisor for BKL LLC (2008-2016)
Commissioner of the Seoul Regional Tax Office (2007-2008)

Member of the Audit Committee
Member of the Compensation Committee
Member of the Independent Director
Recommendation Committee
Member of the CAPEX Review Committee

Jae-Hyeon Ahn
Independent Director

March 2014

Chief Professor of KAIST AIM Program (2015-present)
Dean of the External Dept.
at KAIST College of Business (2013-2015)
Dean of KAIST Graduate School of Information
& Media Management (2011-2013)

Member of the Audit Committee
Member of the Corporate Citizenship Committee
Recommendation Committee
Member of the CAPEX Review Committee
Member of the CAPEX Review Committee

Jung Ho Ahn
Independent Director

March 2017

Associate Professor, Graduate School of Convergence Science
and Technology, Seoul National University (2013-present)
Visiting Scholar, Google Inc. (2016)
Senior Research Scientist of
Exascale Computing Lab, HP Labs (2007~2009)

Member of the Corporate Citizenship Committee
Member of the Compensation Committee
Member of the CAPEX Review Committee

Daesik Cho
Non-executive Director

March 2017

Chairman of the SK SUPEX Council (2017-present)
President & CEO of SK Holdings (2013-2016)
Head of Financial and Risk Management & Corporate Auditing Office
and Head of Business Management Office at SK Holdings (2011-2012)

Company Overview

Measuring Our Impact

Accountability

Financial & Non-Financial Statements

Other Information

OUR BUSINESS MODEL

New ICT Ecosystem Leader to Pioneer the 4th Industrial Revolution

For the past three decades, SK Telecom's networks have connected people with the world and evolved towards a new future. SK Telecom, a company that has pioneered the history of South Korea's wireless communications with unprecedented services and advanced technology, is now preparing for a new evolution based on an innovative business portfolio in new ICT areas such as the artificial intelligence (AI), media and IoT sectors.

As the leader of the new ICT ecosystem, SK Telecom is driving innovation and growth to meet the demands of the 4th Industrial Revolution era in which everything is connected and intelligent. In pursuit of this vision, while SK Telecom is expanding its ICT business portfolio and unfurling Digital Transformation Enabler businesses in other industries with its ICT capabilities, the company also seeks full-scale future growth through disruptive strategies based on ICT.

CAPITAL INPUT | **BUSINESS ACTIVITIES** | **CAPITAL OUTPUT**

FINANCIAL CAPITAL
SK Telecom is listed on the Korea Stock Exchange, New York Stock Exchange and London Stock Exchange. As SK Telecom's business relies upon the financial capital provided by shareholders and investors, it strives to maximize shareholder value through dividends and the shareholder return policy.

HUMAN CAPITAL
In recognition of the fact that human capital is a pivotal part of SK Telecom's business model and that competent individuals contribute to innovation and excellent business performance, policies are implemented to at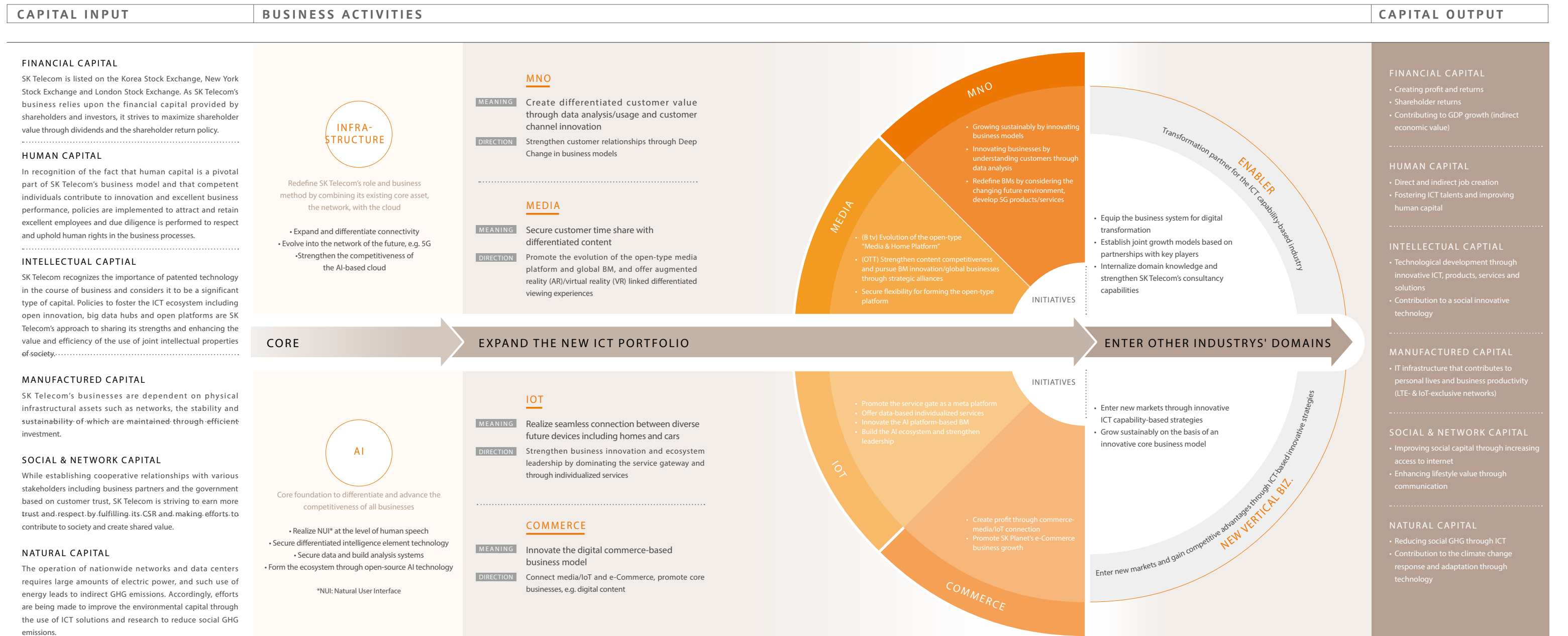tract and retain excellent employees and due diligence is performed to respect and uphold human rights in the business processes.

INTELLECTUAL CAPTIAL
SK Telecom recognizes the importance of patented technology in the course of business and considers it to be a significant type of capital. Policies to foster the ICT ecosystem including open innovation, big data hubs and open platforms are SK Telecom's approach to sharing its strengths and enhancing the value and efficiency of the use of joint intellectual properties of society.

MANUFACTURED CAPITAL
SK Telecom's businesses are dependent on physical infrastructural assets such as networks, the stability and sustainability of which are maintained through efficient investment.

SOCIAL & NETWORK CAPITAL
While establishing cooperative relationships with various stakeholders including business partners and the government based on customer trust, SK Telecom is striving to earn more trust and respect by fulfilling its CSR and making efforts to contribute to society and create shared value.

NATURAL CAPITAL
The operation of nationwide networks and data centers requires large amounts of electric power, and such use of energy leads to indirect GHG emissions. Accordingly, efforts are being made to improve the environmental capital through the use of ICT solutions and research to reduce social GHG emissions.

INFRA-STRUCTURE

Redefine SK Telecom's role and business method by combining its existing core asset, the network, with the cloud

- Expand and differentiate connectivity
- Evolve into the network of the future, e.g. 5G
- Strengthen the competitiveness of the AI-based cloud

AI

Core foundation to differentiate and advance the competitiveness of all businesses

- Realize NUI* at the level of human speech
- Secure differentiated intelligence element technology
- Secure data and build analysis systems
- Form the ecosystem through open-source AI technology

*NUI: Natural User Interface

CORE → **EXPAND THE NEW ICT PORTFOLIO** → **ENTER OTHER INDUSTRYS' DOMAINS**

MNO
MEANING — Create differentiated customer value through data analysis/usage and customer channel innovation
DIRECTION — Strengthen customer relationships through Deep Change in business models

MEDIA
MEANING — Secure customer time share with differentiated content
DIRECTION — Promote the evolution of the open-type media platform and global BM, and offer augmented reality (AR)/virtual reality (VR) linked differentiated viewing experiences

IOT
MEANING — Realize seamless connection between diverse future devices including homes and cars
DIRECTION — Strengthen business innovation and ecosystem leadership by dominating the service gateway and through individualized services

COMMERCE
MEANING — Innovate the digital commerce-based business model
DIRECTION — Connect media/IoT and e-Commerce, promote core businesses, e.g. digital content

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MNO
- Growing sustainably by innovating business models
- Innovating businesses by understanding customers through data analysis
- Redefine BMs by considering the changing future environment, develop 5G products/services

MEDIA
- (B tv) Evolution of the open-type "Media & Home Platform"
- (OTT) Strengthen content competitiveness and pursue BM innovation/global businesses through strategic alliances
- Secure flexibility for forming the open-type platform

IOT / COMMERCE
- Promote the service gate as a meta platform
- Offer data-based individualized services
- Innovate the AI platform-based BM
- Build the AI ecosystem and strengthen leadership
- Create profit through commerce-media/IoT connection
- Promote SK Planet's e-Commerce business growth

INITIATIVES

Transformation partner for the ICT capability-based industry — **ENABLER**
- Equip the business system for digital transformation
- Establish joint growth models based on partnerships with key players
- Internalize domain knowledge and strengthen SK Telecom's consultancy capabilities

NEW VERTICAL BIZ. — Enter new markets and gain competitive advantages through ICT-based innovative strategies
- Enter new markets through innovative ICT capability-based strategies
- Grow sustainably on the basis of an innovative core business model

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FINANCIAL CAPITAL
- Creating profit and returns
- Shareholder returns
- Contributing to GDP growth (indirect economic value)

HUMAN CAPITAL
- Direct and indirect job creation
- Fostering ICT talents and improving human capital

INTELLECTUAL CAPTIAL
- Technological development through innovative ICT, products, services and solutions
- Contribution to a social innovative technology

MANUFACTURED CAPITAL
- IT infrastructure that contributes to personal lives and business productivity (LTE- & IoT-exclusive networks)

SOCIAL & NETWORK CAPITAL
- Improving social capital through increasing access to internet
- Enhancing lifestyle value through communication

NATURAL CAPITAL
- Reducing social GHG through ICT
- Contribution to the climate change response and adaptation through technology

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BECOMING
A NEW ICT COMPANY TO LEAD
THE 4TH INDUSTRIAL REVOLUTION

FROM THE INNOVATION AND GROWTH IN ITS TELECOMMUNICATIONS BUSI-
NESS, SK TELECOM WILL DEVELOP A BUSINESS PORTFOLIO BEFITTING A NEW
ICT COMPANY THAT IS LEADING THE 4TH INDUSTRIAL REVOLUTION AND DRIVE
FUTURE VALUE CREATION.

2016 PERFORMANCE

Becoming a New ICT Company that Surpasses Mobile Telecommunications

In 2016, SK Telecom did not simply maintain its leadership in the MNO sphere but successfully drove changes to become a leading company in the new ICT ecosystem. Firstly, SK Telecom's commitment to act according to the company's principle of rejecting wasteful market share competition in the mobile telecommunications marketplace and embracing a competitive paradigm focused on products and services whose value customers can experience has remained unchanged.

Underpinned by the company's meticulous big data analysis, SK Telecom further cemented the competitiveness of its products and services in 2016. By creating a new market centered around handsets and forming an efficient market operating system, the company sought to prepare a springboard for stable profit margins and growth.

The Band Data Rate Plan, which offers the best level of data capacity and benefits in the industry, reached a record of about 12.55 million subscribers. Due to the constantly increasing demand for data and growth in premium rate plan subscribers, more than 40% of all handset upgrade subscribers chose to take part in either the Band Data Perfect or the 59 Rate Plan. In this way, SK Telecom has continued to innovate the primary business structure of the MNO sector and firmly asserted its status as a market leader.

Furthermore, as SK Telecom discovers new business models that exceed existing competitive paradigms and suit the age of the 4th industrial revolution, in which everything is becoming more converged and intelligent, it seeks to become South Korea's representative new ICT company. On the one hand, as SK Telecom further cements its leadership as the No. 1 company in the MNO sector, it is also coming from a place of strength in its artificial intelligence (AI) platform to extend its business portfolio upon the two major axes of media and IoT and has successfully prepared a base for the new ICT ecosystem.

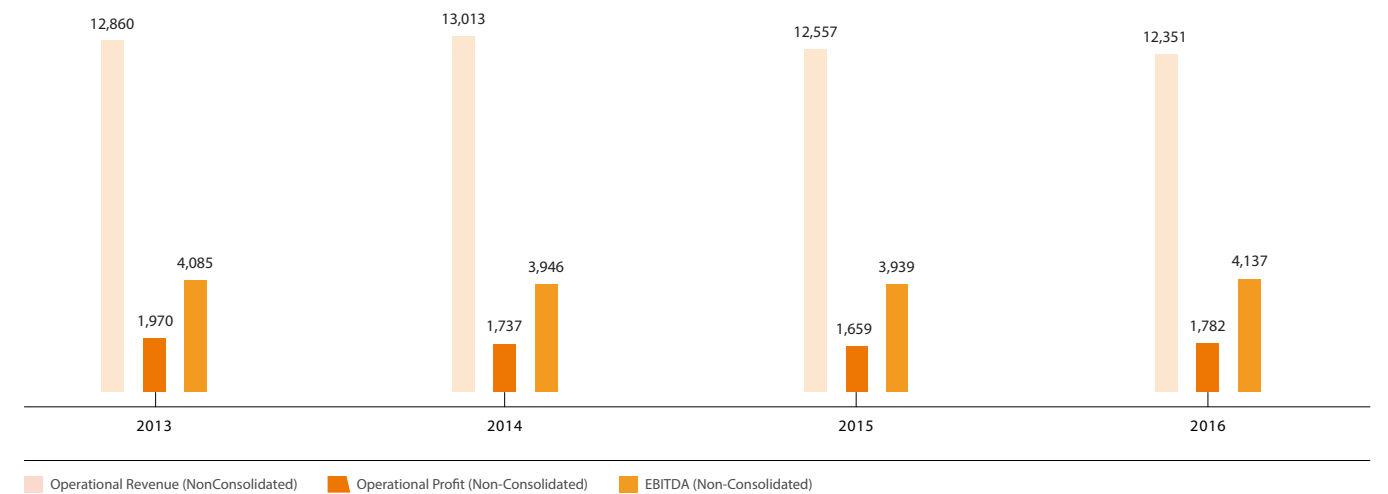**Maintaining Solid Business Fundamentals and Overcoming Growth Limits**

In 2016, SK Telecom achieved KRW 17.918 trillion in annual revenue and KRW 1.5357 trillion in operating profit according to the consolidated financial statements of the Korean International Financial Reporting Standards (K-IFFS). Despite growth limits in the domestic telecommunications market, SK Telecom maintained revenue volume at last year's level, but operating profit decreased 10.1% compared to last year because of increased payment and sales commissions and depreciation costs. An annual net profit of KRW 1.6601 trillion was recorded, a 9.5% increase since 2015 due to the impact of gains on disposal from LOEN and POSCO.

In terms of the overall financial performance in 2016, although profits decreased somewhat due to the impact of a temporary rise in expenses to respond to competition and losses experienced by subsidiaries, the company's business fundamentals remain solid, as demonstrated by the fact that revenues from mobile telecommunications grew year-over-year and revenues from media have continuously taken a favorable turn. Moving forward, SK Telecom will continue to conduct its management so that the quality of the consolidated performance including subsidiaries will improve.

PERFORMANCE BASED ON CONSOLIDATED FINANCIAL STATEMENTS   (KRW billion)

	2013	2014	2015	2016
Operational Revenue (Consolidated)	16,602	17,164	17,137	17,092
Operational Profit (Consolidated)	2,011	1,825	1,708	1,536
EBITDA (Consolidated)	4,813	4,717	4,701	4,603

■ Operational Revenue (Consolidated)   ■ Operational Profit (Consolidated)   ■ EBITDA (Consolidated)
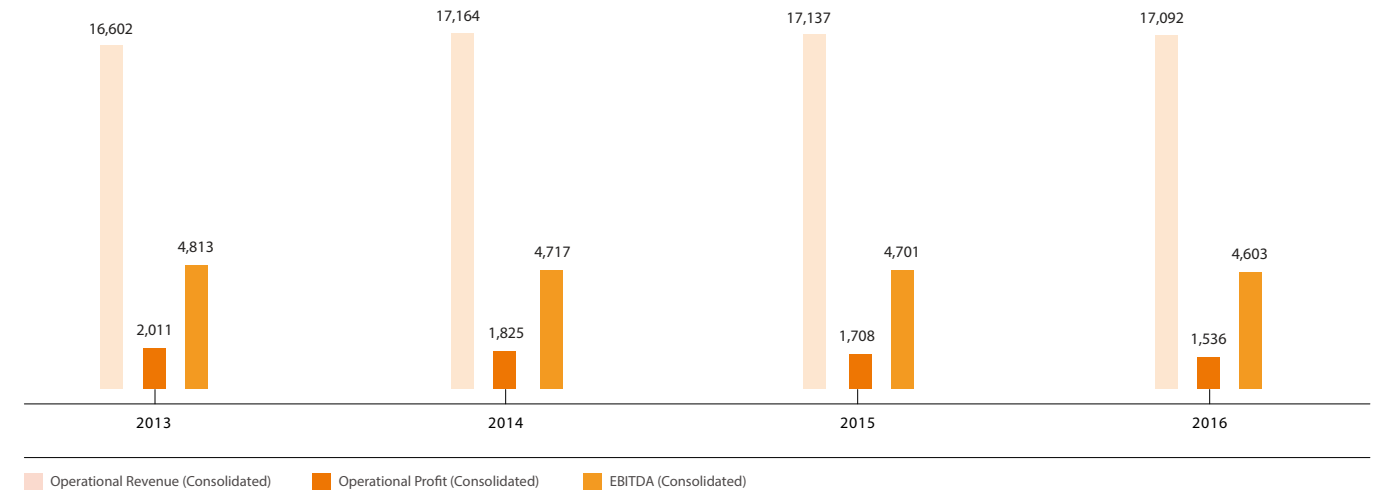
PERFORMANCE BASED ON NON-CONSOLIDATED FINANCIAL STATEMENTS   (KRW billion)

	2013	2014	2015	2016
Operational Revenue (NonConsolidated)	12,860	13,013	12,557	12,351
Operational Profit (Non-Consolidated)	1,970	1,737	1,659	1,782
EBITDA (Non-Consolidated)	4,085	3,946	3,939	4,137

■ Operational Revenue (NonConsolidated)   ■ Operational Profit (Non-Consolidated)   ■ EBITDA (Non-Consolidated)

Company Overview

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Other Information

STRATEGIES FOR 2017

> Set a goal of achieving KRW 17.8 trillion in revenue by accelerating new business growth

> Strengthen core ICT and capabilities, e.g. 5G, big data and AI

> Achieve revenue turnaround in MNO by deepening understanding of customers through data analysis-based marketing, etc.

> Strengthen the media platform and lead the home/automobile centered IoT ecosystem

> Pursue Digital Transformation Enabler businesses and expand the business models

2017 FUTURE PLANS AND OUTLOOK

In 2017, SK Telecom will lead the ecosystem of the new ICT age and discover new businesses based on the new ecosystem. SK Telecom plans to achieve KRW 17.8 trillion in operating profit, which is 4.1% more than the previous year.

Telecommunications Business - Strengthen the Competitiveness of Data Analysis-Based Services and Communications

SK Telecom seeks to outwardly expand the new ICT business to overcome the growth limits of the telecommunications industry. Within the telecommunications business, the company looks to lead the firm growth of its core businesses by strengthening its product · service competitiveness based on advanced data analysis of the market and by enhancing customer communication.

In the context of the customer retention-based, stabilized market competition, SK Telecom plans to expand its base of new net subscribers centered around handsets, which forms the foundation for revenue growth. By leading the handset attraction competitive system, which is quality-oriented and cost efficient, the company also plans to reinforce its stable profit and growth base. In addition, from the wired and wireless integration perspective, SK Telecom will pursue added value suitable for the customer structure and implement the MNO revenue turnaround.

Media - Growth as a Total Media Platform Provider

In the media platform sphere, SK Telecom has successfully attracted a total of 10.52 million fixed and wireless broadcast subscribers including 3.97 million B tv subscribers as of the end of 2016. Along with the successful launch of the integrated mobile channel, SK Telecom was reborn as a total media platform business by continuing the basis for growth through the outward expansion of media and development of new business models. With a focus on SK Broadband, SK Telecom plans to grow the subscriber base for premium rate plans such as giga internet and UHD broadcasts, as well as increase the competitiveness of the media business including IPTV through enhanced content competitiveness and linkage with the mobile channel oksusu. Meanwhile, SK Telecom has strengthened its data analysis system and based on the analysis of the elaborate content use patterns, the company will provide customized content optimized for user personalization.

IoT - Focused pursuit of Digital Transformer Businesses through Existing Business Innovation

In the IoT platform sphere, SK Telecom has been leading the expansion of the open-type ecosystem based on the completion of its hybrid IoT-exclusive network including the commercialization of the LoRa national network in 2016. During this time, the company also focused on entering markets within key areas such as production and public services. On the one hand, while SK Telecom identified promising public service-oriented products in 2017, the company also plans to help build the eco-system by developing new solutions through partnerships. Additionally, SK Telecom will innovate the home and automobile sectors with its core infrastructure including IoT, data and AI, and the company will also provide new customer value by enabling digital transformation across the entire industry.

AI - Advance AI technology such as voice recognition and lead the ecosystem

The voice recognition device NUGU that SK Telecom launched last September has enjoyed a growth in users due to its excellent ability to recognize the Korean language. The company will actualize an exquisite level of natural language recognition and continue to advance its AI technology including analysis and inference. In the future, NUGU, which utilizes AI technology, will evolve into an AI assistant capable of providing optimized individualized service through device diversification, advancement of audio recognition technology, improvement of search-recommendation algorithms and strengthening the knowledge database. As the representative technology that will lead the 4th Industrial Revolution, AI will not only disrupt all industries but is also expected to play a
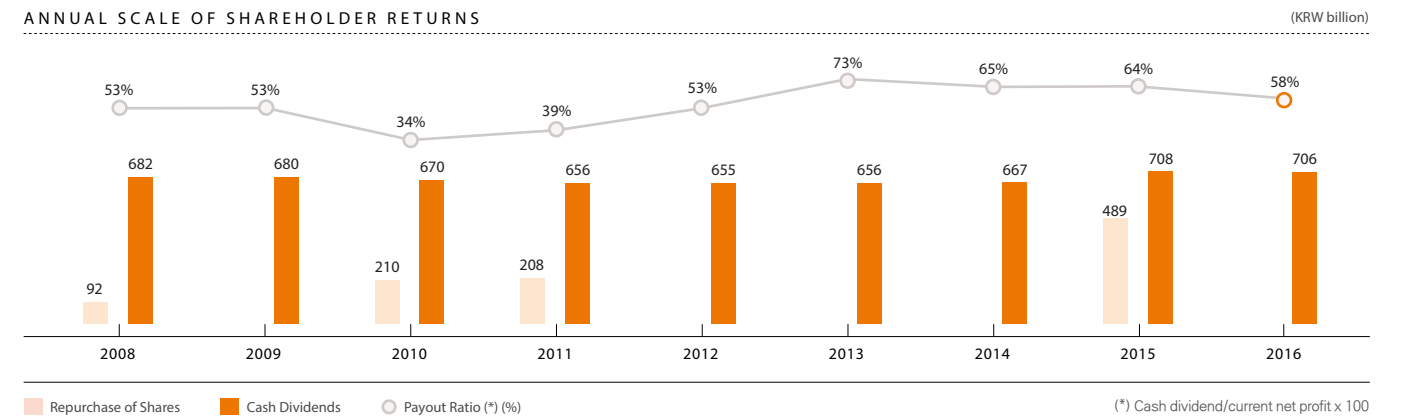
role as an essential infrastructure that strengthens innovation in the MNO, media, IoT and commerce businesses. With a focus on NUGU, which features AI technology, SK Telecom will expand the domestic market and simultaneously seek to make the company's AI reach a world-class level while leading the open-type industry ecosystem that will pioneer the AI-related industry and market through technological alliances and cooperation.

Growth as a Global New ICT Leader by Expanding the ICT Capability-based Business Model

SK Telecom is building the ecosystem and engaging in standardization activities together with major ICT companies to achieve the world's first commercialization of a 5G service by 2019 and plans to construct the world's first experimental network by the end of 2017. SK Telecom is leading efforts to develop and standardize 5G-related technology such as by proposing the network slice interconnection technology, a key 5G technology, and the world's first 5G overseas roaming and handover demonstration. Ultimately, SK Telecom will identify new business models suitable for 5G technology's characteristics based on the company's telecommunications and ICT capabilities. The company will also lead the 4th Industrial Revolution by creating new ICT business models utilizing AI and virtualization technology with the data that is increasing due to greater connectivity. As existing businesses in other industries go through digital transformation, SK Telecom will pursue enabler businesses that fulfill a critical capacity in this process due to its ICT capabilities such as the ability to implement a 5G technology-based hyper-connected era, AI and big data. Thus, SK Telecom will grow as a global new ICT leader that creates future market opportunities and new value.

Shareholder Return Policy

SK Telecom made corporate value innovation a top priority and put forth great efforts to improve value for stakeholders including shareholders and investors. From 2015, SK Telecom has raised the total dividends to KRW 10,000 per share as of DPS (Dividend per share) including an interim dividend of KRW 1,000. The company will make efforts to increase corporate value by maintaining a balance between growth investments and shareholder returns.

ANNUAL SCALE OF SHAREHOLDER RETURNS   (KRW billion)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Payout Ratio	53%	53%	34%	39%	53%	73%	65%	64%	58%
Cash Dividends	682	680	670	656	655	656	667	708	706
Repurchase of Shares	92		210	208				489	

■ Repurchase of Shares   ■ Cash Dividends   ○ Payout Ratio (*) (%)   (*) Cash dividend/current net profit x 100

CASE

National Customer Satisfaction Index (NCSI)

No. 1

in Customer Satisfaction for 20 Years

In 2017, SK Telecom was the first company ever to take the No. 1 spot in the mobile telecommunications sector of the National Customer Satisfaction Index (NCSI) for 20 consecutive years. Ever since the NCSI was first conducted by the Korea Productivity Center in 1998, SK Telecom has been awarded the No. 1 ranking without fail. Not only that but in October 2016 the company has been ranked first in the mobile telecommunications sector of the Korea Customer Satisfaction Index (KCSI) conducted by the Korea Management Association for 19 consecutive years. SK Telecom has also been honored with the No. 1 ranking in the Korean Standards Association's Korean Standard Service Quality Index (KS-SQI) in July 2016 for the 17th straight year.
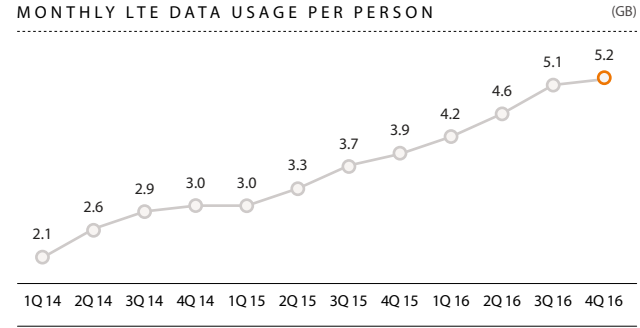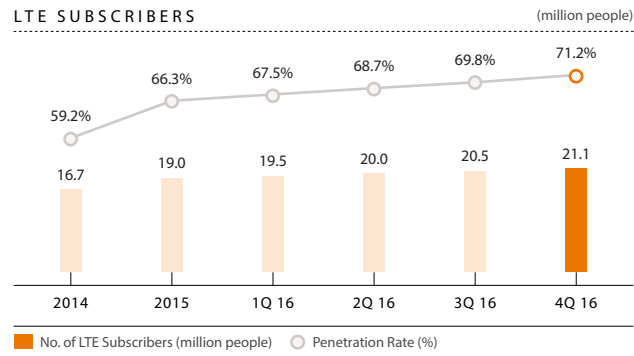
SK Telecom holds the Customer Experience Management (CEM), which seeks the highest customer value and customer empathy, as the standard for the company's decision-making and conduct. During the monthly customer-oriented management meeting, the CEO and executives gather to hear and discuss customer opinions in order to determine the company's direction. Furthermore, to implement customer value on a companywide level, SK Telecom operates a customer-oriented management organization.
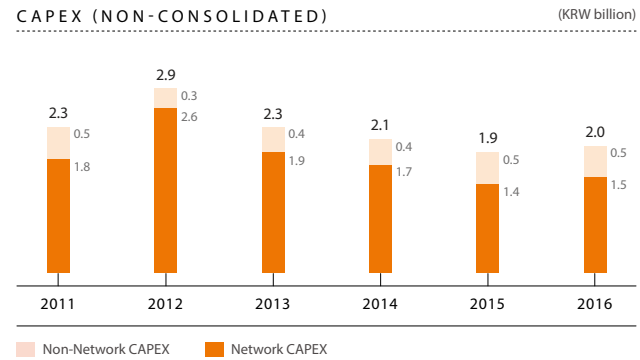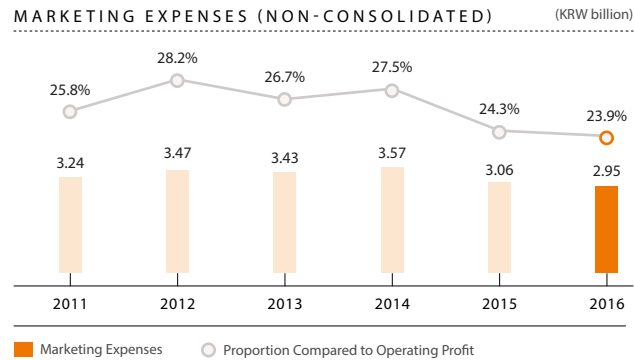
SK Telecom's ability to rank No. 1 in the NCSI for two decades despite the highly competitive environment is a result of each employee working according to customer-oriented management with the aim of providing the best value to customers. SK Telecom will further establish the customer-oriented management system, which prioritizes customer value in every circumstance, and become a company that grows sustainably with its customers.

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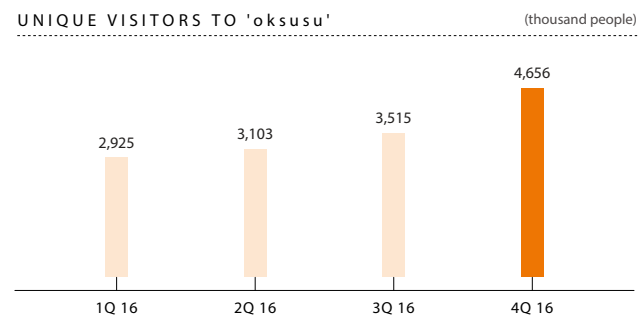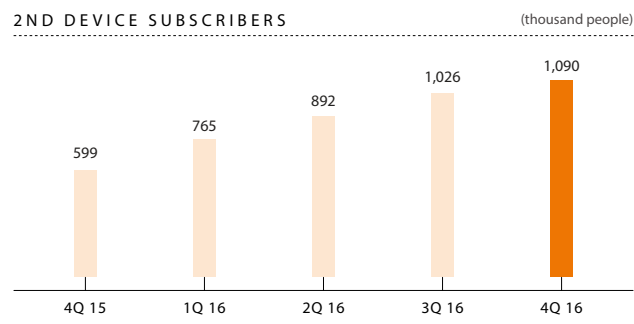
Other Information

OPERATIONAL REVIEW

LTE Subscribers and Data Usage per Person   The number of LTE subscribers and volume of data usage per person is steadily increasing. As much as customers' needs related to data and actual usage amount are growing, SK Telecom will both enhance the value that customers experience and leverage this into revenue growth through innovative services based on data analysis and a diverse product lineup.

LTE SUBSCRIBERS   (million people)

	2014	2015	1Q 16	2Q 16	3Q 16	4Q 16
Penetration Rate (%)	59.2%	66.3%	67.5%	68.7%	69.8%	71.2%
No. of LTE Subscribers	16.7	19.0	19.5	20.0	20.5	21.1

■ No. of LTE Subscribers (million people)   ○ Penetration Rate (%)

MONTHLY LTE DATA USAGE PER PERSON   (GB)

1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16	3Q 16	4Q 16
2.1	2.6	2.9	3.0	3.0	3.3	3.7	3.9	4.2	4.6	5.1	5.2

Marketing Expenses and CAPEX   Marketing expenses, at 24%, are on a downward trend compared to revenue owing to the easing of the overheated competition after market stabilization. Additionally, CAPEX is also showing a downward trend at about KRW 2 billion.

MARKETING EXPENSES (NON-CONSOLIDATED)   (KRW billion)

	2011	2012	2013	2014	2015	2016
Proportion Compared to Operating Profit	25.8%	28.2%	26.7%	27.5%	24.3%	23.9%
Marketing Expenses	3.24	3.47	3.43	3.57	3.06	2.95

■ Marketing Expenses   ○ Proportion Compared to Operating Profit

CAPEX (NON-CONSOLIDATED)   (KRW billion)

	2011	2012	2013	2014	2015	2016
Total	2.3	2.9	2.3	2.1	1.9	2.0
Non-Network CAPEX	0.5	0.3	0.4	0.4	0.5	0.5
Network CAPEX	1.8	2.6	1.9	1.7	1.4	1.5

■ Non-Network CAPEX   ■ Network CAPEX

ICT Convergence Service Users   As of the end of 2016, the number of 2nd device subscribers reached 1 million and continues to indicate a rising trend. Due to active marketing efforts and stronger content creation, as of the fourth quarter of 2016, the number of unique visitors to the mobile IPTV service oksusu stood at a record 4.6 million, a substantial 30.7% rise since the previous quarter.

2ND DEVICE SUBSCRIBERS   (thousand people)

4Q 15	1Q 16	2Q 16	3Q 16	4Q 16
599	765	892	1,026	1,090

UNIQUE VISITORS TO 'oksusu'   (thousand people)

1Q 16	2Q 16	3Q 16	4Q 16
2,925	3,103	3,515	4,656

* The oksusu service was launched on January 28, 2016

CREATING TOTAL VALUE THROUGH HARDWARE - NETWORK - CONTENT

Following SK Hynix's experimental production of the nation's first 16Kb SRAM in 1984, the company has solidified its technological leadership by presenting innovative semiconductor products in the marketplace that exemplify the world's first – smallest – fastest – lowest voltage products. SK Hynix is making a new effort to become a global 'memory-based semiconductor solution company' that develops semiconductor items with telecommunications synergy made possible through convergence with SK Telecom.

As SK Hynix responded flexibly to changes in the memory market owing to global issues during 2016, the company concentrated on profitability-focused management and thus demonstrated a strong performance in the latter half of the year. However, due to deteriorating market conditions stemming from sudden price fluctuations, the company's revenue and operating profit stood reduced compared to the previous year at about KRW 17.198 trillion and KRW 3.2767 trillion respectively.

Recently the semiconductor industry is gradually shifting from easily mass-produced simple products to more diversified application fields. Furthermore, due to convergence, the competitive paradigm is rapidly evolving from one oriented around cost competitiveness by improving productivity through CAPEX expenditures to a profitability-oriented one achieved by improving product value. SK Hynix is not content to remain within the friendly memory market environment, but through the development of advanced technology and applied technology as well as the development of composite application products that combine memory controllers and firmware, the company will accelerate the Deep Change of the future, and SK Hynix will strive to continually achieve stability and growth despite the market changes that may occur.

SK HYNIX PERFORMANCE   (KRW billion)

	2013	2014	2015	2016
Revenue	14,165	17,126	18,798	17,198
Operating Profit	3,380	5,109	5,336	3,277

☐ Operating Profit   ■ Revenue   *K-IFRS Consolidated Basis

MARKET SHARE   (%)

	2013	2014	2015	2016
DRAM	26.6	27.1	27.3	26.0
NAND Flash	10.7	10.8	12.6	11.8
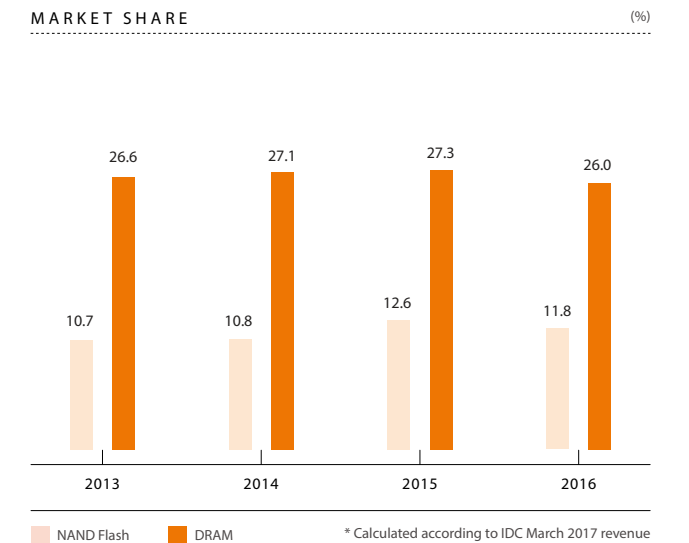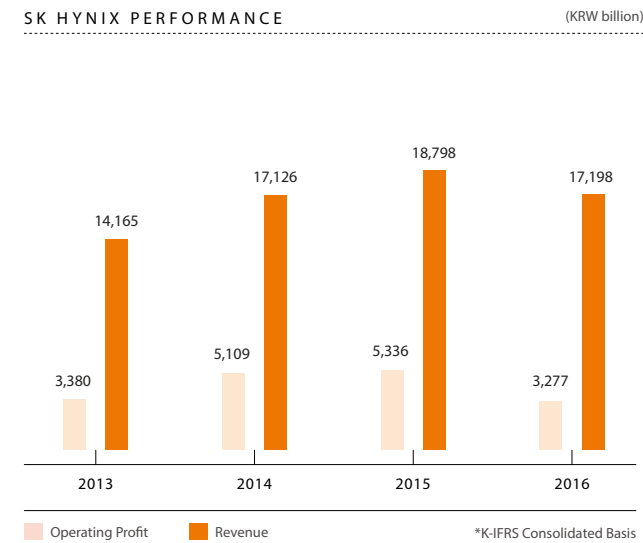
☐ NAND Flash   ■ DRAM   * Calculated according to IDC March 2017 revenue
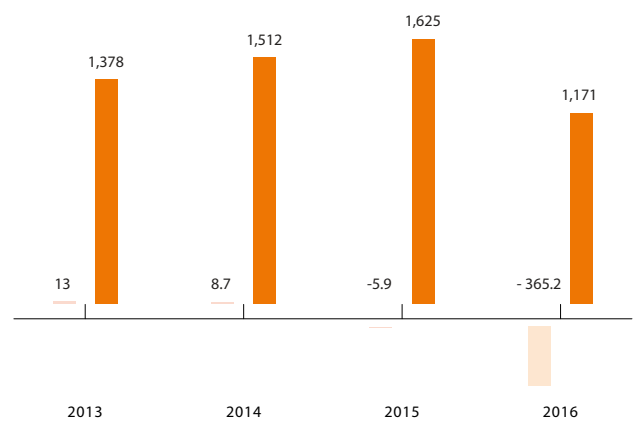
SK Planet is an integrated & personalized commerce company that connects the online and offline worlds and reinvents the possibilities of mobile. By offering diverse online to offline (O2O) services that blur the line between marketplace services that deliver a mobile commerce experience optimized to the digital age and on/offline shopping, SK Planet is leading the way in the true next commerce era.

In 2016, although the company's operating loss increased due to the impact of its active market operation activities, total revenue reached KRW 1.1709 trillion in 2016 and when excluding the effect of the LBS business organization split, the amount of revenue increased about 8% compared to the previous year. In particular, 11st's revenue increased by 38%, contributing to the total revenue growth.

SK Planet mutually connected the market platforms including 11st and OCB with differentiated data and technology from to create a more integrated and individualized commerce play. Thus, the company strengthened its leadership in the online/mobile arena, which continues to experience high-level growth, and became ranked No. 1 in UV(Unique Visitor) in the e-Commerce market in 2016. SK Planet is setting its sights on becoming the leading business in the general distribution category domestically by 2025.

Starting with the commercialization of the world's first ADSL service and Korea's first high-speed wireless internet service, SK Broadband continuously expanded its business areas to include multimedia such as IPTV and mobile OTT and is leading a new paradigm in the domestic information communication business.

In 2016, SK Broadband's revenue experienced 7.7% year-over-year growth to reach KRW 2.943 trillion due to increased revenue from services such as high-speed internet and IPTV. By improving efficiency in expenses, the company succeeded in achieving reliable profit growth. SK Broadband attracted a total of 5.21 million high-speed internet subscribers, 4.28 million fixed-line phone subscribers and 3.97 million IPTV subscribers.

SK Broadband is concentrating on improving quality and service by offering differentiated services and enhancing subscribers' convenience through expanded distribution. The company continues to make progress in shifting the subsidy-focused competition for customers to a service-focused competition in quality. Moreover, SK Broadband will find more customized content with an eye on fixed and wireless IPTV growth including B tv and oksusu. The company will also continue to improve its competitiveness as a next-generation media platform company by strengthening alliances and collaboration with content producers/distribution partners.
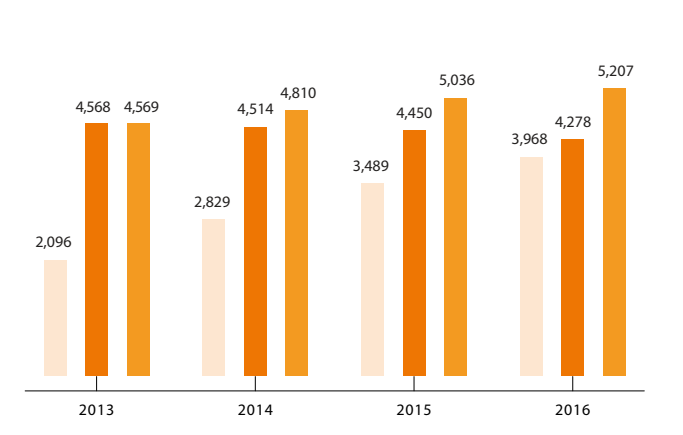
SK PLANET PERFORMANCE (KRW billion)

	2013	2014	2015	2016
Operating Profit	13	8.7	-5.9	- 365.2
Revenue	1,378	1,512	1,625	1,171

Operating Profit Revenue

* K-IFRS consolidated basis, Increments from the merger with SK M&C in Feb. 2013 have been added.

MONTHLY UV STATUS OF MAJOR E-COMMERCE MOBILE APPS (million people)

11st	Coupang	Ticket Monster	Wemakeprice	Auction	Gmarket
8.6	7.1	6.4	5.4	5.2	5.1

* As of Dec. 2016; Source: Nielsen Koreanclick
** UV: Unique Visitor

SK BROADBAND PERFORMANCE (KRW billion)

	2013	2014	2015	2016
Operating Profit	73	58	64	82
Revenue	2,539	2,654	2,731	2,943
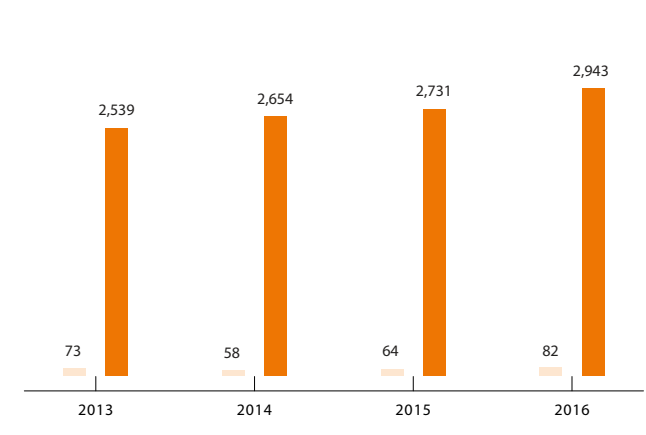
Operating Profit Revenue

NUMBER OF SUBSCRIBERS (thousand people, cumulative)

	2013	2014	2015	2016
IPTV (B tv)	2,096	2,829	3,489	3,968
Fixed-line Phones (B Phone)	4,568	4,514	4,450	4,278
High-speed Internet (B Internet)	4,569	4,810	5,036	5,207

IPTV (B tv) Fixed-line Phones (B Phone) High-speed Internet (B Internet)

MATERIAL ISSUE MANAGEMENT FOR MID- TO LONG-TERM VALUE CREATION

SK TELECOM REVIEWS MANY ECONOMIC, ENVIRONMENTAL AND SO-CIAL CHANGES THAT MAY IMPACT THE COMPANY'S SUSTAINABILITY AND FUTURE VALUE CREATION. THUS, SK TELECOM IDENTIFIES ITS MATERIAL ISSUES AND DISCLOSES ITS RESPONSES AND PERFORMANCE REGARDING EACH ISSUE ANNUALLY.
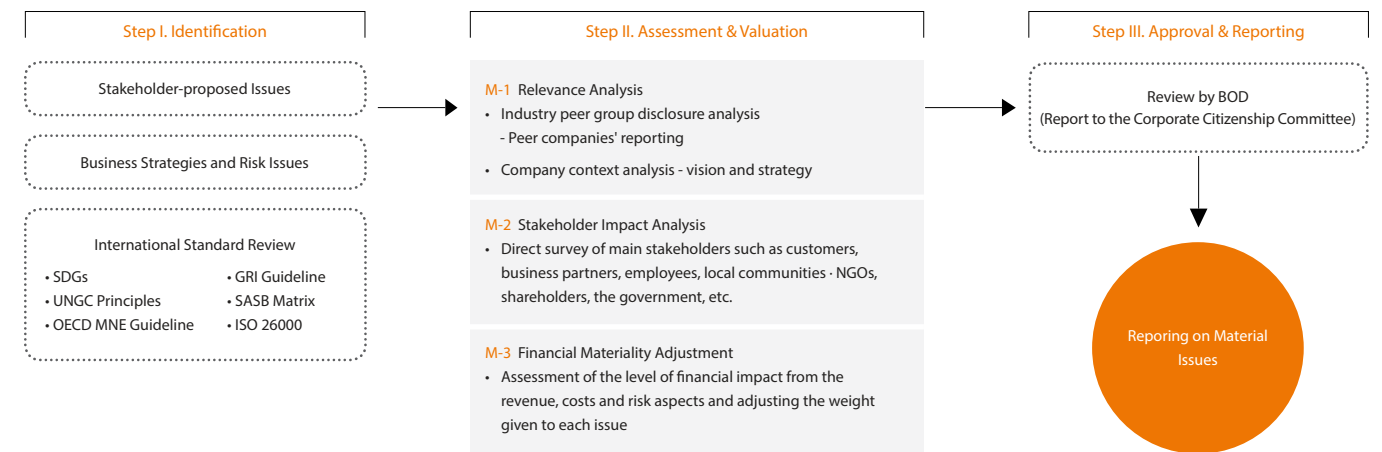
By material issues, SK Telecom refers to those issues that are relevant to the company's business and sustainability as well as the actual level of impact that they have on the company's stakeholders and ability to create sustainable value. To select and prioritize the company's material issues, SK Telecom operates a materiality assessment and response process based on stakeholder participation in addition to complying with the guidance on determining reporting topics and content composition as recommended by the Global Reporting Initiative (GRI) G4 Guidelines and the <IR> Framework put forth by the International Integrated Reporting Council (IIRC).

Economic, environmental and social issues include global political, economic and social issues including the UN's Sustainable Development Goals (SDGs), global regulations, mid- and long-term social change trends, issues raised by international organizations and NGOs, and known externalities within the business process. These issues are managed as an issue pool according to SK Telecom's stakeholder engagement process.

Based on the IIRC's recommendations, SK Telecom has selected the following five aspects in its materiality assessment process. 1) Issues that may have a continual impact on SK Telecom's value creation, 2) Issues related to the company's strategy, governance and performance, 3) Issues that have a significant impact on key stakeholders, 4) Issues based on boardroom discussions, and 5) Issues that may lead to the loss of potential opportunities and risk if not sufficiently managed.

SK Telecom has conducted a three-step Materiality Assessment to determine priorities for important issues. The first (M-1) assesses the relevance through a document-based materiality assessment process at the industry-level (peer-to-peer analysis) and at the enterprise-level (SK Telecom's strategies). The second (M-2) is a more direct process of listening to stakeholder feedback, reflecting the opinions of stakeholders raised by each issue. SK Telecom conducts a survey of stakeholders in this process to evaluate the impact that each issue has on stakeholders. Based on the evaluation results, we have prioritized the impact level by issue. The final (M-3) is a qualitative assessment of the financial impact, assessing the impact of the issue in terms of cost, revenue, and risk and reflecting it in the final issue prioritization. Through this process, SK Telecom decided on a total of 11 material issues to report on including two core, four moderate and five relevant issues in 2016.

MATERIALITY ASSESSMENT PROCESS

Step I. Identification

Stakeholder-proposed Issues

Business Strategies and Risk Issues

International Standard Review
- SDGs
- UNGC Principles
- OECD MNE Guideline
- GRI Guideline
- SASB Matrix
- ISO 26000

Step II. Assessment & Valuation

M-1 Relevance Analysis
- Industry peer group disclosure analysis - Peer companies' reporting
- Company context analysis - vision and strategy

M-2 Stakeholder Impact Analysis
- Direct survey of main stakeholders such as customers, business partners, employees, local communities - NGOs, shareholders, the government, etc.

M-3 Financial Materiality Adjustment
- Assessment of the level of financial impact from the revenue, costs and risk aspects and adjusting the weight given to each issue

Step III. Approval & Reporting

Review by BOD
(Report to the Corporate Citizenship Committee)

Reporing on Material Issues

* SK Telecom's issue pool included 33 issues organized into seven categories. Among these, six topics that must be reported as a matter of course, such as financial performance, governance structure and risk management, were excluded from the materiality assessment.

Step I Identification

Configuring the Issue pool

The pool was deduced from economic, environmental and social issues by considering the issues raised by global political, economic and social issues, regulations, mid- and long-term social change trends, international organizations and non-profit organizations (NGOs) as well as by considering the externalities within the business process.

Business Strategy and Risk Issues

Stakeholder-proposed Issues

International Standards Review

SK Telecom's economic characteristics, environment and social issues were determined by taking into account industry characteristics, value chain, and business strategy. Mega trends such as the 4th Industrial Revolution, and lifestyle changes due to ICT.
- Relevant Issues: New ICT(Media, IoT, AI), Network Quality & 5G, ICT regulations change, etc.

The material issues raised by stakeholders through the main stakeholder channels have been included in the issue pool. Please refer to the stakeholder engagement governance information on p. 65 for more details related to SK Telecom's stakeholder engagement and communication channels
- Relevant Issues: Personal information and privacy protection, mutual growth, etc.

SK Telecom has referred to the global issues raised by diverse and widely supported international initiatives such as the UN Global Compact (UNGC) Advanced Level program, the global social responsibility standard ISO26000 and the UN SDGs (Sustainable Development Goals).
- IIRC <IR> Framework
- SASB (Sustainability Accounting Standard Board)
- GRI G4 Guidelines
- UNGC COP (Communication On Progress) Advanced Level
- DJSI (Dow Jones Sustainability Indices)
- ISO26000

Step II **Assessment & Valuation**

M-1. Relevance Assessment

To identify each issue's relevance from the business and sustainability aspects, SK Telecom conducted a relevance assessment based on document review and according to the the results, the level of relevance for each issue was prioritized.

Company Context Analysis

As the leader of the MNO sector, SK Telecom has set a new strategy in 2017 to make an effort to become a pioneer of the new ICT ecosystem.

• Content Reviewed: New ICT strategy, reports to the BOD's Corporate Citizenship Committee, report topics from previous Annual Reports, media analysis results and analysis of investor meetings.

Industry Context Analysis

Each issue was evaluated to determine if it was an issue that other global telecommunications companies also faced. The topics that were prioritized highly in reporting by global players in fixed and wireless telecommunications were identified.

• Target Companies: 13 global cable and wireless telecommunications companies.
• Content Reviewed: Key issues covered in the companies' Annual Reports and Sustainability Reports.

M-2. Impact Assessment

SK Telecom conducted a stakeholder survey to understand the impact that stakeholders experience according to each issue. The company prioritized each issue's impact using the survey results.

Stakeholder Survey

A total of 430 individuals and institutions, including SK Telecom's six main stakeholder

groups and the media, participated in the online survey. The online survey consisted of questions to select key issues and understand their materiality, an assessment of the overall confidence in SK Telecom as well as an assessment of the current level of each issue.

• Target Period: April 10, 2017 ~ April 21, 2017
• Survey Method: Online survey
• Responses: 430 people including from the government, shareholders and investors, customers, business partners, the media and experts.

M-3. Financial Materiality Adjustment

Finally, SK Telecom assessed how each issue may impact the company's short-, mid- and long-term financial value creation from the three aspects of 1) revenue, 2) cost and 3) risk, weighting and reflecting them accordingly. From the profitability aspect, SK Telecom assessed the issues to determine if any of them could be a factor for direct profit creation opportunities such as the creation of new markets or a factor for potential competitive advantages. From the cost aspect, SK Telecom evaluated each issue's impact on the company's comprehensive capital costs to understand if it could be linked to not only direct costs but also to potential costs such as current and future fines and expenses related to complying with regulations. From the risk aspect, the company reviewed whether an issue presented a potential risk factor from the short-, mid- and long-term perspectives not only now but in the future as well.

Step III **Approval & Reporting**

The material issues (core, moderate and relevant issues) that SK Telecom selected are as follows. According to the results of the materiality assessment, SK Telecom determined a total of 11 material issues such as new ICT strategy, network quality and 5G; and is disclosing the key results and goals as well as business cases regarding the selected issues in greater detail across the entire report. To learn more about the business-social context for each material issue, please refer to the following page.

MATERIALITY ASSESSMENT
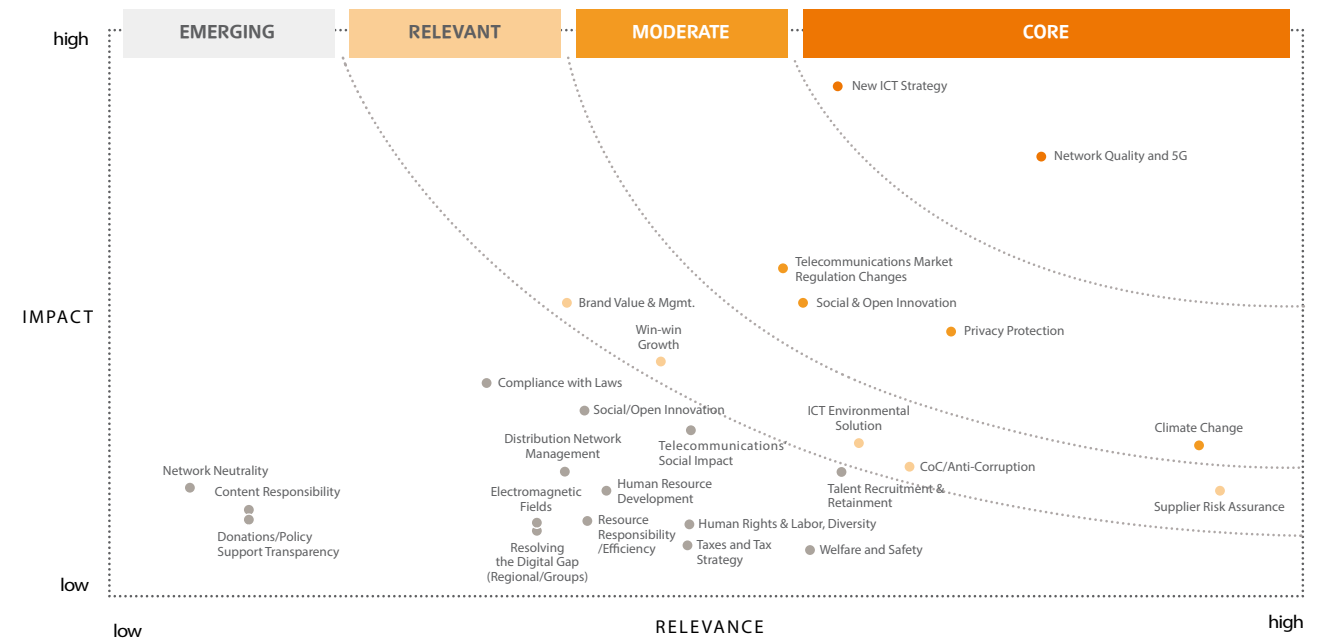
MATERIAL ISSUES

| Level | Material Issues | GRI G4 Aspect | Financial Materiality | | | Page |
			Cost	Revenue	Risk	
Core	Network Quality and 5G	Non-GRI		●		pp.46-49,105
	New ICT Strategy	Non-GRI		●		pp.46-49
Moderate	Privacy Protection	Customer Privacy			●	pp.106-107
	Telecommunications Market Regulation Changes	Non-GRI			●	pp.68-69
	Social & Open Innovation	Non-GRI		●		pp.50-53
	Climate Change	Energy / Emissions	●			pp.50-57, 70-71
Relevant	Supplier Risk Assurance	Supplier Assessments			●	pp.78-82
	Brand Value & Mgmt.	Marketing Communications		●		pp.31,106
	Win-win Growth	Non-GRI			●	pp.81, 107
	ICT Environmental Solution	Environmental Products and Services		●		pp.50-53
	CoC/Anti-Corruption	Anti-competitive Behavior			●	pp.72-74

01

Network Quality and 5G

02

New ICT Strategy

03

Privacy Protection

04

Telecommunication Market Regulation Changes

05

Social & Open Innovation

06

Climate Change

MATERIAL ISSUES CONTEXT

01 Network Quality and 5G

Despite the many changes that have taken place in the market and services, improving fundamental network quality and thereby strengthening the MNO business model remains SK Telecom's core competitive asset. Network infrastructure failures may lead to the collapse of economic and social systems, and this constitutes business continuity risks for telecommunications companies. Due to the higher frequency and scale of natural disasters resulting from climate change, SK Telecom anticipates that it may face more physical threats to its network infrastructure. If the company fails to build resilient infrastructure, it may face impacts such as declining revenue from large-scale network failures as well as unexpected capital expenses for repairs and restoration. SK Telecom is not only continually investing to build a next-generation network infrastructure and ensure network quality, the company also possesses a systematic risk management system capable of responding to telecommunications failures and technical risks. In particular, SK Telecom is striving to improve its technological leadership through research efforts with global ICT companies including the operation of the 5G Innovation Center and organizing cooperation for 5G standardization. Please refer to pp. 42-43, 46-49, 105 for more details on the business case, performance and outlook.

02 New ICT Strategy

The era of the 4th Industrial Revolution in which everything is becoming connected and converged is giving rise to changes in people's lifestyles and is also creating sweeping changes that transcend individual companies and different industrial domains. Consequently, a diversity of products and services that feature ICT convergence in daily life are emerging, such as in media, the internet of things (IoT), AI and

intelligent cars. Such changes call for information and communications companies to innovate and expand their business models beyond the existing competitive paradigms. One compelling example can be seen in IoT, which is in the spotlight as a new information and communications area. There is significant potential for expansion and growth in IoT, the domestic market for which is expected to reach KRW 17 trillion by 2020. Through the expansion of its new ICT portfolio oriented around MNO, media, IoT and commerce, SK Telecom seeks to take its place as a 'global new ICT company' in the 4th Industrial Revolution, which is fundamentally altering people's lives. Please refer to pp. 42, 46-49 for more details on the business case, performance and outlook.

03 Privacy Protection

In step with the growing use of mobile phones, the internet and email services, the issue of customer privacy protection is drawing keen interest, and the need to adopt stringent policy guidelines and activities for privacy protection has also increased substantially. The importance and impact of issues related to the sensitive information that telecommunications companies store, such as location based services (LBS) and demographical statistical data that are utilized by third-party service providers or are directly linked to revenue, are especially expected to increase. Including privacy, the utilization of personal information that uses ICT is evolving into a human rights issue. SK Telecom is endeavoring to prevent human rights violations as related to ICT across all services through a human rights due diligence process based upon the companywide human rights policy. Please refer to pp. 43, 106-107 for more details on the business case, performance and outlook.

04 Telecommunication Market Regulation Changes

The mobile communication business is a regulated industry, in which a business obtains permission to use a frequency that is a public good, from a government through auction, etc., and is directly affected by government policies and legal regulations. As the third anniversary since the enactment of the Handset Distribution Act, which was enacted to ensure the orderly distribution of handsets, approaches, ideas for improving the system such as the cap on subsidies and separation disclosure system are under discussion. Such proposals including calls for the reduction of telecommunications rates to heighten telecommunications' nature as a public good, continue to add to regulatory uncertainty. SK Telecom is actively participating in the eradication of discrimination based on government regulations and striving to enhance profitability by strengthening competitiveness of operators within the scope of regulation through healthy competition centering on products and services. Please refer to pp.68-69 for more details on the business case, performance and outlook.

05 Social & Open Innovation

ICT is the basis for linking and sharing knowledge and skills among all economic actors. ICT-based products and services not only provide better living convenience, but are also driving force for innovation and change in society through sharing economic cooperation, instruction and technology. SK Telecom pursues innovation not only through R&D investment for future growth businesses, but also through realizing and commercializing creative ideas through open innovation. As part of this process, SK Telecom is leading win-win cooperation involving diverse parties and economies of scale such as by operating the Global Innovation Center in which global telecommunications providers and related businesses participate as well as T developers,

an initiative to pursue win-win growth with the developers' ecosystem. The company is also solidifying technical collaboration and creating an innovative base for the whole spectrum of society. Please refer to pp.43, 50-53 for more details on the business case, performance and outlook.

06 Climate Change

In contrast with the Kyoto Protocol, by which only developed countries were obliged to reduce greenhouse gases, the Paris Agreement that was reached in December 2015 is considered a new climate regime as it is the first binding agreement that 195 countries must uphold. South Korea, where SK Telecom's main business is located, presented a 37% reduction goal compared to business as usual (BAU) by 2030. Prior to this, South Korea had implemented the Emissions Trading Scheme (ETS). The ETS, as a regulation that responds to climate change by regulating the total quantity of emissions rights, allocated emissions rights to target companies and is a system that allows companies to freely trade with one another through market mechanisms. Since producing energy from fossil fuels has serious environmental effects, a dependable energy supply to ensure the reliability of its networks and data centers presents an important potential impact for SK Telecom. Please refer to pp. 43, 50-57, 70-71,110-113 for more details on the business case, performance and outlook.

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PROGRESS ON MATERIAL ISSUES

Ⓝ NEW   ✔ ON TRACK   ⚠ NEED FOR IMPROVEMENT

Building a New ICT Ecosystem

New ICT — Media & Home

PROGRESS

On the basis of the media platforms such as fixed-line IPTV and wireless OTT, SK Telecom will gain differentiated content competitiveness and evolve into an open-type next-generation media and home platform.

NUMBER OF B tv + oksusu (*) SUBSCRIBERS (CUMULATIVE)

- 2014 — 5.19 million
- 2015 — 7.56 million
- 2016 — 10.52 million

(*) oksusu: previously B tv mobile

LONG-TERM TARGET

- Reach 27 million fixed-line and wireless subscribers (by 2021)
- Reach KRW 4.5 trillion in revenue in the fixed-line and media sectors (by 2021)

New ICT — IoT

PROGRESS

SK Telecom is pursuing the creation of new business models by building an IoT ecosystem, strengthening connectivity based on an exclusive national network and analyzing big data.

IoT REVENUE (INCL. B2B)

IoT revenue consists of machine-to-machine communication circuit revenue and revenue from the company's solution business that combines and offers services such as internalization · external solution and system integration (SI).

- 2015 — KRW 733.3 billion
- 2016 — KRW 755.5 billion

LONG-TERM TARGET

- Become the No. 1 M/S IoT provider in the nation through strong connectivity-based solutions and data analysis platforms (by 2021)

- 2018 — KRW 839 billion
- 2021 — KRW 3.1 trillion

New ICT — Platform

PROGRESS

AI is one of the technologies that will lead the 4th Industrial Revolution. Not only will AI have a far-reaching ripple effect across all industries, but it is also a critical infrastructure for strengthening innovation in SK Telecom's businesses. Based on the level of natural language recognition that is becoming more sophisticated, SK Telecom plans to continue accelerating its AI technology such as analysis and deduction.

NUGU CONNECTED SERVICE

Increase connected services by consistently upgrading NUGU, an AI device based on voice recognition technology launched in 2016.

- 2016 — 17 kinds (*)

(*) Weather, Melon, B tv, Radio, 11st., etc.

LONG-TERM TARGET

- Introduce the nation's No. 1 AI platform by offering the top level of AI technology available in the market (by 2018)
- Realize a universal individualized platform capable of the level of human conversation (by 2021)

Network Quality & 5G

Network Infra Investment – 5G

PROGRESS

Starting with the publishing of a white paper on 5G in 2014, SK Telecom has been demonstrating technological leadership through collaborative research including the operation of the 5G Global Innovation Center and participation in cooperative associations to standardize 5G.

5G INVESTMENT

-Succeeded in building the 5G test bed in 2015
-Succeeded in demonstrating 5G handover technology in September 2016 and demonstrating connected car technology in November 2016

LONG-TERM TARGET

- Standardize 5G technology (by 2018)
- Successfully commercialize 5G service (by 2019)

Network Stability & Capacity

PROGRESS

SK Telecom maintains a superior quality of data and voice calls compared to other providers, as demonstrated by the Ministry of Science, ICT and Future Planning's recognition of the company as having the fastest LTE service in the Telecommunications Service Quality Assessment in 2016.

NUMBER OF LARGE-SCALE NETWORK FAILURE CASES

- 2014 — 1 case
- 2015 — 1 case
- 2016 — 0 cases

LONG-TERM TARGET

Keep large-scale network failures to zero cases through long-term investment and managing operational risk (by 2020)

(*) According to the number of large-scale network failure cases submitted to the Ministry of Science, ICT and Future Planning: Cases are reported to the government when there is more than 1 instance of a switchboard failure, a failure of a base station in more than 10 local areas in the same city/district/borough, or a failure of equal scale such as these.

Environmental & Social

Expand Energy/GHG Operational Efficiency

PROGRESS

The GHG intensity has been on the rise due to the acceleration of the LTE and 5G networks as well as infrastructure investments. SK Telecom has been making diverse efforts including innovating the N/W structure and slimming the network; increasing the efficiency of domestic energy; and using equipment with high energy efficiency.

GHG INTENSITY

- 2014 — 57.09 tCO_2e / KRW billion
- 2015 — 54.64 tCO_2e / KRW billion
- 2016 — 67.05 tCO_2e / KRW billion

LONG-TERM TARGET

Limit the average GHG intensity to 82.41 tCO_2e / KRW billion (by 2020)

- 2018 — 73.81 tCO_2e / KRW billion
- 2019 — 78.24 tCO_2e / KRW billion
- 2020 — 82.41 tCO_2e / KRW billion

Social & Open Innovation

PROGRESS

SK Telecom supports startups through a substantial support system and is also strengthening its role as a platform for identifying growth BM.

NUMBER OF STARTUPS SUPPORTED (CUMULATIVE)

- 2014 — 23 teams
- 2015 — 34 teams
- 2016 — 46 teams

LONG-TERM TARGET

Supporting the development of 80 teams through the continuous startup support program (by 2020)

Data Privacy

PROGRESS

SK Telecom has implemented on-site surveys at field organizations, business partners and within the distribution network for customer data privacy, and has discovered and taken actions regarding key privacy issues.

AUDITING STORES FOR CUSTOMER DATA PRIVACY

- 2014 — (41.9%)
- 2015 — (100%) (*)
- 2016 — (100%) (**)

LONG-TERM TARGET

Maintain customer information leakages at zero through more advanced audits of the distribution network (by 2020)

(*) 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

2

MEASURING   OUR IMPACT

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1

Measuring Our Impact
NEW ICT Company

GLOBAL NEW ICT COMPANY LEADING THE ERA OF THE 4TH INDUSTRIAL REVOLUTION

We aim to become a global new ICT company to lead the 4th Industrial Revolution that will usher in fundamental changes in the 'ICT-centric economy era,' redefining the information and communications industry by focusing on artificial intelligence (AI).

ISSUE

What are the main issues?

ICT innovation, which is characterized by connection and super intelligence, is the basis of the 4th Industrial Revolution and it is expected that all industries will be re-centered around ICT. It is expected that a wide range of social changes will take place at the same time, and it is necessary to prepare for an integrated response to the social and economic effects of ICT.

APPROACH

What is SK Telecom's approach?

SK Telecom aims to lead innovation and growth by positioning itself as a new ICT ecosystem leader that will lead the 4th Industrial Revolution era. SK Telecom will expand its business portfolio including in mobile communications (MNO), media, IoT, commerce and as an Enabler based on its competitive edge in infrastructure and artificial intelligence. By maximizing corporate value, we will evolve into a global new ICT company by the year 2021.

EVALUATION

How do we measure our performance?

- (Media & Home) Reach a record of 27 million subscribers of wired and wireless media (by 2021) and KRW 4.5 trillion in the wired and media areas (by 2021)
- (IoT) Become the No. 1 M/S domestically (by 2021), achieve KRW 3.1 trillion in Digital Transformation revenue (by 2021)
- (AI) Implement a personalized, general-purpose AI platform that features conversation at the level of human conversation (by 2021)
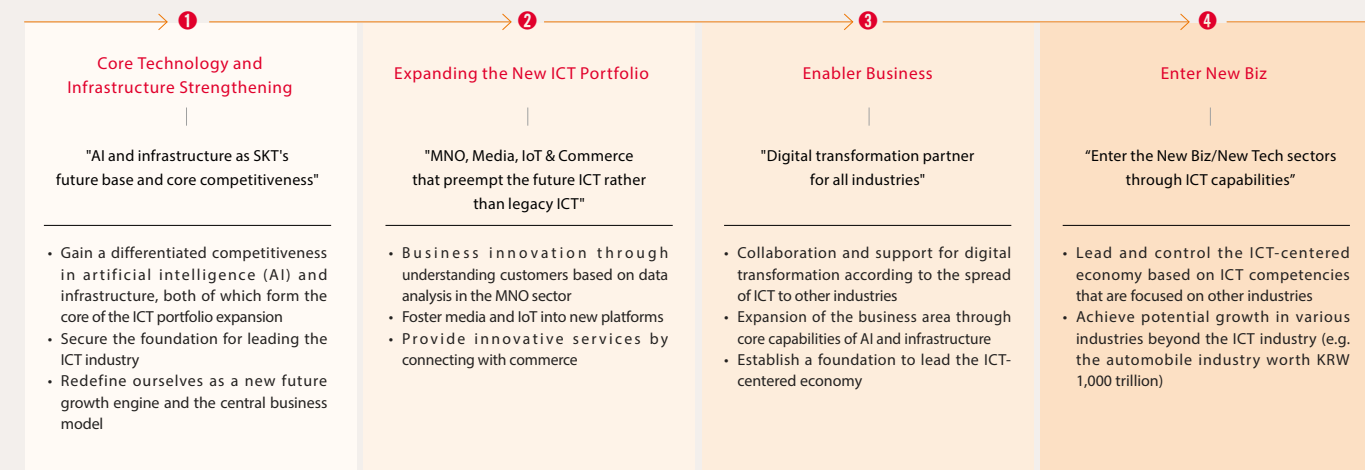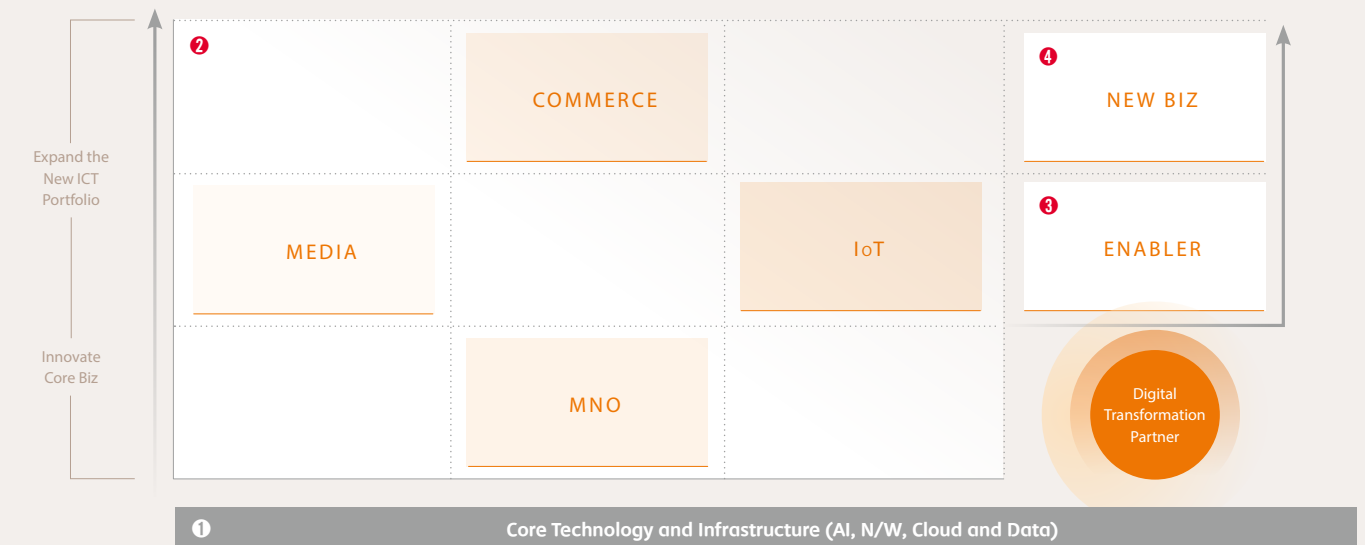
The development of basic technologies such as artificial intelligence (AI), big data, Internet of Things (IoT) and the spread of various mobile devices are leading to unprecedented social change and innovation. In particular, AI is a fundamentally different base technology compared to the existing traditional infrastructure, which affects not only the value chain of the ICT industry but also its the business model, and ultimately, it is expected to be the base technology of the 4th Industrial Revolution. In combination with artificial intelligence, the Internet of Things (IoT) and the media will be replaced with new generation technologies, and the network will be redefined as an intelligent infrastructure.

SK Telecom is seeking opportunities not only for the network but also for the ICT core including cloud and AI starting with next-generation platforms that go beyond PC and mobile. SK Telecom's new vision is to become a leader in the global ICT ecosystem leading the 4th Industrial Revolution based on strengthening its core capabilities in ICT and AI, as well as driving innovation and growth.

New ICT means a system of sharing, opening and cooperation that combines innovative technologies such as AI and big data and creates new business models throughout the industry. SK Telecom will expand its business portfolio such as mobile communication, media, IoT, commerce and Enablers based on its competitive edge in infrastructure and AI. By maximizing our corporate value, SK Telecom will evolve into a global new ICT company by the year 2021.

SK TELECOM'S NEW ICT STRATEGY

Expand the New ICT Portfolio

Innovate Core Biz

❷ COMMERCE

❹ NEW BIZ

MEDIA

IoT

❸ ENABLER

MNO

Digital Transformation Partner

❶ Core Technology and Infrastructure (AI, N/W, Cloud and Data)

❶ Core Technology and Infrastructure Strengthening	❷ Expanding the New ICT Portfolio	❸ Enabler Business	❹ Enter New Biz
"AI and infrastructure as SKT's future base and core competitiveness"	"MNO, Media, IoT & Commerce that preempt the future ICT rather than legacy ICT"	"Digital transformation partner for all industries"	"Enter the New Biz/New Tech sectors through ICT capabilities"
• Gain a differentiated competitiveness in artificial intelligence (AI) and infrastructure, both of which form the core of the ICT portfolio expansion • Secure the foundation for leading the ICT industry • Redefine ourselves as a new future growth engine and the central business model	• Business innovation through understanding customers based on data analysis in the MNO sector • Foster media and IoT into new platforms • Provide innovative services by connecting with commerce	• Collaboration and support for digital transformation according to the spread of ICT to other industries • Expansion of the business area through core capabilities of AI and infrastructure • Establish a foundation to lead the ICT-centered economy	• Lead and control the ICT-centered economy based on ICT competencies that are focused on other industries • Achieve potential growth in various industries beyond the ICT industry (e.g. the automobile industry worth KRW 1,000 trillion)

Strategic Direction 1. Strengthening the Core Technology and Infrastructure

The strengthening of the company's core technology is compressed into the enhancement of AI technology and the innovation of infrastructure. SK Telecom's infrastructure will lead the infrastructure business for the expansion of the ICT business portfolio. We will place a top priority on data traffic and user scenarios required for the IOT and media businesses through the development and commercialization of 5G and other cutting-edge network technology, while also ensuring the efficient storage, management and analysis of cloud data. One of the main challenges is to find a new business model that is free of charge-based business models for simple network use.

Artificial intelligence is a key differentiating factor for all businesses, and it is necessary to establish a competitive advantage base in advance by securing the ability to optimally commercialize each type of application. For this reason, SK Telecom should not only strengthen the competitiveness of its AI engine technology including voice recognition, search and recommendations and decision-making through efforts such as R&D investment and acquiring key technology, but the company should also develop AI applications to introduce comprehensive solutions, e.g. individualized services on platforms and network evolution. Through this, we plan to build a competitive ecosystem by expanding various areas and devices to which artificial intelligence applies.

Strategic Direction 2. Expanding the New ICT Portfolio

SK Telecom is pursuing a new ICT business whose key direction is innovating business models in not only the MNO business but also in the media, IoT and commerce businesses on the basis of AI and data; connecting them with one another; and thereby expanding the portfolio.

In the new ICT portfolio strategy, **the MNO business** will provide core assets for the expansion of the ICT portfolio through data, the customer base and the distribution network. SK Telecom will evolve into a new MNO through business innovation by understanding customers through data analysis.

In the media business, it is essential to secure customers' time share by offering distinctive content. Therefore, we will strengthen our business partnerships to expand the next-generation device-based OTT (Over the Top) platform, while securing the content creation and procurement system according to the reorganization of media market competition. Based on subscription and subscription-based content sales revenue, we will also explore new business models that generate revenue from large -volume customer traffic.

The IoT business will evolve into a next-generation integrated IoT platform that seamlessly connects with various future devices in the home and automobiles. By doing so, we will expand the range of devices that can be serviced through partnerships with next-generation device

operators. We will continue to build a differentiated user experience and commercial ecosystem to grow into a core platform for the 4th Industrial Revolution era.

The commerce area is a key revenue-generating segment, and will lead to innovative value through selective entry to maximize synergy with the media and IOT platforms. It will internalize digital contents, e-commerce and O2O capabilities. In the case of the commerce business, we will develop leverage that leads to business model innovation by organically linking with the platform-infrastructure rather than an independent business.
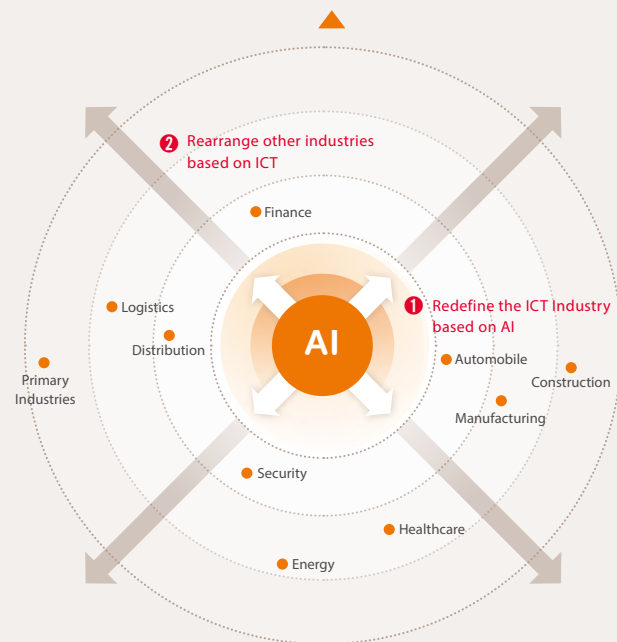
Strategic Direction 3. Promoting Digital Transformation

Through the Enabler business, SK Telecom aims to build public leadership and create shared value by performing core competencies in the digital transformation process of other industrial companies. We will lead the digital transformation of non-ICT industries focusing on logistics and manufacturing, and establish business models for mutual growth based on partnerships and revenue sharing. SK Telecom plans to pursue a completely different approach based on its long-term relationships with other operators, aiming at a win-win business model.

For example, transportation and inventory providers need digital solutions to streamline distribution and conduct business. Providing new data to online and offline companies with logistics and

REDEFINE THE ICT BUSINESS

Redefine the ICT Industry based on AI (expansion of the ICT portfolio) and reform other industries based on ICT (enter new biz & new tech)

❷ Rearrange other industries based on ICT

Finance

Logistics

Distribution

Primary Industries

AI

❶ Redefine the ICT Industry based on AI

Automobile

Construction

Manufacturing

Security

Healthcare

Energy

CASE

Build a 5G infrastructure that will be the basis for the new ICT company

SK Telecom plans to standardize 5G technology by 2018 and commercialize 5G by 2019.

In order to strengthen the network infrastructure capacity that will become the foundation of the new ICT company, we are raising technical leadership through joint research with global ICT companies, such as the publication of the 5G White Paper in 2014 and the formation of cooperative partnerships for 5G standardization. SK Telecom has been participating in the joint 5G standardization process, involving 15 major telecommunication companies and equipment manufacturers such as AT&T, Ericsson and signed an MOU with Verizon in August 2016 for 5G standardization.

The 5G Global Innovation Center, which has been operating since 2014, provides the 5G test environment. The 5G Global Innovation Center provides a test-bed based environment for SMEs, startup training and joint development of new services. At the 5G Global Innovation Center, we succeeded in demonstrating the world's first 5G handover in September and demonstrated the world's first 5G connected car in November of the same year.

In addition, we announced our 5G service to customers through the LTE-based Pre-5G

experience. Meanwhile, we are also providing the 4.5G experience by demonstrating the 1Gbps transmission at the Mobile World Congress (MWC) and commercialization of 5-band frequency CA.

With respect to 5G investment, which is expected to establish a demonstration network in 2017, it is expected that the volatility will be large due to frequency allocation and market competition, such as the possibility of commercialization of high-frequency bands. SK Telecom will successfully establish a 5G network while realizing the downward stabilization of investment costs through efficient investment.

2014	- Published the 5G White Paper
2015	- Completed the construction of 5G Global Innovation Center
2016	- Built and Operated the 5G Pilot Test Network - Strengthening cooperation of the 5G Ecosystem Cooperative Partnership
2018	- Standardization of 5G Technology (Planned)
2019	- Commercialization of 5G Service (Planned)

providing business efficiency innovation solutions through real-time AI analysis can greatly contribute to improving investment spending efficiency. It will raise the innovation on demand forecasting using artificial intelligence versus traditional business models, real-time monitoring of incoming and outgoing transactions through image recognition, analysis of freight volume and location of transit points and transportation times, and management of optimal transportation routes and distribution plans in real time.

Strategic Direction 4. Entry into New Biz/New Tech through ICT Competencies
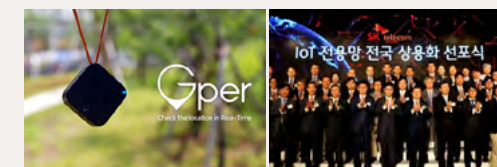
SK Telecom's essential know-how in the process of the digital transformation of traditional industries such as energy, manufacturing and logistics is expected to bring new market opportunities such as

Launch of Gper, LoRa-based location-tracking devices (Nov. 2016)
SK Telecom hybrid IoT network is commercialized nationwide (July 2016)

automobiles and distribution in the mid- to long-term perspectives. As a result, SK Telecom will enter new biz and new technology businesses within other businesses based on its core ICT capabilities within new opportunities as it observes market changes from multifaceted perspectives.

For example, SK Telecom can become a provider of a 'Total Car Life Service' that provides 'autonomous driving solutions' in the future. The integrated life cycle service based on autonomous driving solutions can provide a platform for vehicle-sharing to users of shared services such as car sharing or provide autonomous driving solutions, information and services between service providers, as well as support the creation of an autonomous-based business model. Furthermore, within this process, SK Telecom will go beyond playing the role as a supporting partner for digital transformation in other businesses to being leader in creating and introducing entirely new markets.

SK Telecom will successfully evolve into a global new ICT company that provides innovative value and services, which surpass customer expectations. As a new ICT leader that leads the future beyond telecom operators, SK Telecom will achieve a Deep Change in the business model through cooperation and win-win leadership as well as revitalize corporate value with tangible performance.

2

Measuring Our Impact
Social & Open Innovation

NEW SOCIAL VALUES PROVIDED BY CONNECTIONS AND SHARING

SK Telecom will promote social and open innovation by inviting various entities to participate. It is by connecting and sharing that we will lead innovation and change around us.

ISSUE

What are the issues?

ICT-based products and services not only provide better living convenience, but also become a driving force for innovation and change in society as a whole through the linkage of economic entities. ICT has important implications for business creation and job creation. It is the time to maximize the fundamental social role with 'open innovation' maximizing SK's social role through communication technology competence.

APPROACH

What is SK Telecom's approach?

We will improve quality of life through NUGU, a personalized artificial intelligence platform based on voice recognition, as well as T map, a navigation platform to reduce greenhouse gas emissions. We will build a technology-based open innovation ecosystem such as T developers. We will promote social value creation based on technology such as accelerating social innovation through startup support.

EVALUATIONS

How do we measure performance?

- Through the construction of voice recognition, artificial intelligence cloud and platform ecosystem, NUGU service will ensure life-friendly open platform success (by 2018)
- By using the ICT solution, social greenhouse gas (scope 3) 599,000 tCO$_2$e achieved annually (by 2020)
- Support 80 startups (comulatively) through the startup support program (by 2020)

1. Products with social-environmental value

NUGU, the beginning of intimate conversation between humans and AI

SK Telecom launched NUGU, an intelligent virtual assistant service that uses voice recognition and natural language processing technology to identify the user's words, context and intentions based on advanced voice recognition technology in September 2016. When comparing the currently available voice recognition based AI speakers, NUGU's strength is that it has improved its voice recognition through the accumulation of diverse innovative technology. For example, if you are playing music, or if you are away, NUGU will not work. This is because NUGU has increased the level of the system's perfection through noise cancellation that effectively separates voices and noise, echo cancellation technology that enables voice recognition during music playback, advanced algorithm technology for voice understanding and synthesis, and high-performance microphones.

NUGU is an AI service that learns and grows endlessly. It has basic functions such as music, home appliance control, schedule, alarm and weather at the time of launch. Since its release, the daily briefings, podcasts and order delivery have been linked. In March 2017 we continued to increase the number of services related to 11st, domestic professional baseball and today's fortune. In the future, NUGU will connect new services optimized for voice recognition in various fields in order, and will enhance the value by providing more abundant services and advanced work.

T map navigation that reduces social costs with accuracy and efficiency

In July 2016, T map, which has been provided to existing SK Telecom LTE subscribers, has been made fully available for free to third-party customers. T map secured 430,000 new third-party users within seven days and recorded 10.6 million monthly users within 100 days. The estimation is based on the MAU (Monthly Active User: individual users who use the service more than once per month), hold more than 70% of domestic mobile navigation users, and the largest number of subscribers in the domestic single mobile navigation service.

In addition to the shortest distance function provided by ordinary navigation, T map also provides route guidance for mobile GHG reduction. SK Telecom has been recognized as the ITU International Recommendation Standard by the International Telecommunication Union (ITU) for calculating social GHG reduction methodology through T map navigation. This is the first international recommendation standard that estimates GHG reductions for specific ICT services, such as real-time navigation. It provides real-time navigation users the ability to reduce greenhouse gas emissions by reducing travel time and driving time by avoiding traffic congestion.

In 2016, T map users achieved a 307,957tCO$_2$e reduction in GHG emissions by using T map. SK Telecom approved the business method of the carbon emission rights business, the reduction of social GHG emissions based on ICT service, and upgraded countermeasures as well. In addition, we plan to achieve an annual reduction of 599,000 tCO$_2$e by 2020 by expanding the number of T map users.
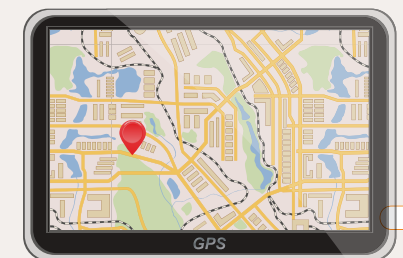

SK Telecom releases next-generation AI robot (Feb. 2017)

T map monthly users exceeded 10 million (Nov. 2016)

NUGU

T map

'T phone' Platform for Customer Safety

T phone is leading the change to provide a safer calling environment for users. The T phone service works with the Financial Supervisory Service (FSS) to provide a safe ringtone function that warns users of incoming calls from high-risk numbers that are likely to be used for spam, fraud, voice phishing, etc. In addition to this, it has functions such as "block security" that can block calls from numbers linked with crime such as fraud in advance according to customer's judgment, and "security recording" to automatically record calls when a high-risk number is detected . As customer protection services have been strengthened, T phone is gaining customers, exceeding 10 million subscribers in August 2016.

2. Expansion of social-environmental value solution business including EMS

EMS (Energy Management System), SK Telecom's representative energy efficiency solution, is a business that improves the energy operation and optimum operation plan for buildings, factories, public institutions, vehicles and facilities. SK Telecom has developed an optimal energy-saving plan that matches the relevant characteristics and the company provides EMS solutions and high-efficiency equipment as a preliminary investment and guarantees the savings and provides a model to recover business expenses based on the amount of savings during the contract period.

SK Telecom's Cloud BEMS collects real-time energy usage data from large buildings, department stores, hospitals, etc., and can analyze data anytime and anywhere through smartphones and tablets. In 2016, SK Telecom analyzed energy optimization data to enhance its competitiveness in EMS products, and launched new EMS in the freezing and refrigeration logistics field, as well as advanced the demand management business. We also diversified our solutions and portfolio by launching new products for energy-efficiency projects in transportation. SK Telecom carried out 40 projects with BEMS (Building Energy Management System) in 2016 and 43 projects with FEMS (Factory Management System).

3. Provide social innovation based on connections and sharing

T developers: Developer ecosystem-centered open innovation channel

T developers is a developer ecosystem-centered open innovation channel where SK Telecom grows together with domestic developers. T developers provides a technology-centric physical infrastructure (T open lab), technology knowledge sharing and collaboration (T dev forum), and assets to accelerate innovation (T api).

Since its establishment in June 2012, T open lab has expanded its cooperation with major nationwide startup training institutions. We support about KWR 10 billion worth of technology per year by strengthening support capabilities in new technologies such as virtual reality and augmented reality. The T dev forum is a forum for sharing technology innovation knowledge and information on the topic of the

ICT industry. It also launched a forum for cooperating with SK Telecom by holding a technology forum every month. In recent years, we have been contributing to the creation of related ecosystems by encompassing leading technology areas in addition to major platforms such as IOT and media. T api is an ICT core asset opened to support technology and service innovation, providing database and technology assets to realize developers' ideas.

Establish cooperative success stories through startup support and win-win cooperation

SK Telecom is building a success story not only by establishing a developer ecosystem and supporting startups, but also through continuous technology exchange and support. Location cloud solution specialist, Spacosa Co., Ltd. developed the first domestic bus location safety service by using a smartphone-based location application 'FAMY', low-power Bluetooth 'beacon link', real-time positioning control system 'CatchLoc' and the LoRa network. Launched in November 2016, 'Gper' is the first GPS locator using the LoRa-based network chip in Korea. It has been

SK Telecom EMS Solution

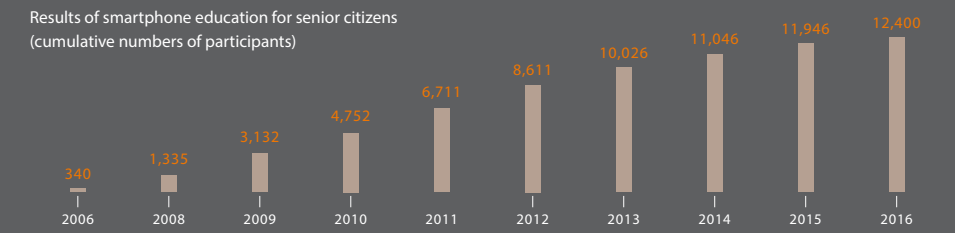## CASE

Seeking long-term growth with digital inclusion

Percentage of the total population in Korea over 60 years old in 2020 (forecast)

23. 3%

According to the 2016 National Information Divide Survey, the level of digital informatization of senior citizens is low (54.0%) compared to the general population. Senior citizens with low levels of informatization have limited access to services and high exposure to crime such as voice phishing. SK Telecom improves service accessibility including silver pricing for senior citizens and T silver service for seniors who are having difficulty using smartphones. In the meantime, we are actively responding to the digital divide problem by continuing education on smartphones for senior citizens. The effort to resolve the digital divide has increased the proportion of customers over 60s (4.3% over three years) and the proportion of smartphone subscribers (35.6%

increase over three years). SK Telecom's efforts to eliminate the digital divide among senior citizens will contribute not only to solving problems caused by the social digital divide, but also to the long-term growth of profit and growth by shifting smartphones to elderly customers and increasing data usage. If the annual average growth rate (11.8% p) of smartphone subscribers among 60 years or more subscribers is maintained, it is predicted that customers' smartphone ratios will exceed 90% by the end of 2018. Accordingly, it is estimated that at least 1 million feature phone users will transition into smartphone users by 2018 (using 2016 figures as the standard), which is expected to lead to annual revenue growth of approximately KRW 193.3 billion.

Results of smartphone education for senior citizens (cumulative numbers of participants)

2006	2008	2009	2010	2011	2012	2013	2014	2015	2016
340	1,335	3,132	4,752	6,711	8,611	10,026	11,046	11,946	12,400

2014	2015	2016	Subscribers over 60 years old	2014	2015	2016
14.4	15.3	16.1		44	57	70

Percentage of subscribers over 60 years old

Percentage of smartphones among subscribers over 60 years old

developed to be small enough to be attached to a necklace or a bag with a low battery usage. Gper can be used without a smartphone. It can also help ensure the safety of children and the elderly with dementia. At present, SPACOSA is concentrating on Southeast Asian markets such as Singapore, Indonesia and Malaysia. In October, we also conducted a POC (technical verification) test with SK Telecom's overseas business team.

Pixtree Co., Ltd. is a company that has developed a real-time UHD encoder, which is essential equipment for UHD broadcasting that compresses UHD contents at high speed and transmits them in real time. Pixtree is supplying terrestrial TV, IPTV and satellite broadcasting service with excellent performance and stability. SK Telecom has helped to lead the early commercialization of cutting-edge technology while maintaining development cooperation for the past several years. In addition, by applying this product, we are providing UHD service to customers through the B tv service.

SK Telecom will lead the innovation and change of society as a

whole through connecting the economic entities, sharing knowledge and technology by providing products and services with socio-environmental value, expanding social-environmental value solutions using ICT solutions such as EMS, and promoting open innovation through expanding the developer ecosystem.

Company Overview

Measuring Our Impact

Accountability

Financial & Non-Financial Statements

Other Information

3

Measuring Our Impact
Social and Environmental P&L

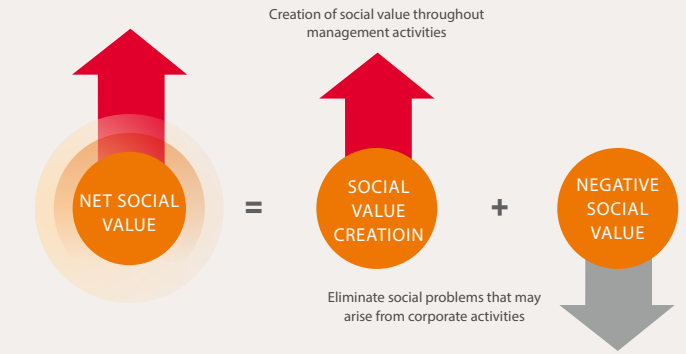## SK TELECOM'S SOCIAL AND ENVIRONMENTAL PROFIT & LOSS

SK Telecom plans to pursue a double bottom line, which targets not only financial performance but social value as well, as the company thrives together with society.

ISSUE — **What is the issue?**

Stakeholders' interest in the various economic and social effects (external effects) that arise from the business process of the company is being broadened from a qualitative perspective to a more quantitative perspective. It is time to develop a methodology for evaluating the impacts and external effects of the business and to make stronger efforts to reflect the profit and loss from a socio-environmental point of view in the company's performance.

APPROACH — **What is SK Telecom's approach?**

SK Telecom has adopted the double bottom line, which simultaneously aims to achieve both financial performance and social/environmental value, reflecting the company's success factors not only in terms of short-term performance but also in the creation of sustainable future value in consideration of stakeholders. SK Telecom plans to strengthen its positive impacts and minimize negative externalities by developing methodologies to estimate economic, environmental and social externalities.

EVALUATUINS — **How do we measure performance?**

- Development and introduction of a formalized methodology (double bottom line) to measure financial value and socio-environmental value (by 2021)
- Limiting greenhouse gas emission intensity to 82.41 tCO$_2$e or below (by 2020)

SK Telecom defines future corporate values not only from financial results such as sales and operating profit, but also from the perspective of the long-term happiness of stakeholders such as shareholders, investors, customers, suppliers, employees, government and local communities. SK Telecom has contributed to economic development not only by improving the quality of life through ICT, but also by directly and indirectly creating jobs, inducing higher production, expanding the ecosystem and creating new business opportunities. In addition, external effects such as the misuse of technology, resource use, environmental pollution, greenhouse gas emissions are also generated in the course of operating a business. There are socio-environmental benefits and costs that are not reflected in current financial statements as external effects of the company's business activities. SK Telecom seeks to realize corporate value enhancement that takes both positive and negative externalities into account in terms of the economy, the environment and society.

SK Telecom's Social-Environmental Profit & Loss Statement (SE P&L) is the first of SK Telecom's efforts to pursue a double bottom line to quantitatively measure the impact of a company from a socio-environmental perspective. Through the SE P&L, SK Telecom is able to create social value based on business competence in consideration of the socio-environmental impact across the value chain and business model, and eliminate the negative impacts that could undermine corporate value. The company anticipates that this will help to expand the scope of strategic decision-making and make future-oriented decisions.

SOCIAL VALUE CONCEPT OF SK TELECOM'S DOUBLE BOTTOM LINE

Creation of social value throughout management activities

NET SOCIAL VALUE = SOCIAL VALUE CREATIOIN + NEGATIVE SOCIAL VALUE

Eliminate social problems that may arise from corporate activities
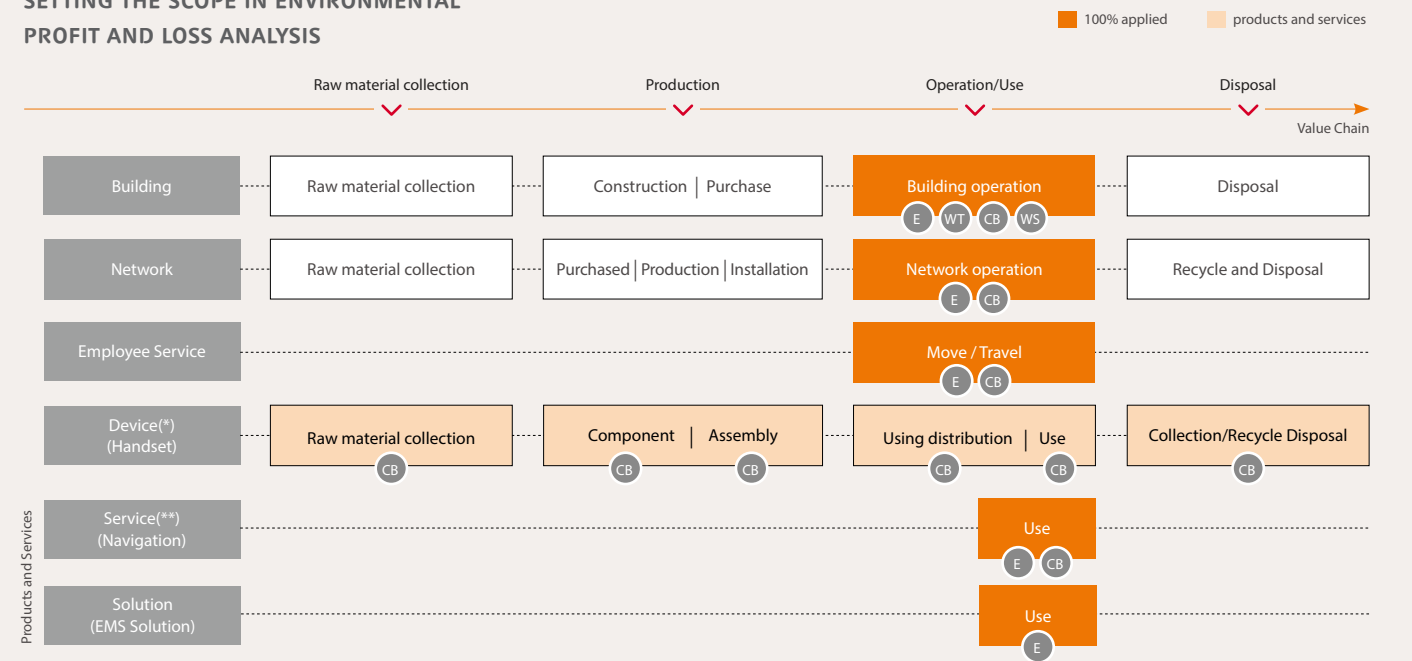
1.Environmental Profit & Loss Analysis

SK Telecom's environmental profit and loss analysis uses a step-by-step calculation method to measure the environmental impact of the entire value chain. In order to analyze the environmental profit and loss of SK Telecom, we went through three stages: reviewing the value chain; setting the scope and data collection; valuation and environmental profit and loss analysis.

Setting the scope and data collection

It is divided into buildings, networks, employees, devices (handsets, M2M), services and solutions in the value chain category for an

SETTING THE SCOPE IN ENVIRONMENTAL PROFIT AND LOSS ANALYSIS

■ 100% applied　■ products and services

Products and Services	Raw material collection	Production	Operation/Use	Disposal
Building	Raw material collection	Construction | Purchase	Building operation (E, WT, CB, WS)	Disposal
Network	Raw material collection	Purchased | Production | Installation	Network operation (E, CB)	Recycle and Disposal
Employee Service			Move / Travel (E, CB)	
Device(*) (Handset)	Raw material collection (CB)	Component (CB) | Assembly (CB)	Using distribution (CB) | Use (CB)	Collection/Recycle Disposal (CB)
Service(**) (Navigation)			Use (E, CB)	
Solution (EMS Solution)			Use (E)	

E Energy　WT Water　CB Greenhouse Gas　WS Waste

(*) Handset: LCA certification such as environmental grading or carbon labeling, CTS certification Standard: Galaxy S8, Galaxy Tab S3, Galaxy S7 Edge, Galaxy Note 7, Galaxy S6, Galaxy S5, Galaxy S4, Galaxy S3, Galaxy Note 2, Galaxy Note, Galaxy Note 10.1, iPhone 7,IPhone 7 Plus, iPhone 6s, iPhone 6s plus, iPhone SE, iPhone 6, iPhone 6 plus, iPhone 5s, iPhone 4s, iPhone 4, iPhone 3Gs, iPad 5G, iPad Pro 9.7, iPad Mini 4, Ipad 3, iPad Mini 2, iPad Mini, iPad Air2, iPad Air, iPad 4th Generation, iPad 3rd Generation, iPad 2.

(**) Navigation: The amount of GHG emissions reduced was determined by calculating the difference between the GHG emissions emitted when drivers used the 'shortest distance route' and when they used the 'optimal route' provided by T map for reaching their destinations. SK Telecom's methodology for calculating the social GHG emissions saved through use of T map navigation was recognized as an internationally recommended standard by the International Telecommunication Union (ITU) and this standard methodology was used in this case.

environmental profit and loss analysis. Environmental data were collected from the perspective of the lifecycle assessment (LCA) such as raw material collection, production, operation/use and disposal. Buildings and networks that are part of the calculation only include the operating phases in which data management is being carried out during the raw material collection, production and disposal phases. We are considering expanding the life-cycle range to include the entire range of impacts such as raw material collection, purchasing, production, installation and disposal. The handset collects data based on the results of the life cycle environmental impact assessment conducted on some makes of Samsung and Apple's tablet and smartphone models and converted them into the total subscriber range. However, IoT devices such as M2M (Machine to Machine) and 2nd devices among the handsets were excluded from the calculation of available data. SK Telecom provides the optimal GHG reduction route to users of the T map navigation service, and estimates how much greenhouse gas reduction compared to the shortest route provided by general navigation is calculated through social GHG reduction studies. However, at the present stage, SK Telecom's various platform and solution services are limited to the T map navigation platform and EMS solutions.

Value calculation

The results of the profit and loss analysis are calculated as monetary values, and the regional characteristics are reflected in the variables. Since SK Telecom generates more than 95% of its sales in Korea, SK Telecom prioritizes Korean data in consideration of regional similarities. However, where data were not easy to obtain, we use the latest global data. In general, when considering impacts, we choose the appropriate value for the impact assessment objective in the measured relative absolute volume or socio-environmentally feasible alternative. For example, if the T map navigation service user chooses the optimal route, it will emit a relatively small amount of greenhouse gases compared to the shortest path guided by normal navigation. SK Telecom applied the 'total amount'

in the environmental impact calculation process, but in the case of the T map service, we applied the 'maximum amount' that is the reduction effect against the shortest distance considering the suitability of service purpose.

2. Social Profit & Loss Analysis

Environmental profit and loss analysis is developed based on the Life Cycle Assessment methodology. On the other hand, the analysis of profits and losses of the social sector is under the development of detailed methodology and valuation protocols. SK Telecom has selected the scope of coverage and the influence of the measurement target limited by referring to the Social Capital Protocol presented by the World Business Council for Sustainable Development.

Setting the scope and measurable impact

The analysis of social profit and loss included the effects of adopting the traditional market ICT solution for the 'Traditional Market Activation' project, which has been promoted as a major initiative, and the prevention of customer harm caused by SK Telecom's T phone service.

Value calculation

In the case of the 'Traditional Market Activation' program, we used the Social Return on Investment method to calculate how much the income of small business owners in traditional markets increased compared to the increase in income in the traditional market through the introduction of ICT solutions such as MyShop and Smart Wallet of SK Telecom. SK Telecom supported ICT solutions on an average of 80% of stores in Chongok Jaeil Market and Incheon Shinki Market. The sales change of stores through traditional market support program increased sales by 10% . Through SK Telecom's traditional market support program, it has been confirmed that SK Telecom contributed a total of KRW 324 million in operating profits to small business owners in both markets.

The T phone service works in cooperation with the Financial Supervisory

Service (FSS) to provide customers with the ability to prevent customers from incurring damage to their e-mails by ringing a high-risk number that is likely to be used for spam, fraud or voice phishing. According to estimates by the FSS, the pre-blocking rate through the T phone service has increased by 38%, and it is estimated that 1,712 people avoided potential voice phishing damage of about KRW 19.7 billion per year.

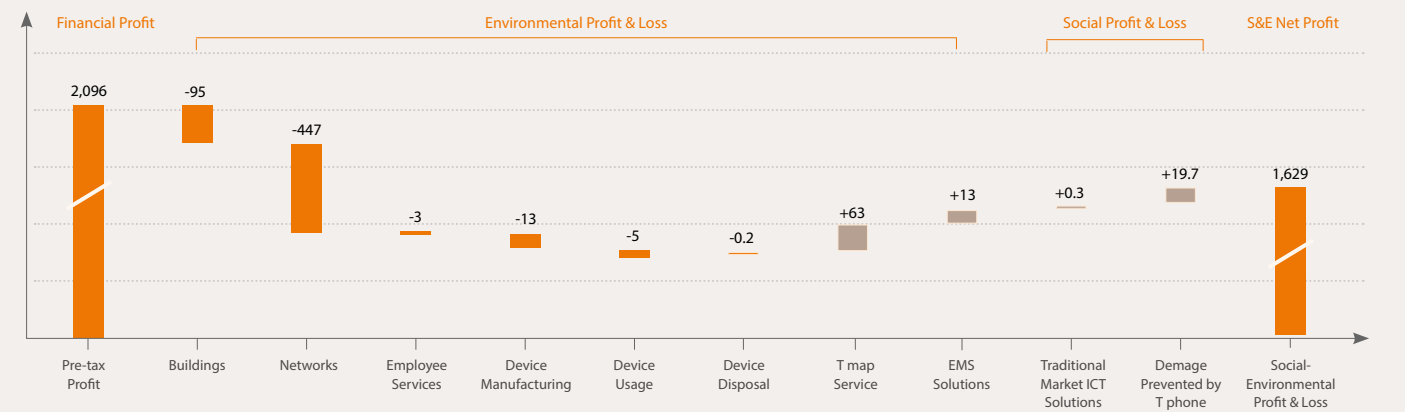## 3. Social-Environmental Profit & Loss Statement

The Social-Environmental Profit & Loss Statement, comprising the environmental profit and loss analysis and the social profit and loss analysis, are as follows:
SK Telecom recorded a pre-tax profit of KRW 2.096 trillion as of 2016. The environmental impact of buildings, networks, employee movements and trips, and devices manufacturing-use-disposal phases in the business operation process was estimated based on domestic overall environmental costs, resulting in an estimated environmental loss of approximately KRW 563.2 billion. SK Telecom contributed to saving

about KRW 76 billion in environmental costs by informing drivers of the shortest routes to reach their destinations through T map navigation and also by offering EMS solutions. On the social side, it contributed to the improvement of the traditional market operating profit of about KRW 0.3 billion through the traditional market ICT solutions and prevented potential voice phishing damage of about KRW 19.7 billion through the T phone service.

In the case of the environmental profit & loss analysis results, the analysis applied the lifecycle model but excluded from the scope the production and installation of the network equipment within the value chain and was applied in a manner limited to only some services in the social area. SK Telecom will strive to improve the socio-environmental profit & loss analysis throughout the entire value chain and business model, and to maximize future corporate value by eliminating potential costs and risks from social-environmental impacts.

2016 SOCIAL-ENVIRONMENTAL PROFIT & LOSS STATEMENT

(KRW billion)

ENVIRONMENTAL IMPACT VALUE CALCULATION RESULT

Impact Area		Impact	2015		2016	
			Value	Impact value (KRW)	Value	Impact value (KRW)
Building	Building operation	Energy use	2,961 TJ	(-)91,988,473,591	2,938 TJ	(-)91,273,919,686
		Greenhouse gas emissions	145,091 tCO₂e	(-)2,744,541,356	143,681 tCO₂e	(-)2,717,869,796
		Water use	757,658 m³	(-)688,027,059	712,910 m³	(-)628,572,747
		Waste discharge	1,928 ton	(-)292,358,064	1,691 ton	(-)256,419,858
Network	Network operation	Energy use	11,021 TJ	(-)342,386,007,242	13,977 TJ	(-)434,219,147,375
		Greenhouse gas emissions	535,369 tCO₂e	(-)10,127,040,004	678,942 tCO₂e	(-)12,842,866,872
Employee Service	Move and Travel	Energy use	99 TJ	(-)3,075,602,460	78 TJ	(-)2,423,201,939
		Greenhouse gas emissions	5,658 tCO₂e	(-)107,026,728	4,485 tCO₂e	(-)84,838,260
Devices (Handset)	Raw material collection and production	Greenhouse gas emissions	556,910 tCO₂e	(-)10,534,502,196	667,178 tCO₂e	(-)12,620,333,627
	Use	Greenhouse gas emissions	290,425 tCO₂e	(-)5,493,681,575	284,223 tCO₂e	(-)5,376,361,092
	Collection and Recylce	Greenhouse gas emissions	9,312 tCO₂e	(-)176,152,898	2,469 tCO₂e	(-)195,321,672
Service (Navigation)		Energy Reduction Amount (*)	141,867 L	(+)42,255,666,300	184,421 L	(+)54,930,751,256
		GHG Reduction Amount (*)	307,975 tCO₂e	(+)5,825,655,100	424,196 tCO₂e	(+)8,024,091,536
Service(EMS)	BEMS	Energy Reduction Amount (**)	-	(+)3,700,000,000	-	(+)5,400,000,000
	FEMS	Energy Reduction Amount (**)	-	(+)5,400,000,000	-	(+)7,200,000,000

(*) Energy reduction and greenhouse gas reduction are the relative reductions of T map users compared to the shortest distance navigation.
(**) The BEMS and FEMS solution is the customer's energy cost reduction target.

KEY ASSUMPTIONS AND LIMITATIONS OF SOCIAL-ENVIRONMENTAL PROFIT & LOSS

1 We used the concept of CE Delft's Shadow Prices Handbook, produced by a Dutch environmental impact analysis agency, to calculate the impact value. The potential price means the price reflecting the opportunity cost if the market price is incomplete, and CE Delft's potential price study is a measure of the key environmental impacts of European standards. In Korea, however, comprehensive and reliable potential price studies have not been conducted, and this analysis has been estimated based on domestic standard environmental costs.

2 Energy, water and waste costs - In order to calculate the potential price by energy use, it is desirable to track the effect of each energy source separately. However, in this analysis, the total cost of electricity, which is the main energy source for buildings and networks, is applied (MOTIE: Ministry of Trade Industry and Energy, 2016). We applied the total cost of gasoline in the transportation fuels (MOTIE, 2016). In the case of water, the opportunity cost to be considered varies depending on the water source. However, the water used in this analysis was assumed to be tap water and the impact value was calculated based on the water general cost (ME: Ministry of Environment, 2016). In the case of wastes, the impact value was calculated based on the waste disposal cost of private trustees and the overall cost of collecting transportation (Incheon wastewater collection and transportation cost management average by company).

3 Greenhouse gases - There is a domestic market price based on the greenhouse gas Emissions Trading Scheme (ETS) in January 2015. Emission rights are allocated to individual companies under government aggregate regulations, and price fluctuations may occur depending on emissions trading trends. This calculation applies the closing price for the closing date of the final emission trading market for the fiscal year.

4 Impact Value related to the EMS solution, traditional market ICT solution and the T phone damage prevention reflected the financial benefits, namely cost reduction, increase in sales and operating profit, prevention of potential damage obtained from stakeholders through SK Telecom's use of products and services.

5 Impact can occur through in the short-, mid-to long-term. If a long-term impact is determined, we will assume the duration of impact and estimate the future residual effect by using the cash flow discount method. This analysis did not take into account the residual effects of long-term effects. We assume that the price of market transactions, including the right of greenhouse gas emissions, reflects the potential future value.

3

ACCOUNT ABILITY

TRANSPARENT GOVERNANCE STRUCTURE BASED ON INDEPENDENCE AND EXPERTISE

The Board's Roles and Responsibilities

According to SK Telecom's corporate statutes and Articles of Incorporation, the Board of Directors has been given the highest decision-making authority related to the company's management from the shareholders. The Board holds the responsibility and role as the highest decision-making body and thus mediates diverse stakeholders' interests and approves management decisions. Furthermore, the Board undertakes the deliberation and approval of matters such as conflicts of interest related to the company's investment plans and internal transactions as well as transparent compensation. The Board also reviews and undertakes responsibility for the company's overall risk management. Specifically, in order to protect long-term corporate value, the Board is fulfilling its role and responsibility to independently review the positive and negative impacts that the company's decisions may have on stakeholders. In 2016, there was a total of 13 Board meetings and the directors' attendance rate stood at 98.7%.

An Independent and Transparent Board

SK Telecom is continuing to strengthen the Board's operation with a focus on independent directors. Currently, the percentage of independent directors is 66.7%, which is higher than that of other large corporations on average (50.2%, according to the large corporation governance status reported to the Fair Trade Commission in December 2016). Moreover, since 2009, SK Telecom has separated the positions of the Chairman of the Board and the CEO to enhance the independence of the governance structure and after 2012, an independent director that satisfies all independence requirements has assumed the responsibility of the Chairman of the Board.

SK Telecom's independence requirements for independent directors complies with domestic commercial laws, the Fair Trade Law and other laws, and they are also specified in the Board's Articles of Incorporation. Additionally, to prevent conflicts of interest, directors are restricted from engaging in transactions pertaining to the company's business interests without prior approval or becoming a general partner or director of a company within the industry. In the interest of improving the Board's efficiency, independent directors and auditors are also limited to holding a maximum of two concurrent positions.

A Diversity-Based Board Selection Policy

SK Telecom takes the diversity of its employees and stakeholders into consideration and forms a Board of Directors that can represent them. To accomplish this, the company maintains a director selection process in order to actively pursue diversity during the course of nominating and selecting directors in a manner that is free of discrimination based on gender, race/ethnicity or country of origin/nationality.

Furthermore, through its corporate Articles of Incorporation, SK Telecom stipulates that the members of the Board shall have deep expertise and experience in the areas of economics, management, accounting, law and telecommunications and execute precise decision-making based on this foundation, thereby contributing to the company's development, risk management and protection of shareholder rights. On this basis, SK Telecom is nominating and selecting as director candidates those individuals that are experts and can fill the skill gap in comparison with the company's goals for the Board's expertise. Thus, along with the candidate's individual competence, SK Telecom is focusing its efforts on ensuring skill balance & diversity.

According to these principles, SK Telecom's Independent Director Recommendation Committee may nominate an independent director candidate and if the candidate is given final approval through a majority vote by the majority of the Board members attending, the candidate's appointment may be finalized at the General Shareholders' Meeting through a transparent and lawful procedure.

SK TELECOM'S INDEPENDENCE AND CONFLICT OF INTEREST STATEMENT
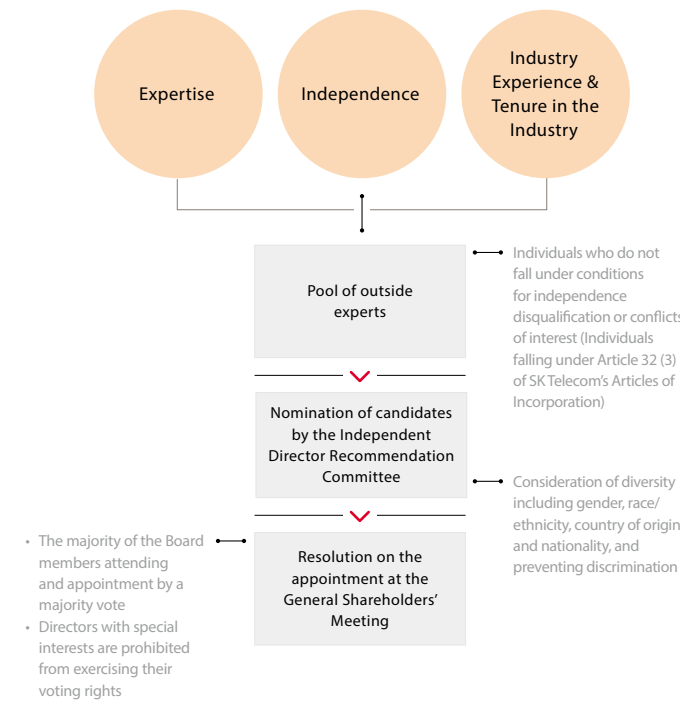
Disqualification Criteria

1 Current executives, executive officers and employees involved in the business affairs of criteria the company, or former executives, executive officers and employees who were involved in the business affairs of the company in the past 2 years
2 The largest shareholder of the company, and his/her spouse and lineal descendants and ascendants
3 In case the largest shareholder is a corporate body, its directors, auditors, executive officers and employees
4 Spouses and lineal descendants and ascendants of the directors, auditors and executive officers of the company
5 The directors, auditors, executive officers and employees of the parent company or subsidiaries
6 The directors, auditors, executive officers and employees of corporate bodies that are major stakeholders
7 The directors, auditors, executive officers and employees of other companies at which a director, executive officer or employee of the company is serving as a director or executive officer

Conflict of Interest

1 Person who controls a company having a competitive relationship with the Company, as of interest specified in the Monopoly Regulation and Fair Trade Law (FTL) or any person relating to such a person
2 Person who is, or has been within last two years, an officer or an employee of a company having a competitive relationship with the Company, or a company which belongs to the same enterprise group as such competitor under the Fair Trade Law (FTL)
3 Person who is, or has been within last two years, an officer or an employee of a corporation which is the largest Shareholder or the 2nd largest Shareholder of a company having a competitive relationship with the Company, or a company which belongs to the same enterprise group as such corporation under the Fair Trade Law (FTL)

BORAD OF DIRECTORS NOMINATION PROCESS

- The majority of the Board members attending and appointment by a majority vote
- Directors with special interests are prohibited from exercising their voting rights

The Board's Committees

To ensure that the Board of Directors faithfully executes its roles and responsibilities, SK Telecom operates five committees under the Board including the Independent Director Recommendation Committee, Audit Committee, Compensation Committee, CAPEX Review Committee and Corporate Citizenship Committee. To safeguard fairness and transparency, all the committees, except for the Independent Director Recommendation Committee, are entirely comprised of independent directors.

Independence of the Audit Committee

At SK Telecom, the composition, operation, authority and responsibility of the Audit Committee are stipulated in the Committee's regulations in accordance with commercial laws, other applicable laws related to the capital market and financial investment businesses and the company's own Articles of Incorporation. The Audit Committee is comprised entirely of independent directors. It is responsible for overseeing accounting and conducting operational audits and to accomplish this, the Committee audits the financial statements and supplementary schedules; reviews the procedures and results of the audits performed by independent accounting firms; reviews the company's major issues; and reviews the operating status of the company's internal accounting system as reported by an internal accounting manager and an external auditor.

BOARD ACTIVITIES (2016)

Session	Date	Main Agendas	Director Attendance Rate
384th	Jan. 21, 2016	Approval of merger after divestiture, incl. SK Planet's LBS business / Designate the closing period and base record date related to expressions of small-scale objections / 2016 transactions with SK Planet's products/service/assets	83.3%
385th	Feb. 3, 2016	32nd fiscal year financial statements / 32nd fiscal year business report / 2016 authorization of long-term financing / Transactions with SK Broadband's real estate sublease / Status of the internal accounting management system / 2015 Q4 follow-up report	100%
386th	Feb. 18, 2016	Convoking the 32nd General Shareholders' Meeting / Results of evaluating the operating status of the internal accounting management system	100%
387th	March 2, 2016	Approval of merger after divestiture for SK Planet / Investment to promote growth at One And	100%
388th	March 18, 2016	Appointment of the Chairman of the Board / Appointment of the committee members / Securing additional LTE frequencies / 2016 Q2 transactions with SK Group / Company bond transactions with the affiliated financial firm, SK Securities / Fund management deal with the affiliated financial firm, SK Securities	100%
389th	April 5, 2016	Notice of substitute general meeting to report for SK Planet's merger after divestiture	100%
390th	April 28, 2016	Payment of the operating expenses of the SUPEX Pursuance Association for 2016 / 2016 Q1 follow-up report	100%
391st	May 20, 2016	Payment for new LTE frequency allocation costs / Registration for the re-allocation of 2.1GHz frequencies	100%
392nd	June 23, 2016	2016 Q3 follow-up report / Service transactions with SK (China) Corporate Management Limited Construction / Share of the operating expenses for the strategic technology planning group in 2016 / Company bond transactions with the affiliated financial firm, SK Securities / Fund management deal with the affiliated financial firm, SK Securities / 2016 additional CAPEX plan for the LTE network	100%
393rd	July 28, 2016	Interim dividends / 2016 statement of accounts / 2016 Q2 follow-up report / Promotion plan for fin-tech related joint ventures	100%
394th	Sept. 22, 2016	2016 Q4 transactions with SK Group / Neos Networks contribution in-kind equity / Company bond transactions with the affiliated financial firm, SK Securities / Fund management deal with the affiliated financial firm, SK Securities	100%
395th	Nov. 24, 2016	Comprehensive share exchange with SK Communications / Landscaping and facilities management services transaction with SK Forest / Indeung Mountain SUPEX Center lease transaction / 2017 contract for the joint management of company-use aircraft / 2016 Q3 follow-up report / Results of law abidance and effectiveness evaluation	100%
396th	Dec. 16, 2016	2017 Management Plan / 2017 Q1 transactions with SK Group / 2017 transactions with Infosec / 2017 maintenance and repair services for base stations / 2017 construction for building fixed-line and wireless networks / 2017 operation service of customer contact channels / Approval of short-term electronic bond issuance limits / Company bond transactions with the affiliated financial firm, SK Securities / Fund management deal with the affiliated financial firm, SK Securities / 2017 purchase of PS&M customer terminal bonds / Report on the sale of POSCO shares	100%

COMPOSITION AND RESPONSIBILITIES OF THE COMMITTEES WITHIN THE BOARD

Committee	Composition	Authority and Responsibility
Independent Director Recommendation Committee	Executive director 1 Independent directors 2	• Recommend independent directors candidates for appointment for the General Shareholders' Meeting
Audit Committee	Executive director 0 Independent directors 3	• Inspect and audit the directors' job execution, work performance and financial status • Investigation of the Board, injunction of violated actions and convene an Extraordinary Shareholders' Meeting in accordance with the Commercial Act • Review and approve the transactions of affiliates including private contracts for transactions that are above a certain amount
Compensation Committee	Executive director 0 Independent directors 3	• Review the remuneration system and level for the CEO
CAPEX Review Committee	Executive director 0 Independent directors 4	• Review the CAPEX plan for the following year and review the business plan CAPEX plan when comprehensively changing the business plan for the current year • Change the major CAPEX (exceeding 10% of CAPEX) / Review the quarterly or semi-annual CAPEX execution performance
Corporate Citizenship Committee	Executive director 0 Independent directors 3	• Set and review the CSR initiative direction / Report CSR initiatives to the Board • Handle stakeholder communication and resolve their grievances • Comprehensive review of the company's social and environmental risks

* The CAPEX Review Committee and Corporate Citizenship Committee began to be entirely comprised of independent directors in 2015.

ACTIVITIES OF THE COMMITTEES UNDER THE BOARD

Committee	Members	Date	Main Agendas	Director Attendance Rate
Compensation Committee	Jay-Young Chung, Dae-Shick Oh, Jae-Hyeon Ahn	April 27, 2016	Chairman appointment - Jay-Young Chung	100%
CAPEX Review Committee	Jay-Young Chung, Dae-Shick Oh, Jae-Hoon Lee, Jae-Hyeon Ahn	April 27, 2016	Chairman appointment - Jae-Hoon Lee	91.8%
		Nov. 23, 2016	Report on the status of major investee companies	
		Dec. 15, 2016	2017 investment plan	
Corporate Citizenship Committee	Jay-Young Chung, Jae-Hoon Lee, Jae-Hyeon Ahn	April 27, 2016	Chairman appointment - Jae-Hyeon Ahn	91.7%
		July 27, 2016	Report on the key content of the 2015 Annual Report (integrated report)	
		Sept. 21, 2016	2016 mutual growth initiative plan and key performance	
		Nov. 23, 2016	2016 ethical management initiative performance and plan / 2016 CEM initiative status / Corresponding measures and plan for the Emissions Trading Scheme (ETS)	
Independent Director Recommendation Committee	Dong-Hyun Jang, Jae-Hoon Lee, Jae-Hyeon Ahn	Feb. 18, 2016	Candidate nomination at the 32nd General Shareholders' Meeting - Dae-Shick Oh	100%
	Dong-Hyun Jang, Jay-Young Chung, Dae-Shick Oh	April 28, 2016	Chairman appointment - Dong-Hyun Jang	
Audit Committee	Dae-Shick Oh, Jae-Hoon Lee, Jae-Hyeon Ahn	Feb. 2, 2016	Operation status of the internal accounting management system / 2015 second-half management diagnosis and audit results and 2016 plan / Auditors' opinion on the internal monitoring system / Construction of fixed and wireless communications networks in 2016 / 2016 contract for customer gift provision / SKTCH service agreement	95.8%
		Feb. 17, 2016	Results of the 2015 fiscal year audit / Results of the 2015 fiscal year internal accounting management system evaluation / Evaluation of the operating status of the internal accounting management system / Confirmation of the bill for the 32nd General Shareholders' Meeting and the opinion on the document examination / 32nd audit report	
		March 17, 2016	2016 transmission equipment/optical cable maintenance service changes / 2017 transmission equipment maintenance service	
		April 27, 2016	Chairman appointment / Happynarae expendable materials and supplies procurement / Remuneration for outside auditors in 2016 / Comprehensive approval of service provision by outside auditors in 2016 / 2016 accounting audit plan	
		July 27, 2016	Results of the half-yearly review of outside auditors / 2016 first-half management diagnosis and audit results and second-half plan	
		Sept. 22, 2016	Construction of fixed and wireless communications networks in 2016	
		Nov. 23, 2016	Consignment of wired network services in 2017	
		Dec. 15, 2016	2017 service transaction with SK Planet / 2017 product and service transaction with SK Techx / 2017 service transaction with SK Wyverns / 2017 work alliance contract with One Store / 2017 accounts receivables collection delegation / 2017 exchanger maintenance service / 2017 lease transaction for electrical communication equipment	

Performance Evaluations and Remuneration Payments

SK Telecom evaluates its directors' long-term performance and evaluations are considered during re-nomination after the end of his/her term, and the remuneration and severance pay for directors is determined by a vote at a General Shareholders' Meeting and paid in a fair and transparent manner. Each year, SK Telecom conducts a performance evaluation that covers the directors' expertise in the company's businesses and technologies, how actively they fulfilled their Board activities, etc. and the results are discussed at a Board meeting. When a director is re-nominated by the Independent Director Recommendation Committee after the end of his/her term, his/her previous performance as a Board member is considered.

The limits for Board members' remuneration are determined at the General Shareholders' Meeting and passing through a resolution at the meeting, the remuneration is paid in a fair and transparent manner. In the interest of enhancing the transparency of directors' remuneration, since 2014, SK Telecom has disclosed the individual remuneration of directors and auditors whose remunerations were above KRW 500 million within the company's business reports. The remuneration for Board members must be within the limits set at the General Shareholders' Meeting and are calculated according to the value of their respective duties.

Performance-based compensation of up to 200% of the annual salary is determined by a comprehensive evaluation of measurable indices such as financial performances including revenue, operating profit and EVA and the non-measurable indices such as leadership, achievement of strategic goals, expertise and other contribution to the company's management performance. For the management, external perception indices including the 3 major customer satisfaction survey results and sustainability performance results along with environmental and social indices such as reduction in GHG emissions, revenue from environmental solutions and corporate revenue from social contribution solutions are reflected in the performance evaluation.

RATIO OF THE HIGHEST REMUNERATION TO THE MEAN EMPLOYEE REMUNERATION

Total CEO Remuneration (KRW million)	Mean Employee Remuneration (KRW million)	Ratio (*)
1,331	102	13.05

(*) Calculated by dividing the total CEO remuneration by the mean employee remuneration (2016)

REMUNERATION PAYMENTS FOR DIRECTORS

	Total Number (persons)	Total Payment (KRW million)	Average Remuneration (KRW million)
Executive director	2	1,756	878
Independent director	1	78	78
Audit Committee member or auditor	3	235	78
Total	6	2,069	345

CEO'S STOCK OWNERSHIP (*)

	Number of Shares Owned	Stock Options
Jung Ho Park (CEO)	1,000 shares	66,504 shares

(*) As of March 31, 2017

INDIVIDUAL REMUNERATION PAYMENTS FOR EXECUTIVES/DIRECTORS

Name	Position	Total Payment Amount	Remuneration Calculation Standard and Method
Dong-Hyun Jang	Fomer President and CEO / Executive Director	KRW 1,331 million	O Remuneration that is not included in the total remuneration amount: Retirement benefits O The total remuneration amount of KRW 1,331 million is the sum of earned income, other income and retirement income • Earned income: 1) Consists of KRW 570 million in pay (Determined according to the director remuneration standards and within the 2016 remuneration limits. The base salary was set at KRW 570 million by comprehensively considering the duties (as the CEO), position (as the President), leadership, expertise and contribution to the company. One-twelfth of the total amount, KRW 47.5 million, was paid monthly.) 2) Incentive pay of KRW 757 million (the management incentive for the 2015 performance, which was paid in early 2016, consists of the target incentive and profit sharing. The payment of the CEO's performance-based compensation of 0~200% of the annual salary is determined by a comprehensive evaluation of measurable indices such as financial performance including revenue and operating profit and the non-measurable indices such as leadership, achievement of strategic goals, expertise and contribution to the company's management performance. With an operating revenue of KRW 17.14 trillion and operating profit of KRW 1.71 trillion (consolidated basis), the company consistently achieved results above a certain level from the perspective of measurable indices. The company was also ranked No. 1 in NCSI in 2015 for the 18th consecutive year, ranked No. 1 in all three network quality assessments such as KS-SQI and KCSI, strengthened its primary competitiveness such as the world's first commercialization of L4 and simultaneously made efforts to stabilize the market, thereby cementing its market leadership. Moreover, through various efforts in the Lifestyle Enhancement/IoT/Media spheres in order to become a next-generation platform provider including through the launch of the first domestic open-type platform based smart home service, considering that SK Telecom has solidified the foundation for the creation of new corporate value, the performance-based pay of KRW 757 million was paid.) 3) Miscellaneous earned income: KRW 4 million (long-term continuous performance award, medical expenses.) • No remarks regarding other income and retirement income

* According to the directors/executives whose remunerations exceeded KRW 500 million in 2016, including retired directors/executives

THE CORPORATE CITIZENSHIP COMMITTEE AND STAKEHOLDER ENGAGEMENT

Corporate Citizenship Committee

To strengthen the Board's responsible management, SK Telecom established the Corporate Citizenship Committee in May 2008 as the highest decision-making body for responsible management under the Board. With a focus on the Corporate Citizenship Committee, SK Telecom is fulfilling its social responsibility as a global company and practicing responsible management as part of its core management activities.

From the perspective of improving long-term corporate value, the Corporate Citizenship Committee has a duty to thoughtfully consider the company's sustainability and social responsibility in addition to making decisions related to responsible management.

As of March 2017, the Corporate Citizenship Committee consists of three independent directors, whose roles include setting the implementation direction in the five major sustainability management areas including customer-oriented management, mutual growth, CSV and social contribution, ethical management and environemental management as well as advising on sustainability management activities and monitoring the key issues and results.

Looking forward, SK Telecom is further strengthening the role of the Corporate Citizenship Committee including through the operation of a consultative body that can support the Committee's activities. The company has also expanded the Board's sustainability management roles and responsibilities. Since 2013, SK Telecom has published a yearly integrated report containing both the sustainability management report and financial performance results. The Corporate Citizenship Committee undertakes a review of the integrated report's key issues before it is published.

Stakeholder Engagement

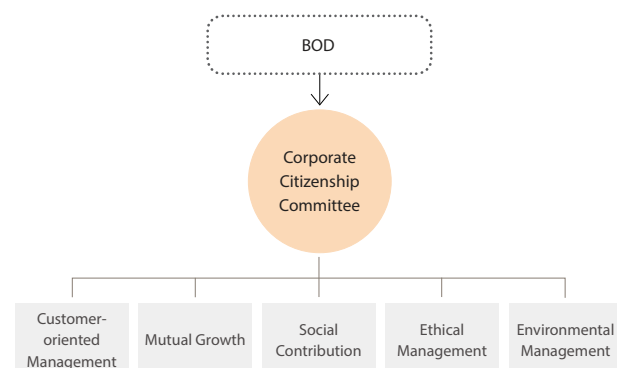Through the company's continued success and development, SK Telecom seeks to create value for its stakeholders as well as contribute to social and economic development and the happiness of mankind. In October 2016, the SK Group revised its management system, SKMS, and expressed its resolve to make stakeholders' happiness its top management philosophy and increase the company's social value. SK Telecom amended its corporate Articles of Incorporation to include this information. To put this into practice, SK Telecom clearly delineates its stakeholders into six main groups including customers, business partners, employees, local communities/NGOs, shareholders and the government and is carrying out management activities based on communication with these groups.

SK Telecom established and disclosed its stakeholder engagement policies and both internally and externally expressed its commitment to stakeholder engagement in 2013. Based upon this, the company further improved the transparency and efficiency of its management through stakeholder engagement and seeks to acquire stakeholders' support and trust. SK Telecom's stakeholder engagement policies define the requirements for internal and external stakeholders to participate in all the company's management activities, provide guidelines from the companywide perspective related to stakeholder communication to the relevant internal organizations and provide a process to resolve stakeholder issues. These stakeholder engagement policies applies to the company's entire management activities including overseas operations. To equip individual departments to manage and process each of SK Telecom's stakeholder communication channels according to the stakeholder engagement policy, the company has designated the organizations and individuals in charge and operate according to a responsibility system. Of the feedback and grievances received through each stakeholder communication channel, those deemed to have a substantial impact or are otherwise considered important are reported to the Corporate Citizenship Committee under the Board.

CSR Grievances and Complaints

SK Telecom operates an integrated channel on its website to collect stakeholders' CSR complaints and grievances related to labor, human rights, the environment and ethics. Through this, if there are opinions, cases of social responsibility violations in business processes or grievances and complaints about cases of damage, SK Telecom seeks to understand and actively resolve the CSR issues. After verifying the content of the feedback and grievances received through the CSR grievance channel, SK Telecom actively resolves them through the operating department's monitoring and due diligence. Furthermore, the content and handling process of CSR issue-related cases that were judged and acted upon as critical issues are reported to the Corporate Citizenship Committee under the Board, and actively reflected in management activities and improvement efforts are being developed to prevent similar cases from occurring.
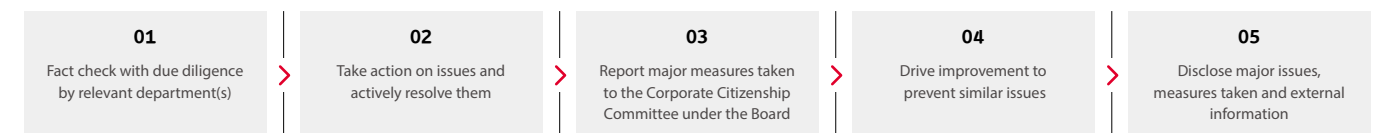
BOD'S ADMINISTRATION OF SOCIAL RESPONSIBILITY

BOD → Corporate Citizenship Committee → Customer-oriented Management | Mutual Growth | Social Contribution | Ethical Management | Environmental Management

STAKEHOLDER ENGAGEMENT AND COMMUNICATION CHANNELS

CUSTOMERS
- VOC Collection channels such as On/offline Customer Center, "T World"
- Customer interaction within distribution network through stores/branches
- CRM questionnaires
- Customer satisfaction survey
- SK Telecom homepage
- Social media pages such as blog, Facebook, etc.
- Customer Advisory Board
- Meetings and events across the year

GOVERNMENT
- Policy proposal by participating in meetings and discussions supervised by the government
- Public-private Project Participation
- Ministry of Science, ICT and Future Planning
- Korea Communications Commission
- Fair Trade Commission
- Korea Commission for Corporate Partnership

BUSINESS PARTNERS
- VoP reception channel
- Portal site for business partners (Open2U)
- Win-Win Conference
- Partner's Day
- One-on-One Meeting
- Win-Win Innovation Center website
- Win-Win Growth Satisfaction Survey
- T open lab, Open Innovation Center

ONLINE CSR GRIEVANCES/COMPLAINTS CHANNEL

SHAREHOLDERS
- Investor meetings (conferences, NDR, etc.)
- Seminars on business status
- Information to investors (homepage)
- Public disclosure (FSS, KRX, SEC, LSE, etc.)
- Shareholders' meeting

LOCAL COMMUNITIES
- Semi-annual meetings with NGOs
- Online volunteer platform
- Online donation platform
- Local Residents' Council (participating in community development)
- Social contribution programs
- CSV Advisory Council

EMPLOYEES
- Labor union (labor union website)
- Labor-Management Council
- Letter to the HR (intranet)
- Company newsletter and in-house broadcast

CSR Grievances/Complaints Channel
The resolution process for grievances/complaints on human rights, labor, social, environmental and customer privacy protection issues

01	02	03	04	05
Fact check with due diligence by relevant department(s)	Take action on issues and actively resolve them	Report major measures taken to the Corporate Citizenship Committee under the Board	Drive improvement to prevent similar issues	Disclose major issues, measures taken and external information

INTEGRATED RISK MANAGEMENT
BASED ON A COMPANYWIDE SYSTEM

Risk Management Governance

SK Telecom's Board defines the companywide risk profile and threshold levels by risk and holds the top responsibility for overall risk management decision-making. In the decision-making process for management issues by major issue, the Board conducts decision-making regarding potential risks by issue and risk management. Namely, the Board recognizes the risks that the company may face and conducts the ultimate decision-making regarding the company's tolerance to exposure and response strategy regarding all of the risks including strategic risk, financial risk, investment risk. Risks from the environmental and social perspective including operational risk, tax risk and reputational risk.

Monitoring and responding to companywide risks occurs through the Management Support Office, which is under the direct control of the CEO. The Management Support Office is in charge of managing the risk profile, mapping the responsible department regarding key risks and defining the response by risk. Through close cooperation with the business departments, this office also oversees monitoring according to the defined risk levels, spread of risk awareness, and carrying out responses. If

an urgent risk occurs, the Management Support Office reports to the CEO and has the authority to summon the personnel of the Companywide Crisis Response Situation Room, supervised by the relevant COO.

Managed Risks

The range of SK Telecom's companywide risk management covers financial and non-financial risks including the business risk area such as strategic risks, financial risks (market, interest rates, taxation, foreign exchange) and regulatory risks; business operation risks such as large-scale customer complaints, customer information leakages and network failures; and reputational (social responsibility) risks that can impact the company's reputation such as unfair trade, bribery and treats.

Crisis Response Process

Since 2014, SK Telecom has been strengthening its risk management system to operate a companywide crisis response center to respond promptly to serious crisis situations. The Companywide Crisis Response Situation Room is called upon during serious crisis situations necessitating urgent responses such as when the risk may affect various organizations within the company or may have a serious impact on business operations, including a dramatic increase or spread of traditional and social media reports of a certain situation and drastic increases in reports of the same type of customer complaints (e.g. VOC, Voice of Customer) in a short period of time. Such companywide crisis situations include a nationwide network failure (incl. failures caused by natural disasters), leakage of customer information, as well as investigations and media coverage of unethical behaviors of executives and employees of the company.

A More Advanced Risk Management Structure

SK Telecom has not only set up autonomous risk response systems by department and established risk response systems suitable for each business organization's characteristics and situation, but it has also enhanced the preemptive inspection system by business
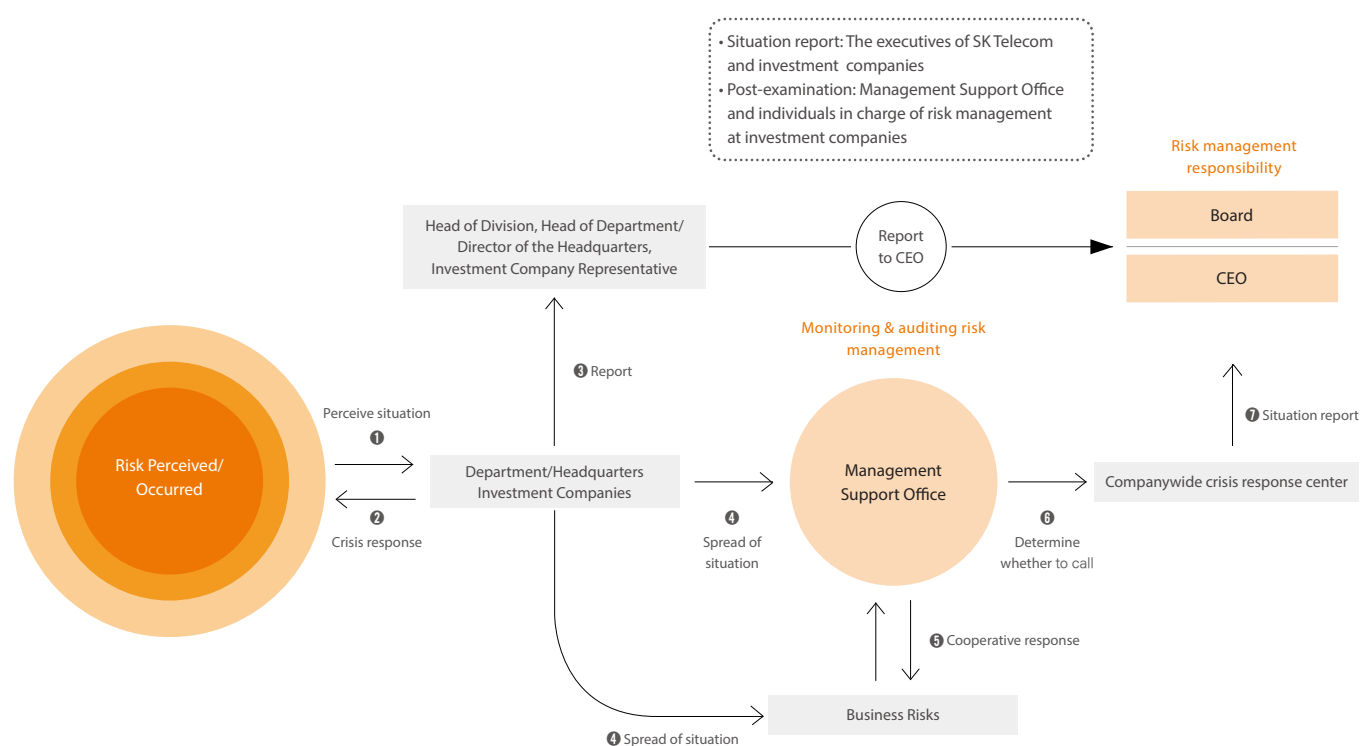
area. In particular, to prepare for the increasing impact of the risk of information security incidents, SK Telecom is continuously examining the level to which it is complying with security policies while also diagnosing and removing physical and technological vulnerabilities. Additionally, by conducting regular simulations, the company is building a response system that enables swift and methodical action.

Support for Investment Companies' Risk Management Systems

SK Telecom has built a companywide risk management system that includes primary investment companies. The company has clear inter-company situation reporting standards by major risk type, and has established an organic risk responding system for investment companies to share information in the event of unexpected emergency situations and to cope with crises through prompt decision-making.

With the aim of improving management stability within the even more organic cooperative system, SK Telecom is operating a companywide risk management working group, and has also formalized risk management meetings that include investment companies so that potential risks can be identified in an ongoing manner. Moving forward, SK Telecom will continue to ensure the stability of business operations by diligently overseeing its risk management system.

COMPANYWIDE RESPONSE SYSTEM FOR RISK INCIDENTS

- Situation report: The executives of SK Telecom and investment companies
- Post-examination: Management Support Office and individuals in charge of risk management at investment companies

Risk management responsibility

Head of Division, Head of Department/ Director of the Headquarters, Investment Company Representative

Report to CEO

Board

CEO

Monitoring & auditing risk management

❸ Report

Risk Perceived/ Occurred

Perceive situation ❶

Crisis response ❷

❼ Situation report

Department/Headquarters Investment Companies

Management Support Office

Companywide crisis response center

❹ Spread of situation

❺ Determine whether to call

❺ Cooperative response

❹ Spread of situation

Business Risks

RISK MANAGEMENT AREAS AND FACTORS

Business Risks	• Strategy - Predict customer needs and demands, business decision-making, changes in technology and industry environment • Regulatory risk - Sudden changes in related systems and policies • Financial - Exchange rate, changes in interest rates, liquidity, credit, assets, debt management • Operational process - Appropriateness of organizational design, performing incorrect processes
Employees	• Individual corruption - Leaking company information, financial dealings with employees and stakeholders, illicit profits/usage, embezzlement of public funds, violation of prohibition on concurrent positions/outside work • Sexual ethics - Sexual harassment, gender discrimination • Employee conflict - Conflicts between employees, leaders, or the company • Employee incidents/accidents - Death from negligence or serious injuries from accidents, job-related accidents, public criticism (e.g. assault) • Company losses due to job-related negligence - Neglectful sales, asset management
Customer Values	• (Collective) customer actions • Large-scale customer complaints - Service failures, computational errors • Unfair trade - Transactions with relatives/borrowed name companies, illicit transactions, special treatment of specific enterprises and overlooking defects • Customer information leaks - Leak of subscribers' personal data, leak of terminal information and call records • Spread of negative press through traditional and social media • Conflict with suppliers - Violence, sexual harassment, legal disputes due to changes in the business environment
Business Partner	• Giving/receiving money and valuables or special treatment • Business partners violating data privacy - Business partners leaking trade secrets externally or using company information wrongfully • Business partners' illegal actions - Customer fraud at authorized dealerships/stores
Governance Relationship	• Fair trade violations - Illegal subsidies, violation of Protection of the Communications Act, collusion • Inappropriate entertainment - Offering bribes, other special treatment • Accounting fraud - Creating slush funds, fraudulent accounting, disclosure violations • Search/Investigation by state institutions - Violations of laws, search/investigations such as the investigation of company policies

RISKS & OPPORTUNITIES

Long-term Risks & Opportunities

SK Telecom is thoroughly analyzing significant risk factors in the management environment, identifying emerging risks and categorizing their impacts from the short-, mid- to long-term perspectives to respond strategically to them. Through advanced risk management that considers future risks to the company from the long-term perspective, SK Telecom seeks to overcome risks and create new opportunities.

Risk	Context	Status	Potential Impacts on SKT	What are we doing about it?
Limits to growth in the wireless telecommunications market due to population decline and domestic subscriber saturation	• There are limits to growth in the saturated wireless telecommunications market as demonstrated by the over 40 million smartphones in use domestically and a wireless telecommunications penetration rate of 110% (as of December 2016). • It is possible that the growth trend of subscribers will remain stagnant due to the high domestic wireless telecommunications service penetration rate, which may have a negative effect on management performance. Continual efforts to create management results are necessary.	Matured	• According to documents reported to the Ministry of Government Administration and Home Affairs, as of Dec. 31, 2016, the wireless telecommunications penetration rate is 111.3%, a high rate compared to other industrialized nations. Thus, SK Telecom expects that the downward trend towards stabilization in the demand for wireless telecommunications will continue. Consequently, it will be difficult to anticipate a dramatic rise in revenue in the wireless telecommunications section. • In the mid- to long-term, the growth rate of SK Telecom's wireless subscribers may decline, and this is expected to limit the wireless telecommunications business's revenue and profit growth.	• Through retention-oriented marketing efforts to offer differentiated customer benefits including retention programs such as the best data and voice call services, quality management of service contact points and management, SK Telecom continues to be the No. 1 in market share (49% as of December 2016). • Based on the core capabilities of SK Telecom's traditional wireless telecommunications business, the company is reforming its business structure as a provider of new ICT-based services to deliver new value to customers and create new value-based profit.
Revision to Mobile Device Distribution Improvement Act (expiration of the cap on subsidies)	• After the Mobile Device Distribution Improvement Act came into effect in October 2014, the wasteful subsidy competition in the wireless telecommunications market cooled down and discrimination between users in terms of benefits was resolved. Thus, the competitive structure evolved into a service- and quality-oriented marketing competition. • Three years have passed since the Mobile Device Distribution Improvement Act was legislated and it is expected that if the 'Cap on Subsidies' is not separately extended by lawmakers, it will automatically expire in October 2017.	Matured	• While it is expected that the 'Cap on Subsidies' provision in the Mobile Device Distribution Improvement Act will expire, due to the market overheating that may result, it is possible that new regulations may be debated and adopted, so there remains risk in the regulatory uncertainty. • However, due to the increased LTE penetration rate, it is expected that subsidy-driven marketing competition and expansion of the market size will not be easy. Accordingly, it is expected that the impact from the expiration of the 'Cap on Subsidies' will be limited.	• According to the intent of governmental regulations including the Handset Distribution Act, SK Telecom is actively participating in settling the culture of ending discrimination among users as well as taking part in healthy competition based on products and services. The company is also striving to improve profitably by strengthening benefits for users within regulatory boundaries and strengthening its competitiveness as a service provider. • SK Telecom is avoiding wasteful marketing-oriented competition and choosing instead to change the competitive paradigm by strengthening its primary product- and service-oriented competitive strategy. • To accomplish this, SK Telecom is not only actively engaged in dialogue with regulatory agencies such as the Ministry of Science, ICT and Future Planning and Korea Communications Commission, but also trying to minimize negative impacts through preemptive actions such as proposing policy.
Sustained pressure to cut telecommunications rates	• One of the consistent demands by stakeholders and politicians is the easing of household communications expenses through reduced telecommunications rates. • Since 2013, the government implemented various policies such as the phased termination of mobile telecom subscription fees and the adoption of the Mobile Device Distribution Improvement Act in October 2014 and continues to debate regulations.	Matured	• The continuous demand for network investment arising from greater data traffic and 5G is expected to rise due to a sharp rise in the consumption of media content and the adoption of new ICT services such as connected cars. As a result, the revenue decrease from the reduced net telecommunications expenses is expected to have a negative impact not only on profitably but also the investment expenditures that form the foundation for the company's future competitiveness. • In the telecommunications industry, market entry is limited by the government's granting of business authorization and frequency auction, so it is an industry with a high sensitivity to regulation. • Due to SK Telecom's dominant market position in the wireless communications sector, regulations apply asymmetrically to the company. If additional regulations come into force, it may have a disproportionately large impact on SK Telecom's profitability and competitiveness compared to other companies.	• SK Telecom is making efforts to increase actual benefits to customers through differentiated product and service competitiveness rather than artificially reduced rates. • To provide telecommunications services that are indispensable to groups such as low-income groups, senior citizens and handicapped individuals whose access to service is more vulnerable, SK Telecom is actively participating in rate reduction systems for low-income and handicapped individuals and special rates for senior citizens. • To ensure a system of reasonable rates, SK Telecom is striving to assist good policymaking by actively engaging in dialogue with the Ministry of Science, ICT and Future Planning and Korea Communications Commission.
Global trend of deregulating network neutrality	• Network neutrality is the principle that internet service providers should allow equal access to all traffic on internet networks without regard to the users or content providers. In Korea, the 'Network Neutrality and Internet Traffic Management Guidelines (2011)' and 'Standards for the Reasonable Management of Traffic on Communications Networks / Transparent Use and Traffic Management (2013)' are in effect and telecommunications companies comply with them. • The United States had been a strong supporter of network neutrality, but since Ajit Pai, the new Chairman took office at the Federal Communications Commission (FCC), the US has been adjusting its policies to ease network neutrality in the interest of telecommunications providers' investment and innovation. Due to such movement, it is expected that there will be a trend of easing global regulations in terms of network neutrality. • It is expected that the Korean government will comprehensively consider global trends and unfold network neutrality policies in the interest of industry and ecosystem development.	Emerging	• It is expected that zero-rating agreements, in which the content provider is responsible for data charges instead of the content user, will expand as network neutrality regulations loosen. • If zero-rating spreads, it is expected to create an energized platform service environment through diverse providers' cooperation, improving the benefits to users in addition to increasing telecommunication providers' autonomy in launching new products. • Furthermore, it is expected to ease the burden of network investment expenses that telecommunication providers bear through a growth structure with a virtuous cycle.	• SK Telecom complies with the 'Network Neutrality and Internet Traffic Management Guidelines' that were established in relation to network neutrality by the Korea Communications Commission (KCC) in 2011. The company will faithfully fulfill its responsibility as a network provider by responding promptly to regulatory changes in the future as well. • Additionally, SK Telecom will continue to develop and innovate technology to provide an efficient and stable network.

RISKS & OPPORTUNITIES

Risk	Context	Status	Potential Impacts on SKT	What are we doing about it?
Qualitative Changes in Wireless Telecommunications Technology (5G, etc.)	• Because the ICT industry is infrastructure-based, it in an industry that requires enormous amounts of investment funds for large-scale network development and maintenance. • As there is a shift in generations from CDMA to WCDMA (3G), then to LTE (4G) and finally 5G, there is not only a demand for indirect costs such as R&D for technological competitiveness, but financial expenditures for large-scale infrastructure investments are unavoidable.	Emerging	• As a telecommunications company, SK Telecom is maintaining a certain level of investment expenditures to secure network competitiveness by building and maintaining networks. • In the 5G era, data consumption is expected to rise sharply compared to 4G as business models reflect next-generation media content such as autonomous cars and VR/AR. Therefore, telecommunications providers possessing related capabilities will not only offer networks but grow as a Smart Piper. • As there are plans to standardize 5G technology in 2018 and commercialize it in 2019, there exists a possibility of changes in CAPEX compared to LTE and the actual investment amount is expected to experience fluctuations according to frequency allocations and competitive strategies. SK Telecom will consistently make efforts to stabilize CAPEX by making network investments more efficient.	• Through the development of content related to 5G networks such as 5G services that utilize VR/AR, autonomous cars and connected cars, SK Telecom will secure next-generation network/telecommunications market competitiveness in advance. The company is making continuous efforts to secure profit creation opportunities for the future. • SK Telecom is forming collaborations with global companies to standardize 5G and securing channels for technological cooperation while also strengthening its capabilities in the global ICT market. Additionally, the company successfully demonstrated the world's first 5G handover in September 2016 and the world's first 5G connected car in November 2016. • SK Telecom is readying the groundwork to build a 5G experimental network by the end of 2017 (as a goal) and after standardizing the technology in 2018, the company expects to commercialize it in earnest around 2019.
Market Paradigm Shift from the 4th Industrial Revolution	• The 4th Industrial Revolution, with a focus on connection and convergence, is expected to blur the boundaries between industries and realize the bulk sharing of information between objects, giving rise to changes in market structure across all industries. • The resulting emergence of new business models such as artificial intelligence (AI), the Internet of Things (IoT), autonomous cars, augmented reality (AR) and virtual reality (VR) is expected to not only change the ICT industry but also change the global market's main competitive structure.	Emerging	• As the new business models of the 4th Industrial Revolution will be based upon connection through network infrastructure, the telecommunications providers that possess the relevant network expertise will enjoy an advantage in securing leadership in the 4th Industrial Revolution. • It is expected that the role of telecommunications companies will be highlighted from the perspective of the utilization of users' diverse information on the base of the 5G network, and such a future trend can be a new opportunity for SK Telecom. • The investment needed to lead the ecosystem including investments for new technology and expanding business models will inevitably have a financial impact but it is a key factor in securing competitiveness for long-term growth.	• SK Telecom prepared a foundation for the AI sector as it released Korea's first voice recognition based AI platform NUGU in September 2016 and is building a business model to pioneer the 4th Industrial Revolution based on AI and the 5G network. • In the future, SK Telecom will make every effort to be the representative new ICT company in the age of the 4th Industrial Revolution by continuing its business innovations. This includes occupying the future media/IoT/commerce platforms in advance, promoting enabler businesses in the enterprise sector and entering other industries that converge with ICT, all upon the basis of differentiated competitive advantages and core capabilities of its AI and infrastructure.
Emergence of Emissions Credit Risks from Intensifying Climate Change	• As the danger from climate change becomes a major global agenda, climate change regulations are gradually strengthening including through the strengthening of the Emissions Trading Scheme (ETS). Thus, this is giving rise to risks related to securing emissions credits and increased operating expenses from the cost of electricity. • In January 2015, the Korean government implemented the Emissions Trading Scheme and following the completion of the post-Kyoto Protocol at the COP21 (Paris Agreement) at the end of 2015, set a national target of reducing GHG emissions by 37% compared to BAU, and is strengthening market and non-market regulations.	Emerging	• SK Telecom consumes a large amount of energy across its data centers and networks to operate its networks and base stations, increasing the necessity of capitalizing the externalities from GHG emissions and managing them. • There is a need for SK Telecom to be continuously aware of this situation because of the financial burden that the company may have to bear as well as the negative impact this may have on future business operations, such as the environmental liabilities that may result because the amount of emissions credit allocations from the government are low compared to SK Telecom's anticipated GHG emissions (BAU) and there are long-term uncertainties in the emissions trading market.	• SK Telecom is managing the energy usage and GHG emissions from operations as a key indicator while also including the construction of low-energy networks in the business plan and operating accordingly. • SK Telecom is striving to minimize environmental risks that may occur in the future by providing social GHG reduction research and infrastructure that utilizes ICT. For instance, the company's GHG savings calculation method utilizing T map navigation was recognized as an international standard. • To respond proactively to the Emissions Trading Scheme, SK Telecom is continuing to have discussions through the BOD's Corporate Citizenship Committee and in addition to the company's own GHG reduction activities, it is preparing a variety of corresponding measures. These measures include easing the price risk through the distributed purchase of emissions credits, the recognition for early action GHG emissions between 2012~2013 and registering for additional allocations of GHG emissions credits from the new installation of equipment.
Privacy Protection and Human Rights	• The high-speed internet network has the nature of a public good and privacy protection is not only the foundation of customer trust but also the basic duty of a provider. • Privacy protection is a basic right and legally protected under the Protection of Communications Secrets Act, etc. However, it can also be restricted for the public interest in cases of certain criminal suspects, terror and national security. • Wireless telecommunications providers have an obligation to prevent customer damage due to DDOS, system hacking, viruses, ransomware, spam, etc. • Telecommunications companies have an obligation to protect equal information access rights to the internet and protect secrets regarding personal telecommunications information. Thus, they must establish clear and balanced positions and policies regarding governmental or political requests to provide personal information and customers' privacy.	Emerging	• The process and basis regarding requests for personal information from Korean judicial authorities, investigative agencies and governmental institutions are defined in the Protection of Communications Secrets Act and Telecommunications Business Act. • Korean telecommunications companies received about 1,125,054 communications data and 300,942 requests for communication verification data from governmental institutions such as prosecutors, the police and the National Intelligence Service as of 2015 (according to the number of data requests reported to the Ministry of Science and Technology in Nov. 2016). It is expected that the importance of the use of personal information including for investigating crime will further increase. • SK Telecom is preparing policies that balance the basic rights of users such as privacy protection with the concerns of governmental institutions and the public interest. The company is considering this issue from a long-term risk perspective.	• 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. • Cooperation regarding communications data, communications verification data and communications restrictions are carried out according to the strict procedures and limitations specified in current law, and along with continuous diagnostic activities and internal audits to check for elements of potential violations of users' rights, the company is doing its best to minimize human rights risks. • SK Telecom is pursuing zero (0) cases of privacy protection incidents through efforts centered around the Information Protection Planning Team that is dedicated to this task. To protect customer privacy, the company is strengthening the features of the privacy protection control tower and updating the diagnostic system, building a data-based Intelligent Security system, strengthening the wireless telecommunications network IT system security diagnosis and upgrading preventative systems, and strengthening personnel and material security systems according to changes in the ICT environment.

PRACTICING FAIR AND TRANSPARENT ETHICAL MANAGEMENT

Code of Conduct and Practice Guidelines

SK Telecom declared through the Code of Conduct its responsibility to stakeholders including employees, partner companies, customers, shareholders and local communities, and clearly presented a direction regarding the company's comprehensive ethical management such as the application standards and attitude of the Code of Ethics that employees are expected to keep, and is applying a Zero-Tolerance Policy regarding compliance with the Code of Ethics. Based on the standards in the Code of Conduct, the detailed ethical implementation status was established in the Code of Ethics and Practice Guidelines, in order to prevent any confusion that may arise from discrepant interpretation from individual to individual regarding SK Telecom's Code of Conduct and ethical standards. In addition, in order to present understanding of and response standards regarding diverse situations in which ethical issues may occur, the Practice Guidelines for the Code of Ethics (FAQ) is provided to leaders and employees.

Ethical Management System

SK Telecom is practicing ethical management from three perspectives: Prevention – Detection – Response. In 2016, while SK Telecom continued to foster each of the three domains of the ethical management framework, the company has also made progress in ethical management by focusing on improving management speed based on honesty, managing potential risks in its methods of working

and business aspects as well as enhancing the implementation system for leader-centric ethical management.

Understanding Potential Ethical Management Risks

SKMS, the management system of SK Group, covers practical diagnostic topics including ethics awareness, measures to take in the event of occurrence and reporting obligations. Furthermore, SK Telecom internally surveys its employees regarding practicing ethical management on an annual basis and discovers potential risks. Beginning in 2016, this survey was expanded to cover the employees of all investment companies. By sharing the survey results and supporting companies that have vulnerabilities in ethical management, SK Telecom demonstrates its commitment to help its investment companies to possess stronger ethical management.

Moreover, as the public's interest in corporate ethical issues has grown as of late and to call attention to the Code of Ethics and practice guidelines, SK Telecom has begun implementing self-inspections at the team level in 2016. According to the results, the company discovered key ethical risks including information security-related issues such as employees' handling of documents and the handling of sensitive documents. To address this situation, SK Telecom made it a priority to detect documents that present a risk and induce cleansing at field organizations as well as to check that risk cleansing is performed on a quarterly basis in key departments.

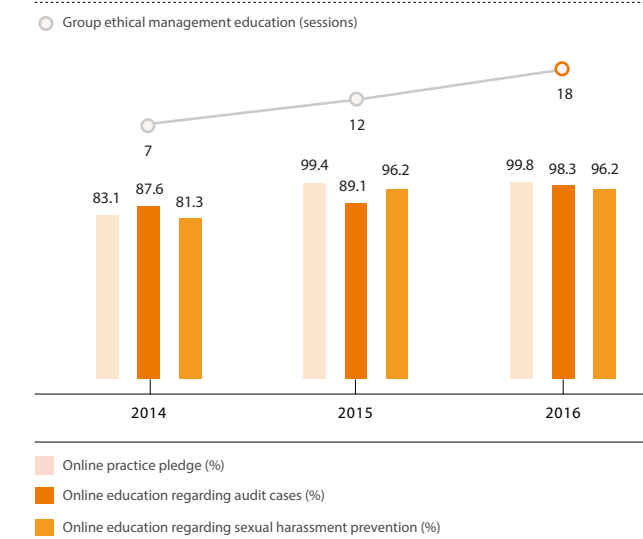**Internalization of Ethical Management Practice**

Through preventative inspections and education regarding the assessed potential risks, SK Telecom is implementing proactive prevention and employee protection activities regarding case occurrences. The Code of Ethics Practice Pledge and ethical education is given regularly to all employees and the company is reflecting the needs of new employees/ experienced employees/leaders and organizations requesting education in addition to strengthening on-demand education aimed at instilling awareness of ethical management in employees. In 2016, in order to establish a culture of leaders taking the lead in practicing ethical management, a total of 63 executives and team leaders participated in ethical management practice workshops especially designed for leaders.

In addition, SK Telecom implements 1:1 guides for newly recruited executives, thus communicating in detail the ethical management guidelines regarding topics such as a leader's role and attitude; receiving money and valuables, treats and conveniences; conflicts of interest and procurement/personnel requests; protecting the company's assets and budget use; and setting the example during overseas business trips. Through such efforts, SK Telecom has strengthened the management's internalization of ethical standards as well as the prevention of ethical risks.
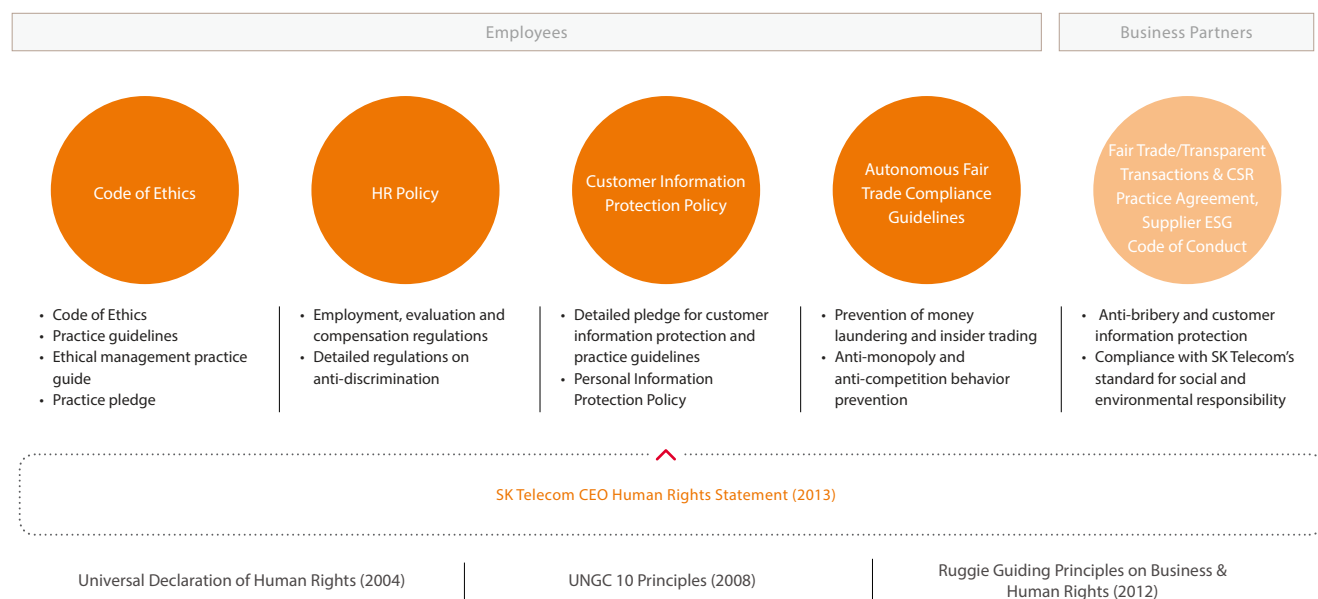
Furthermore, SK Telecom has expanded the scope of targets for ethical management education to business partners and the distribution

network, and is providing ethical management education at the same level as the ethical management education conducted for its own employees. These efforts are a clear illustration of how SK Telecom is making strides in promoting an ethical management culture.
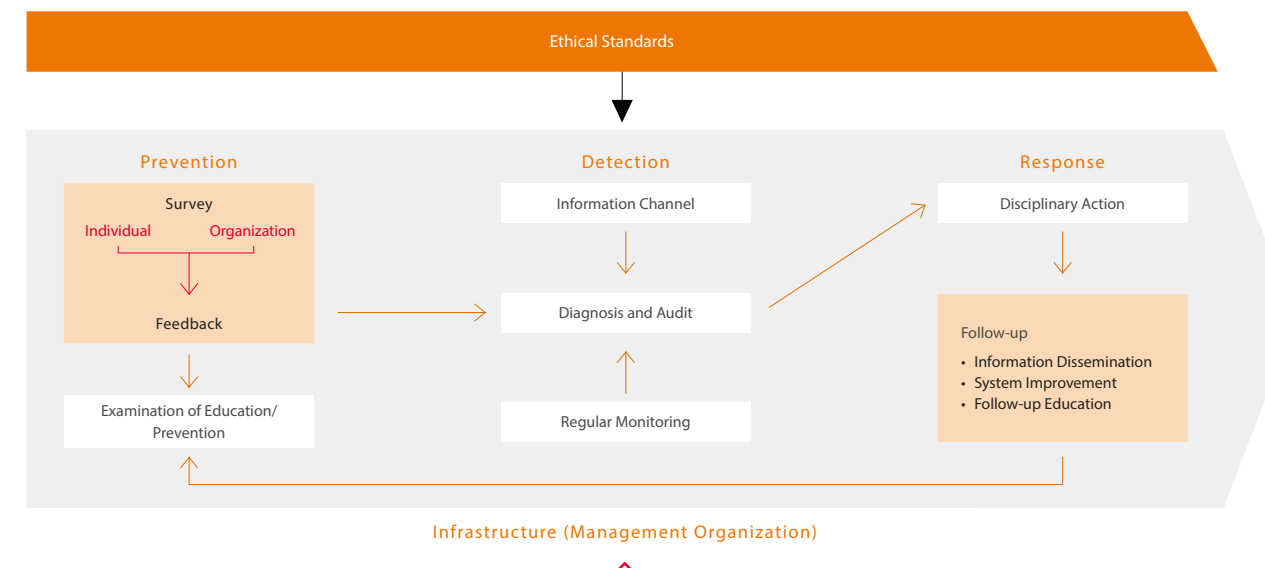
STATUS OF EMPLOYEE ETHICAL MANAGEMENT EDUCATION

○ Group ethical management education (sessions)

- 7 (2014)
- 12 (2015)
- 18 (2016)

- 83.1 87.6 81.3 (2014)
- 99.4 89.1 96.2 (2015)
- 99.8 98.3 96.2 (2016)

2014   2015   2016

- ▢ Online practice pledge (%)
- ■ Online education regarding audit cases (%)
- ■ Online education regarding sexual harassment prevention (%)

SK TELECOM'S CODE OF CONDUCT FRAMEWORK

Employees				Business Partners
Code of Ethics	HR Policy	Customer Information Protection Policy	Autonomous Fair Trade Compliance Guidelines	Fair Trade/Transparent Transactions & CSR Practice Agreement, Supplier ESG Code of Conduct
• Code of Ethics • Practice guidelines • Ethical management practice guide • Practice pledge	• Employment, evaluation and compensation regulations • Detailed regulations on anti-discrimination	• Detailed pledge for customer information protection and practice guidelines • Personal Information Protection Policy	• Prevention of money laundering and insider trading • Anti-monopoly and anti-competition behavior prevention	• Anti-bribery and customer information protection • Compliance with SK Telecom's standard for social and environmental responsibility

SK Telecom CEO Human Rights Statement (2013)

Universal Declaration of Human Rights (2004)   UNGC 10 Principles (2008)   Ruggie Guiding Principles on Business & Human Rights (2012)

SKT ETHICAL MANAGEMENT FRAMEWORK

Ethical Standards

Prevention
Survey
Individual — Organization
Feedback
Examination of Education/ Prevention

Detection
Information Channel
Diagnosis and Audit
Regular Monitoring

Response
Disciplinary Action
Follow-up
• Information Dissemination
• System Improvement
• Follow-up Education

Infrastructure (Management Organization)

Ethical Management Diagnosis and Auditing

In order to proactively prevent business, management and ethical risks in field organizations, SK Telecom is conscientiously selecting priority inspection scenarios on a quarterly basis and monitoring for symptoms afterwards. The company has developed 27 internal control audit support scenarios linked to the 'SK Group Ethical Management Policy' implemented in 2015, and in 2016, carried out sequential inspections for those 27 scenarios. Beginning in 2017, SK Telecom will build upon this basis to build a regular risk monitoring system at the organizational level. It will be utilized for designating which members of the Ethics Management Office will be in charge of the company's respective organizations, conducting risk intelligence, mapping the audit support system by respective organization, as well as monitoring. Furthermore, SK Telecom is regularly conducting ethical management diagnostics and auditing in order to help leaders take the initiative in managing ethically as well as to prevent inefficiencies in each business area and potential risks. During 2016, the ethical management diagnostics and auditing covered inspections of executives' budget use, improvement of the inefficient meeting culture, safety inspections of network equipment, actual inspections of the management of deposits for lease as well as inspections of fund management systems. SK Telecom is carrying out improvement measures according to the diagnostic results.

ACTIONS TAKEN AGAINST CODE OF ETHICS VIOLATIONS IN 2016

Type	Cases	Action
Entertainment and other special treatment	4	Dismissal 3
False reporting and budget abuse	2	Suspension 1 / Pay cut 3
Misappropriation of company money		
Reputation damage		
Excessive loans		
Sexual harassment and workplace etiquette	2	Suspension 2
Violation of the work policy	2	Suspension 2
Management responsibility		
Breaches of the Anti-trust Policy		
Total	10	

Ethics Counseling and Reporting

SK Telecom operates an Ethics Counseling Center to enable regular reporting of ethical management issues and counseling. SK Telecom has opened channels such as the corporate website, in-person counseling and mail correspondence to make ethics counseling and reporting services freely available to all stakeholders including employees, customers and business partners. These channels not only enable reporting of wrongful conduct and corruption, but also consultation on diverse ethical issues that stakeholders may face. SK Telecom also operates diverse internal ethics counseling and reporting channels for employees. If an individual wishes to make a direct report, there is a direct reporting channel connected to the Chairman of the Audit Committee. The company strives to support internal employees' ethics and grievance consulting and resolution including through multifaceted methods such as 'My Counselor', 'Letter to the HR,' the availability of female counselors for sexual harassment cases as well as the Intranet.

Strengthened Protection of Reporters

SK Telecom runs a counseling and reporter protection program in order to protect the identities of individuals who use the reporting and counseling services and the matters discussed; the related content is kept confidential to prevent it from becoming public against the service users' wishes. Since September 2015, SK Telecom strengthened the policy of protecting internal reporters and stipulated a provision for protecting the internal reporter's identity and content of the counseling and reporting, and introduced a disciplinary action system regarding the leakage of the reporter's identity.

Fair Competition, Culture of Transparent Transactions

With the aim of improving the practice of fair competition and transparent transactions among its business partners, SK Telecom is conducting the Autonomous Fair Trade Compliance Program and included a fair and transparent trade category in the CSR Practice Agreement, and making fair trade compliance mandatory. The fair trade compliance standards for business partners are applied equally without regard to country or region, and SK Telecom firmly enforces compliance with the standards. Failure to provide consent or comply with matters will result in non-approval for registration or the termination of existing contracts.
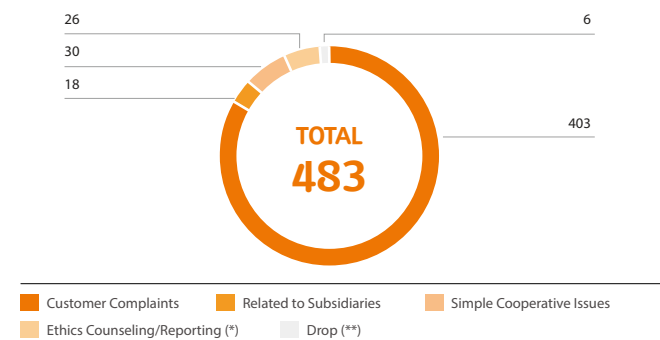
Anti-Trust Compliance

SK Telecom is part of the SK Group, which enacted the 'SK Compliance System Guidelines' starting in 2008 and is strengthening fair trade systems by disseminating these guidelines. In 2016, SK Telecom was not involved in any anti-trust investigations, nor did it pay any fines for violations related to fair trade. SK Telecom will continue to endeavor to create a fair trade culture while leading ICT industry's growth by collaborating with its partners.

Public Policy

SK Telecom abides by Korea's Political Fund Act, which prohibits companies from making political contributions. The company also cooperates with the public policies implemented by the government such as job creation, gender equality and the protection of socially vulnerable groups and attempts to meet the social demands such as anti-corruption and fair competition.

ETHICS COUNSELING CENTER OPERATION (Case)

26
30
18
6
403

TOTAL 483

Customer Complaints
Related to Subsidiaries
Simple Cooperative Issues
Ethics Counseling/Reporting (*)
Drop (**)

(*) Self-surveys are implemented for ethics counseling/reporting cases and cases beyond that are handled by the relevant department
(**) Surveys not implemented due to incomplete reported information/withdrawal of the report

COMPANY-WIDE HUMAN RIGHTS DUE DILIGENCE AND MITIGATION MEASURES

SK Telecom takes great care to ensure that human rights violations do not occur during the company's operations, either within its direct business operations or business relationships. Through shared communication and exchange of information between individuals via ICT, SK Telecom believes that communications technology can make valuable contributions to the progression of human rights as well as societal wellbeing, openness and knowledge, leading to an overall improvement in people's quality of life. In line with these beliefs, the company is striving to integrate the values prescribed in the Universal Declaration of Human Rights and UN Guiding Principles on Business and Human Rights into its comprehensive corporate structure.

Identifying Human Rights Issues in the Value Chain and Risk Mapping

Scope

The UN Guiding Principles on Business and Human Rights provide companies and shareholders with a corporate framework to promote human rights. By understanding and cultivating principles related to human rights protection, respect and remedy, companies are expected to hold themselves accountable for respecting the rights of others and eliminating any negative influences that would constitute a possible rights violation.
SK Telecom introduced a companywide human rights policy in 2012 and has continued to bolster its management in the human rights sphere. Through the company's human rights policy, SK Telecom has identified the key rights related to its business as follows: 1) the human rights of all SK Telecom employees and business partners, 2) the protection of personal information and privacy, 3) the right to access information and freedom of expression, and 4) the prevention of the misuse of technological services and data. From this perspective, SK Telecom has surveyed regarding whether there are any detailed human rights risks in the company's main organization, its subsidiaries and the value chain that its business partners belong to.
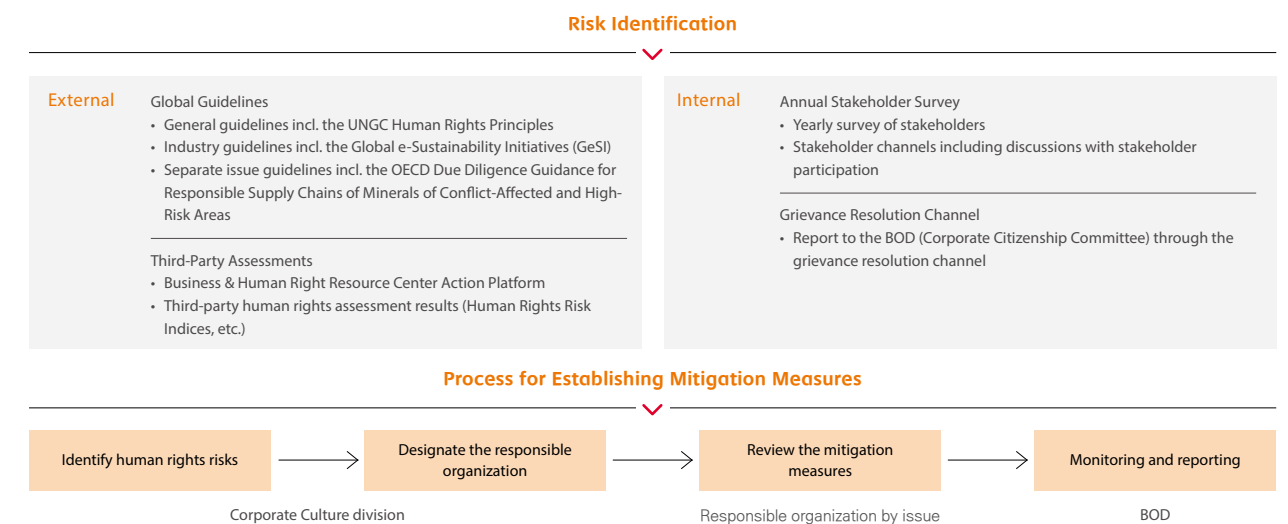
Risk Identification

After SK Telecom first established its approach to human rights in 2016, the company conducted a Gap Analysis with the UN's Guiding Principles on Business and Human Rights and recently re-determined its priority of important human rights issues. SK Telecom's process of identifying its human rights risks was carried out by comprehensively reviewing 1) research regarding recent human rights issues including the OECD guidelines for conflict minerals, 2) research tracking about human rights issues from third-party organizations and NGOs, 3) yearly stakeholder surveys and issue identification, and 4) integrated grievance resolution content gained through the Corporate Citizenship Committee and channel for raising CSR issues.

Establishing the Mitigation Process

The results of the 2016 risk analysis selected the following key human rights issues: 1) conflict minerals in the raw material collection phase for network and device equipment, 2) employees' work hours and safety in the network building and operation phase, 3) humane treatment and protection of customer service consultants, and 4) personal information privacy during the sales and distribution processes. Through a due diligence process regarding the relief and mitigation measures for the priority human rights issues identified, SK Telecom is seeking to

HUMAN RIGHTS RISK IDENTIFICATION AND MITIGATION MEASURES ESTABLISHMENT PROCESS

Risk Identification

External

Global Guidelines
• General guidelines incl. the UNGC Human Rights Principles
• Industry guidelines incl. the Global e-Sustainability Initiatives (GeSI)
• Separate issue guidelines incl. the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals of Conflict-Affected and High-Risk Areas

Third-Party Assessments
• Business & Human Right Resource Center Action Platform
• Third-party human rights assessment results (Human Rights Risk Indices, etc.)

Internal

Annual Stakeholder Survey
• Yearly survey of stakeholders
• Stakeholder channels including discussions with stakeholder participation

Grievance Resolution Channel
• Report to the BOD (Corporate Citizenship Committee) through the grievance resolution channel

Process for Establishing Mitigation Measures

Identify human rights risks → Designate the responsible organization → Review the mitigation measures → Monitoring and reporting

Corporate Culture division / Responsible organization by issue / BOD

understand the current situation, map the responsible organizations by each separate issue and ensure that the measures are not one-time effort, but are carried out continuously. One way that the company is accomplishing this task is by matching the responsible organization with the issue at stake. For instance, in the case of the conflict mineral issue, SK Telecom has put the Win-Win Cooperation Office in charge of the regular work for this issue. For the call center work environment issue, the company has put the Wireless Business Center Process Innovation Team in charge of working on the issue.

Results of the Due Diligence on Core Human Rights Risks

Conflict Minerals

Conflict minerals, mainly gold, tungsten, tin and tantalum, have emerged as a major issue within the electronics industry after the existence of armed rebels within the Democratic Republic of Congo using conflict minerals to extract personal funds was revealed to the global community. Products that are of major concern in relation to conflict minerals include electronics such as mobile phones and laptops.

While SK Telecom does not personally manufacture electronic materials, the company evaluates all purchased materials, equipment and parts by utilizing the Conflict Minerals Reporting Template (CMRT) provided by the EICC (Electronic Industry Citizenship Coalition) and GeSI (Global e-Sustainability Initiative) to identify the country of origin and conduct due diligence regarding conflict minerals. As a result of the 2016 reasonable supply chain due diligence, the company has not directly procured any conflict minerals nor were any direct contract relationships discovered with refineries in

conflict areas. Accordingly, no additional need for conflict mineral due diligence was found within SK Telecom's supply chain.

	2014	2015	2016
SK Telecom's Use of Conflict Minerals	0	0	0
Measures for Resolution	Continuous monitoring of whether conflict minerals are used in main business sites		

Network Operation Employees' Work Hours and Safety

SK Telecom has built and operates 2.44 million base stations across the country to run the company's wireless communications network. The company performs data processing work and physical repairs simultaneously to maintain the communications networks and conduct repair work. During this process, workers may be exposed to human rights issues as related to safety accidents and working hours, which must receive careful attention. SK Telecom's subsidiary, Network O&S, is managing the status of safety accidents at the companywide level as the operator and is continuously carrying out inspections of the status of the safety equipment on-hand (helmets, etc.) and the condition of their use.

In 2016, SK Telecom has investigated safety conditions monthly and having discovered one case of a significant risk, the company has taken measures to resolve it. Regarding work hours, following the recent political administration's agreement with a plan to reduce the legal maximum work hours (including overtime work) in Korea, this global human rights issue is becoming a significant business issue. To manage network operations employees' work hours, Network O&S requires that

when employees are asked to work on rest days or night shifts, the team leader must grant prior permission to give the work order. Network O&S limits such situations through the absenteeism and tardiness management system by requiring that the work status be registered and receive approval from the associated team leader. Accordingly, the total work hours per week has been maintained at a consistent level for the past three years.

	2014	2015	2016
Work Hours Per Person (Hours/Week)	52.9	52.9	53.2
Measures for Resolution	Instances of working during rest days or night shifts must be registered in the absenteeism and tardiness management system and approved by the team leader. Working during rest days or night shifts take place after the team leader grants advance approval of the work order.		

Protection of Service Consultants (Emotional Labor, etc.)

SK Telecom has collaborated regularly with its call center partners and executed preventative measures including the improvement of the treatment of consultants and creating a more advanced work environment. making the work environment more advanced. The consultants exposed to customers' emotional demands such as verbal abuse and profanity on an average of 1-2 times per month. Although the frequency of this exposure is not high, even if it is occurs once, it can cause severe pain and stress. Specifically, though such incidents may be recognized, the consultant cannot defend his or herself in the interest of customer satisfaction, resulting in the suffering of emotional labor.

In order to protect consultants facing difficulties due to emotional labor, SK Telecom's call center subsidiary has put a systematic process (employee protection program) to handle instances of consultants' exposure to unreasonable words and behavior while working, which may include profanity, verbal abuse, threats, sexual harassment or senseless requests. The responses to such situations include understanding (warning) and terminating the call or connecting the caller to the consultant's superior. This policy is being continuously updated (most recently revised in August 2016). Moreover, a follow-up management program called 'Mind Care' is in operation. The program not only investigates work stress and responses to stress through emotional health diagnoses 1-2 times per year, but also continues to provide personal and group consultations to high-risk groups. In addition to these efforts, since 2014, the system has been improved so that consultants may freely select their work hours between a 4-hour and 6-hour shift, thereby preventing stress and offering a greater degree of personal freedom.

Privacy Protection

To prevent personal information and privacy violations, SK Telecom discerns the degree of risk exposure through regular audits of all distribution partners with which the company has transactions and carries out corrective measures for risks that occur. Since 2015, SK Telecom has implemented personal information privacy audits of about 4,700 stores, which covers the total number of stores, in marketing and solutions. The company has also conducted remote audits of about 20,000 PCs annually for information leakage. In 2016, SK Telecom conducted 3,397 (75.4%) customer information privacy audits and inspections of stores and products/services. The reason that the audit rate falls short of the 100% rate in 2015 is because the company has focused on auditing stores that are expected to have a higher risk of large-scale information leakages.

	2014	2015	2016
Rate of Inspection Among All Stores (%)	41.9%	100% (*)	100% (**)
Discovered Cases Requiring Improved Security	-	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

Potential Human Rights Issues Requiring Additional Attention
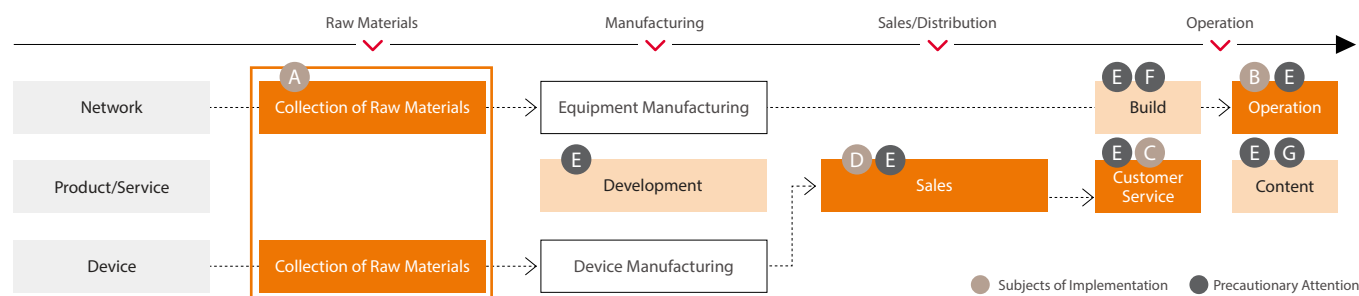
Land Use

During the process of building base stations and network infrastructure, telecommunications companies may face potential issues related to violating indigenous land rights. SK Telecom has assessed that as 95% of the company's revenue originated in the Republic of Korea and because the company does not have plans to directly enter overseas markets in the MNO business section, the risk of violating such rights remains low. During the construction of domestic business sites, base stations and network infrastructure, SK Telecom is conducting a preventative review process so that safety issues such as electromagnetic fields and violations of indigenous rights do not occur. Furthermore, SK Telecom processes cases of rights violations through existing channels (customer center, etc.) and if problems occur, the company actively resolves them.

Prohibition of Discrimination for Access to Information

In this age of high internet accessibility, the inability of certain groups to access information may even lead to limitations upon one's citizenship and right to political participation. SK Telecom believes that the equal right to access information is a crucial human right and thereby implements digital inclusion through a range of approaches such as 1) rate reductions for vulnerable groups, 2) improved access through education, and 3) expanding network for universal informational access. Please refer to "Access to Service" on p. 104 to learn more about SK Telecom's measures to increase access to information. Furthermore, SK Telecom supports children's right to safely access online information as an important right and supports universal measures (restriction of adult material, illegal content, etc.) so that they may enjoy online content in a safe manner. Please refer to "Content Responsibility" on p. 106 for more details about SK Telecom's diverse measures for ensuring responsible content distribution and safe internet use.

KEY HUMAN RIGHTS ISSUES IN SK TELECOM'S VALUE CHAIN AND DUE DILIGENCE RESULTS

	Raw Materials	Manufacturing	Sales/Distribution	Operation
Network	A Collection of Raw Materials	Equipment Manufacturing	E F Build	B E Operation
Product/Service		E Development	D E Sales / E C Customer Service	E G Content
Device	Collection of Raw Materials	Device Manufacturing		

● Subjects of Implementation ● Precautionary Attention

PLATFORM

Key Human Rights Issue	Vulnerable Groups	Subjects of Review	Nature of the Issue	Risk Level	2016 Due Diligence Results		
					Survey Scope	Issues Discovered	Measures Taken
A Conflict Minerals	Indigenous People, Children	Raw Material Suppliers	The tin, tungsten, tantalum and gold used in electronic devices, when these are products of the Democratic Republic of Congo or neighboring countries, contribute to continued conflict in those areas. This can result in the exploitation of child labor in the production process.	Subject of Due Diligence	100%	0%	100%
B Work Hours/Safety	Installation & Operation Operators	Subsidiary (Network O&S)	Compliance with work hours in the network operation process and resolution of safety issues that threaten physical harm.	Subject of Due Diligence	100%	2%	100%
C Humane Treatment	Consultants	Subsidiary (Call Center)	Protection of consultants who are exposed to customers' unreasonable words and behavior (profanity, verbal abuse, threats, insults, sexual harassment, etc.) or senseless demands.	Subject of Due Diligence	100%	17.7%	100%
D Privacy Protection	General	Subsidiaries, Partners (Distribution Network, Stores)	Protection of personal information and privacy, an important right of the information age.	Subject of Due Diligence	100%(*)	9.6%	100%
E Work Hours	Internal Employees	SK Telecom	Issues regarding forced labor in employees' work environment, child labor and rights violations.	Precautionary Attention	100%	0%	100%
F Indigenous Rights	Indigenous People	Local Communities	Direct violations of indigenous rights such as land use and property during business expansion.	Precautionary Attention	-	-	-
G Access to Information	Children, General	SK Telecom	Protection of the universal right to access information and content responsibility toward children.	Precautionary Attention	-	-	-

(*) 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

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EMOTIONAL HEALTH DIAGNOSES AND CONSULTATIONS

Service Top	2014	2015	2016
Number of Participants in Diagnoses	3,963 people (97%)	3,963 people (97%)	3,735 people (100%)
Measures for Resolution - Personal Consultation	105 people	352 people	605 people
Measures for Resolution - Group Consultation	138 people	322 people	546 people

Service Ace	2014	2015	2016
Number of Participants in Diagnoses	2,789 people (65%)	3,781 people (100%)	3,384 people (98.5%)
Measures for Resolution - Personal Consultation	78 people	106 people	107 people
Measures for Resolution - Group Consultation	6 sessions, 51 people	12 sessions, 179 people	50 sessions, 311 people

GREATER COMPETITIVENESS THROUGH A RESPONSIBLE VALUE CHAIN

Context

This Report discloses SK Telecom's supply chain sustainability management policies and processes, and its purpose is to inform stakeholders about responsibility and assurance for the products and services value chain. In the process of its business operation, SK Telecom depends upon a variety of suppliers for the development and spread of network devices, building and operating the network infrastructure as well as providing and developing platform content. This Report contains information regarding SK Telecom's efforts to review and resolve significant risk factors involving suppliers in the supply chain as well as support the ability to discover possible opportunities.

Supplier ESG Code of Conduct

SK Telecom defines its social responsibility compliance requirements for suppliers through the Supplier ESG Code of Conduct. The Supplier Code of Conduct covers 1) anti-corruption, 2) fair trade compliance, 3) data privacy and protection, 4) financial transparency, 5) appropriate participation in public policies, 6) respect for customer value, 7) environmental protection, 8) employees' welfare and safety, 9) community involvement, and 10) human rights. For more details about SK Telecom's supply chain policy, please refer to its homepage (http://www.sktelecom.com/supplychain.)

Through the 'Supplier ESG Code of Conduct' and 'Fair Trade/Transparent Transactions & CSR Practice Agreement,' which are based upon the company's supply chain policy, SK Telecom is improving the specificity of suppliers' social responsibility requirements as well as their ability to put them into practice. As a representative company of UNGC LEAD, SK Telecom reflects the UNGC principles in its supply chain guidelines, on the foundation of its UNGC LEAD activities. SK Telecom's supply chain guidelines refer to the global e-sustainability initiative e-Gesi's JAC (Joint Audit Cooperation) Guidelines. During the contract process, SK Telecom requires its suppliers to comply with these principles and through a monitoring process, the company makes use of a number of measures such as requesting corrective measures and terminating transactions.

SK Telecom's Supply Chain Status

SK Telecom has designated a 'critical supplier' group after having comprehensively considered the degree of the company's reliance upon the transactions as well as the impact on the company's continued operations. SK Telecom's critical suppliers are comprehensively considered, categorized and managed according to their 1) relevance to the company's core businesses and reliability, 2) high level of transaction amounts, and 3) possession of proprietary technology for which substitution is not possible. Accordingly, as of 2016, 318 companies are categorized into the Tier 1 critical supplier group out of a total of 1,881 registered partners.

Advance Screening of Supply Chain Sustainability

In 2016, 100% of newly registered partner companies were screened according to the Fair Trade/Transparent Transactions & CSR Practice Agreement and were requested to comply with the supply chain policy through Open2U, SK Telecom's electronic contract system. The Fair Trade/Transparent Transactions & CSR Practice Agreement is an official document that requests compliance and agreement with the Supply Chain ESG Policy. According to the screening results of the newly registered partner companies, those that do not satisfy the set standards (credit rating of B- or higher, a score of 70 points or higher on the contract execution ability evaluation) cannot, by regulation, become a supplier for SK Telecom. In addition, newly registered partner companies are evaluated for having cash payment and support programs for sub-suppliers, environmental policies and human rights/labor policies, etc. and those that do can receive up to 10 extra points.

Identification and Analysis of Key Supply Chain Risks

SK Telecom comprehensively reflects the risk factors discovered through internal risk processes including business partner surveys such as the biannual Win-Win Growth Satisfaction Survey, partner company meetings, listening to the voice of partners and risk management working groups, and reviews the results of the risk gap analysis of each supplier group and risk mapping by supplier at the monthly 'procurement performance analysis and improvement meeting.' SK Telecom defines the main risks that may occur in the supply chain as follows, and reflects these in the supply chain sustainability process.
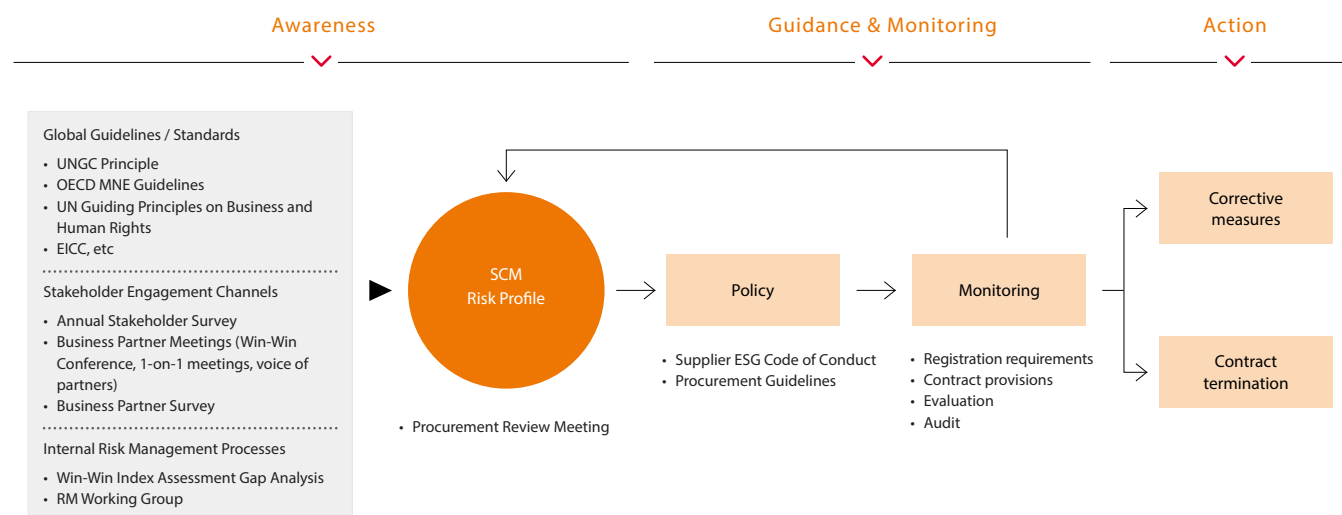
SUPPLY CHAIN SPEND ANALYSIS

Partner Category		Number of Partners	Proportion of Procurement
Tier 1	Total Number of Registered Suppliers	1,881	100%
	Equipment (Network and Infrastructure)	275	26.2%
	Services (Software and Solution Development)	1,123	50.3%
	Goods	249	3.5%
	Construction	234	20%
	Critical Suppliers	318	87%
Non-Tier 1	Critical Suppliers	35	-

SUPPLY CHAIN ESG ASSESSMENT (ADVANCE SCREENING)

	2014	2015	2016	2020 Target	Notes
Total Number of Newly Registered Suppliers	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	

SK TELECOM'S PROCESS FOR A RESPONSIBLE SUPPLY CHAIN

Awareness   Guidance & Monitoring   Action

Global Guidelines / Standards
- UNGC Principle
- OECD MNE Guidelines
- UN Guiding Principles on Business and Human Rights
- EICC, etc

Stakeholder Engagement Channels
- Annual Stakeholder Survey
- Business Partner Meetings (Win-Win Conference, 1-on-1 meetings, voice of partners)
- Business Partner Survey

Internal Risk Management Processes
- Win-Win Index Assessment Gap Analysis
- RM Working Group

SCM Risk Profile

Policy
- Supplier ESG Code of Conduct
- Procurement Guidelines

Monitoring
- Registration requirements
- Contract provisions
- Evaluation
- Audit

- Procurement Review Meeting

Corrective measures

Contract termination

SUPPLY CHAIN RISK IDENTIFICATION & ANALYSIS RESULTS

Main Risk Factors			Risk Level	Assessed Sourcing Group		Rate at High Risk (*)
				Assessed Group	Rate (No. of companies)	Rate (No. of companies)
Tier 1	Overall	Overall Risks	-	-	100% (1,881)	2.7% (52)
	Economic Risks	Ethical and Anti-Corruption Principle Violations in the Contract Process	High	All Suppliers	100% (1,881)	0.2% (3)
		Collusion and Other Unfair Trade Practices	High	All Suppliers	100% (1,881)	0% (0)
		Delayed Payment to Subcontractors	High	All Suppliers	100% (1,881)	0% (0)
		Unsound Financial Structure (low credit rating)	High	All Suppliers	100% (1,881)	0.9% (17)
	Social Risks	Violation of ILO Labor Regulations and Reasonable Labor Practices (compliance with work hours, wage payment, and other labor rights)	Moderate	Service Suppliers / Construction Suppliers	72.1% (1,357)	0.9% (12)
		Conflict Minerals	Low	Equipment Suppliers	14.6% (275)	0.4% (1)
	Environmental Risks	Violations of Environmental Regulations	Moderate	Equipment Suppliers	14.6% (275)	0.7% (2)
		High GHG Emissions	Moderate	Equipment Suppliers	14.6% (275)	0.7% (2)
		Failure to Adopt an Environmental Management System	Low	Construction Suppliers/ Equipment Suppliers	27.1% (509)	2.9% (15)
Non-Tier 1	Overall	Overall Risks	-	Interim Contract Suppliers (**)	100% (35)	2.9% (1)

(*)The rate of suppliers determined to have a high risk level according to the risk analysis results.

(**)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).

Supply Chain ESG Assessments

SK Telecom is confirming the proportion of registered partners that have undergone written surveys and on-site surveys as the key indicator of supply chain ESG risk assessment activities. In 2016, among the 1,881 Tier 1 suppliers, 1,351 have done written surveys, 225 have undergone on-site surveys (includes separate visits and meetings with partners and 1-on-1 meetings), which covers 91% of all registered partners. With regard to the third-party external review and diagnostic assessment for partners, the 376 partners that were candidates for mutual growth cooperation participated in a third-party external review conducted by the Korean Commission on Cooperative Partnership. SK Telecom is applying such policies and performance indicators to all domestic and international suppliers. In 2016, 100% of newly registered partner companies were screened according to the Fair Trade/Transparent Transactions & CSR Practice Agreement through Open2U, SK Telecom's electronic contract system. Due to the majority of SK Telecom's total procurement amount (KRW 3.7 trillion) being made up of domestic suppliers, with international procurement making up about KRW 20.9 billion (0.56%), performance indicators are also managed with a focus on Korea.

During 2016, SK Telecom conducted written surveys of 1,351 suppliers among all Tier 1 suppliers (1,881 companies) and on-site surveys of 225 companies (includes separate visits and meetings with partners and 1-on-1 meetings). Regarding the partners that were judged to be exposed to 'high risk' in the risk identification process, 100% of them received on-site surveys or supply chain audits through third-party surveys to prevent risks in advance.

SK Telecom offers programs for capability improvement and incentive programs for exemplary partners on an annual basis based on diagnostic and assessment results. Programs to improve capabilities include technological support such as technology transfer and Open Collaboration as well as security activities, and also include the SK Win-Win Academy, where partners can engage in CEO seminars, MBA courses and training support for reducing risk. Risk reduction training includes topics such as mutual growth partnerships and includes training regarding procurement policies and policy compliance. For outstanding partners, the incentive and support programs include unit price adjustment, funding (financial) assistance, technology and training support, and welfare.

SUPPLY CHAIN ESG ASSESSMENT (BY TYPE)

		2014	2015	2016	2020 Target	Notes
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	Includes separate discussions with Construction/Equipment Suppliers and 1-on-1 meetings
	Number of Suppliers Surveyed by 3rd Parties	-	100	150	150	Partner experience survey conducted by the Korean Commission for Corporate Partnership
	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

RISK MONITORING AND ASSESSMENT (2016, BY TIER)

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

* 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.

Corrective Measures

For partners whose diagnostic and assessment results demonstrate a need for improvement, SK Telecom creates a plan for corrective measures and requests that partner companies make efforts to improve their ESG performance. Despite these efforts, in 2016, a total of 3 companies received corrective measures according to the diagnosis and assessment results, and due to the seriousness of their policy violations including fair trade violations, and occurrence of unethical issues, a permanent suspension of transactions was implemented against two of the companies.

RISK-RELATED CORRECTIVE MEASURES FOR PARTNERS

	2014	2015	2016	2020 Target	Notes
Rate of High Risk Level Suppliers with Established Plans for Improvement (%)	-	100	100	100	
Rate of Suppliers with Improved ESG Performance within 12 months of Establishing Plans for Improvement (%)	-	83	90	100	
Number of Suppliers that Received Corrective Measures	2	2	3	-	Reviewed by the Procurement Review Committee
Banned Temporarily	1	0	1	-	1 year suspension
Banned Permanently	1	2	2	-	Permanent suspension

Procurement Strategy and Supply Chain Sustainability

SK Telecom's procurement strategy prioritizes 1) gaining competitiveness by improving the procurement structure through TCO (Total Cost Ownership), 2) revitalizing strategic integrated procurement through a 'procurement synergy consultative group' with SK subsidiaries and invested companies, 3) improving cost efficiency by checking the production cost structure from the zero-base perspective, 4) optimizing and improving business-friendly procurement processes, and 5) creating an environment for advance procurement risk management and fair trade compliance. Furthermore, SK Telecom continues to cooperatively develop sustainability management goals and expand support for overseas export while creating an environment conducive to fair trade.

By executing this procurement strategy and sustainability management goals in a connected manner across the company, SK Telecom helps its partners and the company to not only maximize resource-creation, but also removes inefficient practices, formalities and procedures from the procurement process so that it can be optimized through efficiency. The following business case will explain how SK Telecom achieves its procurement strategy by practicing responsible supply chain risk management.

CASE

BUSINESS CASE 1.

ENERGY EFFICIENCY JOINT VENTURE

SK Telecom's energy efficiency joint venture supports a business partner's optimized energy reduction solution that combines an energy platform (BEMS/FEMS) and lighting control technology. The Energy Management System (EMS) is a package comprised of a cloud server-based management platform and facilities to help manage energy use, and it is a solution that allows users to continuously reduce their energy use expenses through this business partner's optimized energy consulting. This solution helps businesses with high levels of energy consumption to respond to energy policies such as the Greenhouse Gas Target Management System and a yearly energy reduction of 5% is possible. Furthermore, through the natural air conditioning system and reduced vehicular fuel use by using the T map service, the business partner achieved KRW 82,759 million (314 cases) in energy expense savings.

Energy Savings Achieved by the Business Partner

KRW 82,759 million

BUSINESS CASE 2.

JOINT DEVELOPMENT AND PREFERENTIAL PROCUREMENT OF NETWORK EQUIPMENT

SK Telecom has jointly developed and commercialized an optical repeater for mobile communications such as LTE with a partner company and made an import substitution for the foreign-made base station equipment that it normally purchased. SK Telecom has pursued joint development including patent grants for a savings-type optical repeater and relay base telecommunication cabinet and carried out import substitution. The company has also supported partnerships for productivity innovation as well as exports such as overseas sales of ICT solutions. Furthermore, SK Telecom has successfully exported cloud transmission equipment to the U.S. through patent grants and joint developments.

Joint development of N/W equipment

316 cases

CSR PRACTICE AGREEMENT

FAIR TRADE/TRANSPARENT TRANSACTIONS & CSR PRACTICE AGREEMENT (2016)

As a party to a transaction with SK Telecom, we, the undersigned hereby agree to actively cooperate with SK Telecom's CSR Practice Agreement (corporate social responsibility), which includes ethical management, and to enable a fair and transparent transaction culture to take root, we agree to the following.

1 Regarding transactions with SK Telecom, we will not offer any bribes, entertainment or conveniences either directly or through a third-party in order to influence transactions including to influence the transaction's establishment or to set favorable transaction conditions.

2 In the case that an SK Telecom employee requests offers such as bribes, entertainment or convenience during transactions, we will promptly report it to SK Telecom's Ethical Counseling Center (http://www.sktelecom.com, Tel.080-801-6262, Fax. 080-801-6272).

3 Regarding SK Telecom's management information including subscriber information made known to us during transactions with SK Telecom, we will not use such information for transactions with other businesses without prior consent, nor share the information with any third-parties.

4 We will not engage in unfair trade practices including collusion practices.

5 We will actively participate in practicing CSR in transactions with SK Telecom.

1) We will prohibit wrongful labor practices including forced/compulsory labor and child labor.

2) We will prohibit discrimination on the basis of sex, race, religion, disability and maternity.

3) We will respect political, religious, physical freedom as well as civil rights.

4) We will recognize our responsibility regarding environmental protection and pursue the development of eco-friendly technology.

5) We will cooperate in enabling fair and transparent trade and the spread of mutual growth.

6) We will comply with all labor principles that the International Labour Organization (ILO) recommends and that which the government ratifies regarding safety, welfare and work hours.

6 In the case that we violate this agreement, we agree to accept responsibility for the measures SK Telecom may take, including limiting the volume of transactions and contract termination, according to the degree of the violation and internal standards.

FINANCIAL & NON-FINANCIAL STATEMENTS

Company Overview

Measuring Our Impact

Accountability

Financial & Non-Financial Statements

Other Information

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KRW million)

Assets	2016	2015	2014
Current Assets	5,996,628	5,160,242	5,083,148
Cash and cash equivalents	1,505,242	768,922	834,429
Short-term financial instruments	468,768	691,090	313,068
Short-term investment securities	107,364	92,262	280,161
Accounts receivable - trade, net	2,240,926	2,344,867	2,392,150
Short-term loans, net	58,979	53,895	74,512
Accounts receivable - other, net	1,121,444	673,739	690,527
Accrued revenue	2,780	10,753	10,134
Advance payment	55,675	96,570	70,772
Prepaid expenses	169,173	151,978	134,404
Derivative financial assets	0	0	0
Inventories, net	259,846	273,556	267,667
Assets classified as held for sale	0	0	10,510
Advanced payments and other	6,431	2,610	4,814
Non-current Assets	25,301,035	23,421,145	22,858,085
Long-term financial instruments	937	10,623	631
Long-term investment securities	828,521	1,207,226	956,280
Investments in associates and joint ventures	7,404,323	6,896,293	6,298,088
Property and equipment, net	10,374,212	10,371,256	10,567,701
Investment property, net	0	15,071	14,997
Goodwill	1,932,452	1,908,590	1,917,595
Intangible assets, net	3,776,354	2,304,784	2,483,994
Long-term loans, net	65,476	62,454	55,728
Long-term accounts receivable	149,669	2,420	3,596
Long-term prepaid expenses	88,130	76,034	51,961
Guarantee deposits	298,964	297,281	285,144
Long-term derivative financial assets	214,770	166,399	70,035
Deferred tax assets	75,111	17,257	25,083
Defined benefit assets	30,247	0	0
Other non-current assets	61,869	85,457	127,252
Total Assets	31,297,663	28,581,387	27,941,233

Liabilities and Equity	2016	2015	2014
Current Liabilities	6,444,099	5,256,493	5,420,310
Accounts payable—trade	402,445	279,782	275,495
Accrued payables - other	1,767,799	1,323,434	1,381,850
Unearned revenue	174,588	136,844	129,255
Withholdings	964,084	865,327	1,053,063
Accrued expenses	1,125,816	920,739	952,418
Income tax payable	474,931	381,794	99,236
Unearned income	188,403	224,233	327,003
Derivative financial liabilities	86,950	0	0
Current liabilities	66,227	40,988	51,075
Short-term borrowings	2,614	260,000	366,600
Current portion of bonds payable and long-term borrowings	888,467	703,087	590,714
Current portion of capital lease Liabilities	0	26	3,804
Long-term non-trade payable	301,773	120,185	189,389
Liabilities classified as held for sale	0	0	408
Other current liabilities	2	54	0
Non-current liabilities	8,737,134	7,950,798	7,272,653
Debentures	6,338,930	6,439,147	5,649,158
Long-term borrowings	139,716	121,553	149,720
Long-term payables—other	1,624,590	581,697	684,567
Long-term unearned revenue	2,389	2,842	19,659
Finance lease liabilities	0	0	26
Defined benefit obligations	70,739	98,856	91,587
Derivative financial liabilities	203	89,296	130,889
Other non-current liabilities	31,690	29,217	36,013
Deferred tax liabilities	479,765	538,114	444,211
Other non-current liabilities	49,112	50,076	66,823
Total Liabilities	15,181,233	13,207,291	12,692,963
Equity			
Equity attributable to controlling interest	15,971,399	15,251,079	14,506,739
Share capital	44,639	44,639	44,639
Other paid up capital	199,779	189,510	277,998
Retained earnings	15,953,164	15,007,627	14,188,591
Reserves	(226,183)	9,303	(4,489)
Non-controlling interests	145,031	123,017	741,531
Total Equity	16,116,430	15,374,096	15,248,270
Total Liabilities and Equity	31,297,663	28,581,387	27,941,233

CONSOLIDATED STATEMENT OF INCOME

(KRW million)

	2016	2015	2014
Operating revenue	17,091,816	17,136,734	17,163,798
Revenue	17,091,816	17,136,734	17,163,798
Operating expense	(15,556,072)	(15,428,728)	(15,338,693)
Labor cost	1,869,763	1,893,745	1,659,777
Commissions paid	5,376,726	5,206,951	5,692,680
Depreciation and amortization	2,941,886	2,845,295	2,714,730
Network interconnection	954,267	957,605	997,319
Leased line	394,412	389,819	399,014
Advertising	438,453	405,005	415,857
Rent	517,305	493,586	460,309
Cost of products that have been resold	1,838,368	1,955,861	1,680,110
Other operating expense	1,224,892	1,280,861	1,318,897
Operating income	1,535,744	1,708,006	1,825,105
Finance income	575,050	103,900	126,337
Finance cost	326,830	350,100	386,673
Gain (losses) related to investments in subsidiaries, associates and joint ventures, net	544,501	786,140	906,338
Other non-operating income	66,303	30,910	56,279
Other non-operating expense	298,629	243,491	273,558
Profit before income tax	2,096,139	2,035,365	2,253,828
Income tax expense from continuing operations	436,038	519,480	454,508
Profit from continuing operations	1,660,101	1,515,885	1,799,320
Discontinued operation income	0	0	0
Profit for the year	1,660,101	1,515,885	1,799,320
Attributable to			
Controlling interest	1,675,967	1,518,604	1,801,178
Non-controlling interest	(15,866)	(2,719)	(1,858)
Earnings per share			
Basic earnings per share (KRW)	23,497	20,988	25,154
Diluted earnings per share (KRW)	23,497	20,988	25,154

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(KRW million)

	2016	2015	2014
Profit for the year	1,660,101	1,515,885	1,799,320
Other comprehensive income	(247,331)	1,835	(28,486)
Items that will not be reclassified to profit or loss:	(7,524)	(14,489)	(32,942)
Remeasurement of defined benefit obligations after income tax	(7,524)	(14,489)	(32,942)
Items that maybe be reclassified to profit or loss:	(239,807)	16,324	4,456
Net change in unrealized fair value of available-for-sale financial assets	(223,981)	(3,661)	27,267
Net change in other comprehensive income of investments in associates and joint ventures	(9,939)	(5,709)	8,187
Net change in unrealized fair value or derivatives	(13,218)	(1,271)	(45,942)
Foreign currency translation differences for foreign operations	7,331	26,965	14,944
Total comprehensive income	1,412,770	1,517,720	1,770,834
Total comprehensive income attributable to			
Controlling interest	1,432,982	1,522,280	1,777,519
Non-controlling interests	(20,212)	(4,560)	(6,685)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(KRW million)

		Equity					Non-controlling Interest	Total Equity
		Controlling Interest of Parent Company						
		Share Capital	Other Paid up Capital	Retained Earning	Reserves	Total		
2014.01.01(Basic Capital)		44,639	317,508	13,102,495	(12,270)	13,452,372	714,185	14,166,557
Total Comprehensive profit	Profit for the year	0	0	1,801,178	0	1,801,178	(1,858)	1,799,320
	Other comprehensive income	0	0	(31,440)	7,781	(23,659)	(4,827)	(28,486)
Dividends paid		0	0	(666,802)	0	(666,802)	(170)	(666,972)
Issuance of hybrid bond		0	0	0	0	0	0	0
Interest on hybrid bond		0	0	(16,840)	0	(16,840)	0	(16,840)
Acquisition of treasury stock		0	0	0	0	0	0	0
Proceeds from treasury stock		0	0	0	0	0	0	0
Changes in the scope of consolidation		0	0	0	0	0	23,667	23,667
Business combination under common control		0	(28,641)	0	0	(28,641)	0	(28,641)
Changes in equity of subsidiaries		0	(10,869)	0	0	(10,869)	10,534	(335)
2014.12.31(End of term capital)		44,639	277,998	14,188,591	(4,489)	14,506,739	741,531	15,248,270
2015.01.01(Basic Capital)		44,639	277,998	14,188,591	(4,489)	14,506,739	741,531	15,248,270
Total comprehensive profit	Profit for the year	0	0	1,518,604	0	1,518,604	(2,719)	1,515,885
	Other comprehensive income	0	0	(13,402)	17,078	3,676	(1,841)	1,835
Dividends paid		0	0	(668,494)	0	(668,494)	(143)	(668,637)
Issuance of hybrid bond		0	0	0	0	0	0	0
Interest on hybrid bond		0	0	(16,840)	0	(16,840)	0	(16,840)
Acquisition of treasury stock		0	(490,192)	0	0	(490,192)	0	(490,192)
Proceeds from treasury stock		0	425,744	0	0	425,744	0	425,744
Changes in the scope of consolidation		0	0	0	0	0	(5,226)	(5,226)
Business combination under common control		0	0	0	0	0	0	0
Changes in equity of subsidiaries		0	(24,040)	(832)	(3,286)	(28,158)	(608,585)	(636,743)
2015.12.31(End of term capital)		44,639	189,510	15,007,627	9,303	15,251,079	123,017	15,374,096
2016.01.01(Basic Capital)		44,639	189,510	15,007,627	9,303	15,251,079	123,017	15,374,096
Total comprehensive profit	Profit for the year	0	0	1,675,967		1,675,967	(15,866)	1,660,101
	Other comprehensive income	0	0	(7,499)	(235,486)	(242,985)	(4,346)	(247,331)
Dividends paid		0	0	(706,091)	0	(706,091)	(300)	(706,391)
Issuance of hybrid bond		0	0	0	0	0	0	0
Interest on hybrid bond		0	0	(16,840)	0	(16,840)	0	(16,840)
Acquisition of treasury stock		0	0	0	0	0	0	0
Proceeds from treasury stock		0	0	0	0	0	0	0
Changes in the scope of consolidation		0	0	0	0	0	0	0
Business combination under common control		0	0	0	0	0	0	0
Changes in equity of subsidiaries		0	10,269	0	0	10,269	42,526	52,795
2016.12.31(End of term capital)		44,639	199,779	15,953,164	(226,183)	15,971,399	145,031	16,116,430

CONSOLIDATED STATEMENT OF CASH FLOWS

(KRW million)

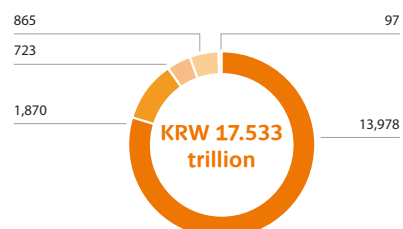|	33rd	32nd	31st
Cash flows from operating activities	4,243,168	3,778,129	3,677,385
Cash generated from operating activities	4,713,426	4,080,294	4,070,982
Net income of continued operation	1,660,101	1,515,885	1,799,320
Adjustment for income and expenses	3,039,561	3,250,143	2,978,995
Changes in assets and liabilities related to operating activities	13,764	(685,734)	(707,333)
Interest received	44,602	43,400	56,706
Dividends received	98,267	62,973	13,048
Interest paid	(245,236)	(275,796)	(280,847)
Income tax paid	(367,891)	(132,742)	(182,504)
Cash flows from investing activities	(2,462,208)	(2,880,499)	(3,683,165)
Cash inflows from investing activities	1,140,664	914,542	341,387
Decrease in short-term financial instruments, net	222,322	0	5,627
Decrease in short-term investment securities, net	0	105,158	0
Collection of short-term loans	238,980	398,308	207,439
Decrease in long-term financial instruments	28	7,424	2,535
Proceeds from disposal of long-term investment securities	555,519	149,310	65,287
Proceeds from disposal of investments in associates and joint ventures	66,852	185,094	7,333
Proceeds from disposal of property and equipment	22,549	36,586	25,143
Proceeds from disposal of intangible assets	16,532	3,769	10,917
Net proceeds from the disposition of non-current assets held for sale	0	1,009	3,667
Collection of long-term loans	1,960	2,132	4,454
Decrease of deposits	14,894	14,635	8,891
Proceeds from disposal of other non-current assets	728	607	94
Increase in cash due to acquisition of a subsidiary	0	10,355	0
Proceeds from disposal of subsidiaries	0	155	0
Receipt of National Treasury subsidy	300	0	0
Cash outflows for investing activities	(3,602,872)	(3,795,041)	(4,024,552)
Increase in short-term loans	0	385,612	0
Increase in short-term investment securities, net	6,334	0	174,209
Increase in short-term loans	239,303	370,378	202,501
Increase in long-term loans	32,287	16,701	4,341
Increase in long-term financial instruments	342	10,008	2,522
Acquisition of long-term investment securities	30,949	312,261	41,305
Acquisition of investments in associates and joint ventures	130,388	65,080	60,020
Acquisition of property and equipment	2,490,455	2,478,778	3,008,026
Acquisition of intangible assets	635,387	127,948	130,667
Increase in assets held for sale	0	0	552
Increase in deposits	12,943	12,536	6,903
Increase in other non-current assets	763	2,542	18,233
Cash outflows due to business overtake	4,498	13,197	124,486
Acquisition of subsidiary business, net of cash acquired	19,223	0	250,787

CONSOLIDATED STATEMENT OF CASH FLOWS

(KRW million)

	33rd	32nd	31st
Cash flows from financing activities	(1,044,829)	(964,583)	(559,399)
Cash inflows from financing activities	861,624	1,375,206	1,421,088
Proceeds from short-term borrowings	0	0	102,868
Issuance of debentures	776,727	1,375,031	1,255,468
Proceeds from long-term borrowings	49,000	0	62,552
Cash inflows from derivative transactions	251	175	200
Cash increase due to consolidated capital transactions	35,646	0	0
Cash outflows for financing activities	(1,906,453)	(2,339,789)	(1,980,487)
Repayment in short-term borrowings, net	257,386	106,600	0
Repayment of long-term non-trade payables	122,723	191,436	207,791
Repayment of debentures	770,000	620,000	1,039,938
Repayment of long-term borrowings	33,387	21,924	23,284
Outflow of cash due to transaction of derivative products	0	655	6,444
Decrease in finance lease liabilities	26	3,206	19,388
Payment of dividends	706,091	668,494	666,802
Interest on hybrid bond	16,840	16,840	16,840
Acquisition of treasury stock	0	490,192	0
Decrease in cash from the consolidated capital transaction	0	220,442	0
Net increase (decrease) in cash and cash equivalents	736,131	(66,953)	(565,179)
Cash and cash equivalent at beginning of the year	768,922	834,429	1,398,639
Effects of exchange rate changes on cash and cash equivalents	189	1,446	969
Cash and cash equivalents at end of the year	1,505,242	768,922	834,429

Creation and Distribution of Economic Value

Distribution of Economic Value

(KRW billion)

865
723
1,870
97
13,978

KRW 17.533 trillion

- Business Partners & Other Operations
- Employees
- Shareholders & Investors
- Government
- Local Communities

Distribution to Business Partners and Miscellaneous Operating Expenses: Economic value distributions to business partners and other operating expenses for service provision such as the cost of goods sold, commissions paid to suppliers, R&D and network investment.

Distribution to Employees: Wages, benefits and welfare, the reserve for retirement allowances.

Distribution to Shareholders and Investors: Dividends and interest payments.

Distribution to the Government: Payment of corporate taxes among other taxes and frequency usage fees applied.

Distribution to the Local Communities: Pure donations to local communities, not including indirect impact resulting from business investments and infrastructure support.

In 2016, SK Telecom has generated a total economic value of KRW 18.278 trillion, consisting of financial investment returns that includes operating revenues of KRW 17.92 trillion, revenue from asset disposals and other revenue. Among the total value created, KRW 17.533 trillion has been distributed reasonably to stakeholders, considering the future value of the company and investment efficiency, and after the distribution, the total retained economic value of KRW 745 billion has been added to the total equity. On the other hand, a total of KRW 29 billion in governmental tax deductions were received in 2016 for investing in the development of research personnel, productivity improvement and energy savings.

Economic Value Retained

KRW **745** billion

FINANCIAL MD&A (Management Discussion & Analysis)

Management's Discussion & Analysis

This Management's Discussion & Analysis (MD&A) is provided to enable readers to assess our results of operations and financial condition for the fiscal year ended December 31, 2016, compared to the preceding year. This MD&A section should be read in conjunction with our audited consolidated financial statements included in this annual report. Unless otherwise specified, all amounts are presented on a consolidated basis and are based on our audited consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by Korea. All amounts are in Korean Won (KRW). 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.

This MD&A section contains "forward-looking statements," as defined in the U.S Securities Exchange Act of 1934, as amended, that are based on our current expectations, assumptions, estimates and projections about us and our industry. The forward-looking statements are subject to various risks and uncertainties. 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 are more fully described in our latest annual report on Form 20-F and other filings with the U.S. Securities and Exchange Commission. 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.

1. 2016 OVERVIEW

In a wireless telecommunications industry currently defined by fast-paced advancements in the LTE network, we have emerged as the leader in the new information and communication technology ("ICT") era by launching innovative new products and services designed to meet customers' evolving preferences and needs. As part of our effort to provide innovative new products and services, we introduced "T Signature" and "Band Playpack" rate plans and new smartphone devices including the Luna S. In addition, 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. We have also focused on growth of the second device market, and we plan to actively develop our next-generation growth businesses in Internet of Things ("IoT") solutions, media and e-Commerce and other innovative products offered through our platform services.

Our operations are reported in four segments: (1) cellular services, (2) fixed-line telecommunication services, (3) e-Commerce services and (4) other businesses.

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. We maintained our leadership position in the wireless business in 2016 with 29.6 million subscribers (including subscribers of mobile virtual network operators (MVNOs) that lease our networks) as of December 31, 2016, of which approximately 21.1 million subscribed to our LTE service and 21.9 million used smartphones. Our share of the Korean wireless market based on the number of subscribers (including subscribers of MVNOs) decreased by 0.3%p to 49.1% as of December 31 from 49.4% as of December 31, 2015. The Korean wireless telecommunication industry is considered to have reached its maturation stage with more than a 100% penetration rate. However, with continued advancements in network-related technology, we are able to increase the quality of cellular services we provide to our subscribers. By continuing to be innovative in developing core competencies, we have firmly established our position as the market leader in wireless telecommunications.

For example, in 2016, we developed various rate plans that are tailored to meet our customers' needs for increased data usage, including our "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, as well as our "Band YT" rate plans targeting customers in their twenties and thirties seeking a wider range of content services such as subscriptions to upgraded music streaming services. We continue to endeavor 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, "T Pay," our mobile payment service offered to our subscribers, and "oksusu," our mobile IPTV service with a wide range of unique media offerings. In addition, we developed the Luna S and the Sol Prime, high-quality devices available at reasonable price points that were designed to run exclusively on our networks and also compete with premium smartphones.

In 2016, our cellular services segment revenue was KRW 12.35 trillion, representing 72.3% of our consolidated operating revenue.

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 telecommunication services are provided by our subsidiaries, SK Broadband. As of December 31, 2016, we had approximately 4.3 million fixed-line telephone subscribers (including subscribers to VoIP services), approximately 5.2 million broadband Internet access subscribers and approximately 4.0 million IPTV subscribers.

As part of our initiative to be a new ICT company to lead the 4th Industrial Revolution, we aim to provide an advanced media platform with various media content and service offerings through our fixed-line telecommunication services segment. We currently offer IPTV services under the brand name "B tv" with access to more than 166 live high definition channels 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.

Further, we are strengthening our ability to provide customized content by collecting and analyzing data regarding customer consumption patterns. We are strengthening the connection between mobile and media as well as leading mobile consumption trends by discovering original content optimized for mobile and providing popular domestic and international live broadcast channels, movies and sports through our mobile IPTV service oksusu. The number of unique visitors to oksusu is continuously increasing and was recorded at about 4.6 million people as of the fourth quarter of 2016.

In 2016, our fixed-line telecommunication services segment revenue was KRW 2.94 trillion, representing 17.2% of our consolidated operating revenue.

E-Commerce Services

Our e-Commerce services segment consists primarily of our marketplace business and online-to-offline ("O2O") commerce business operated by our subsidiary, SK Planet.

Our key platform in the e-Commerce business is "11st" which is an online marketplace that offers a wide range of products through an online and mobile interface. As of December 31, 2016, the mobile version of 11st was the leading mobile commerce platform in Korea 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, to 52% in 2016 from 41% in 2015. We have also expanded our online open marketplace business globally to Turkey, Indonesia, Malaysia and Thailand. We have also further expanded the scope of our O2O commerce businesses provided under the "Syrup" brand name.

In 2016, our e-Commerce services segment revenue was KRW 1.22 trillion, representing 7.1% of our consolidated operating revenue.

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.

We offer a portal service under our "Nate" brand name through SK Communications that can be accessed through its website, www.nate.com, or through its mobile application. In addition, we operate a security and network surveillance business through our wholly-owned subsidiary Neosnetworks, a provider of residential and small business electronic security and other related alarm monitoring services. We also operate a mobile application marketplace, "One Store" in collaboration with KT, LG U+ and NAVER Corporation.

In 2016, our others segment revenue was KRW 0.58 trillion, representing 3.4% of our consolidated operating revenue.

2. EXECUTIVE SUMMARY

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 our subsidiary, PS&Marketing. Other sources of revenue include revenue from our IoT solutions and platform services as well as other miscellaneous cellular services.

In our fixed-line telecommunication services segment, we earn revenue principally from our fixed-line telephone services, broadband Internet services, advanced media platform services 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.

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 consolidated 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 O2O commerce solutions.

In our others segment, we earn revenue from our hardware businesses through sales of projection display devices and high end audio devices, the development, production, supply and maintenance of systems software and online information provision business operated by our subsidiary, SK M&Service, advertising revenue from our "Nate" portal service operated by our subsidiary, SK Communications, and sales commissions through our mobile application marketplaces.

The following selected consolidated financial information has been derived from, and should be read in conjunction with, the audited consolidated financial statements included in this annual report.

Financial Statement Summary (Consolidated)

SK Telecom follows the numbers in the annual report submitted to

FINANCIAL INFORMATION (CONSOLIDATED)

(KRW billion)

	2016	2015	Change
Statement of Income			
Operating revenue	17,092	17,137	-0.3%
EBITDA[1]	4,603	4,701	-2.1%
Operating expense	15,556	15,429	0.8%
Operating profit	1,536	1,708	-10.1%
Profit for the year	1,660	1,516	9.5%
Statement of Financial Position			
Total assets	31,298	28,581	9.5%
Cash & marketable securities[2]	2,034	1,505	35.1%
Total liabilities	15,181	13,207	14.9%
Interest-bearing financial debt[3]	7,370	7,524	-2.0%
Total equity	16,116	15,374	4.8%
Financial Ratios (%)			
EBITDA margin	26.9	27.4	-1.8%
Operating margin	9.0	10.0	-10.0%
Net margin	9.7	8.8	10.2%
Debt-to-equity ratio[4]	45.7	49.2	-7.1%

(1) EBITDA = Operating profit + Depreciation and amortization + R&D-related depreciation within R&D expense
(2) Cash & marketable securities = Cash & cash equivalents + Marketable securities + Short-term financial instruments
(3) Interest-bearing financial debt = Short-term borrowings + Current portion of long-term debt + Debentures + Long-term borrowings
(4) Debt-to-equity ratio = Interest-bearing financial debt/Total equity

DART. Our operating revenue decreased by 0.3% to KRW 17.09 trillion in 2016 from KRW 17.14 trillion in 2015 due to decreases in wireless service revenue and interconnection revenue, among other reasons. Our operating expense in 2016 increased by 0.8% to KRW 15.56 trillion from 15.43 trillion in 2015, primarily due to increases in commissions and depreciation and amortization. As our operating revenue decreased and operating expense increased in 2016, our operating profit decreased by 10.1% to KRW 1.54 trillion in 2016 from KRW 1.71 trillion in 2015 and our operating margin decreased by 1.0%p to 9.0% in 2016 and EBITDA margin decreased by 0.5%p to 26.9% in 2016. Our profit for the year increased by 9.5% to KRW 1.66 trillion in 2016 from KRW 1.52 trillion in 2015.

Our total assets increased by 9.5% to KRW 31.30 trillion as of December 31, 2016 from KRW 28.58 trillion as of December 31, 2015, primarily due to an increase in intangible assets resulting from an increase in the carrying amount of our frequency usage rights and an increase in cash and cash equivalents resulting from the proceeds of the sale of our 15.0% interest in Loen Entertainment in February 2016 and the sale of our 1.42% interest in POSCO in November 2016. Total liabilities increased by 14.9% to KRW 15.18 trillion as of December 31, 2016 from KRW 13.21 trillion as of December 31, 2015, primarily due to an increase in long-term payables related to the acquisition of frequency usage rights in 2016. Total equity was KRW 16.12 trillion as of December 31, 2016, which increased by 4.8% from December 31, 2015. Our debt-to-equity ratio as of December 31, 2016

was 45.7%, compared to 49.2% as of December 31, 2015.

3. REVENUE

Our operating revenue in 2016 decreased 0.3% to KRW 17.09 trillion from KRW 17.14 trillion in 2015. This decrease was primarily attributable to a decrease in wireless service revenue as a result of an increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies as well as a decrease in interconnection revenue from decreases in interconnection rates and land-to-mobile call volume.

CONSOLIDATED OPERATING REVENUE

(KRW billion)



2015	2016
17,137	17,092
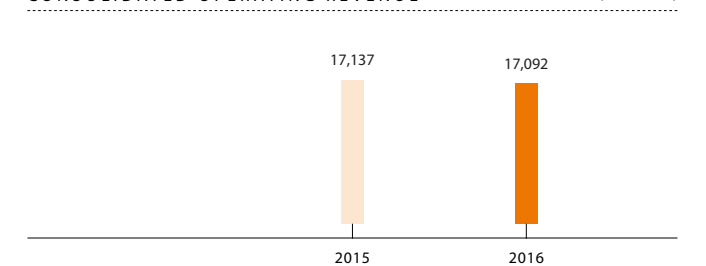
Subscribers & Market Share

The total number of wireless subscribers in Korea was approximately 60.3 million as of December 31, 2016 with a wireless telecommunications service penetration rate of 116.6%. Despite the saturated wireless market in Korea, SK Telecom continued to add new subscribers throughout the year, and ended the year 2016 with approximately 29.6 million subscribers (including subscribers of MVNOs that lease SK Telecom's networks). SK Telecom's wireless market share based on the number of subscribers (including subscribers of MVNOs) slightly decreased by 0.3%p to 49.1% as of December 31, 2016 from 49.4% as of December 31, 2015.

The number of SK Telecom's LTE subscribers increased to 21.1 million as of December 31, 2016 from 19.0 million as of December 31, 2015 .

SUBSCRIBERS & MARKET SHARE IN 2016 (Subs: in thousands, Market share: %)
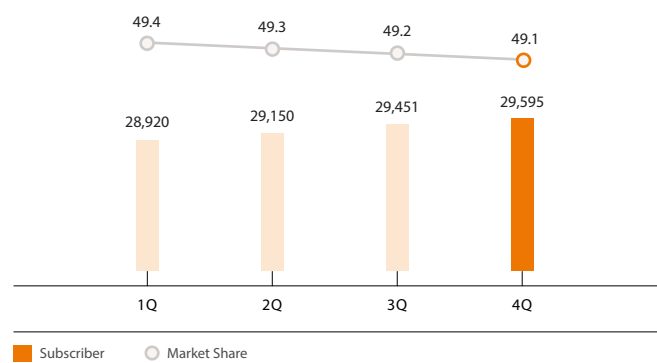
ARPU

SK Telecom's billing average monthly revenue per subscriber (billing ARPU) decreased by 1.3% to KRW 35,636 in 2016 from KRW 36,118 in 2015. This decrease was 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.

ARPU IN 2016 (Billing ARPU: KRW)
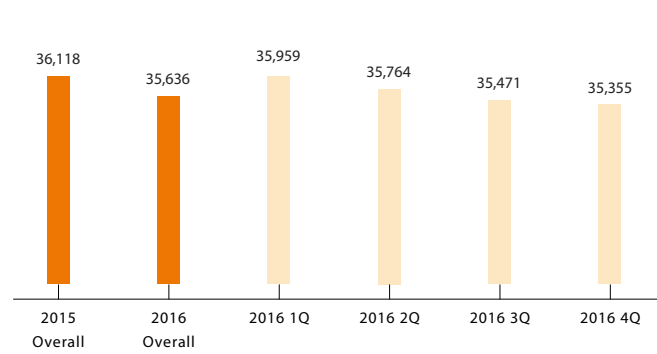
Subsidiaries

The consolidated revenue of SK Broadband, which is mostly generated from its fixed-line telecommunication services, increased by 7.7% to KRW 2.94 trillion in 2016 from KRW 2.73 trillion in 2015, primarily as a result of an increase in revenue from IPTV services attributable to an increase in the number of IPTV subscribers.

SK Planet's revenue, which is mostly derived from 11st and its O2O businesses, decreased by 27.9% to KRW 1.17 trillion in 2016 from KRW 1.63 trillion in 2015, primarily due to the spin-off of SK Planet's former platform and T Store businesses in 2016.

PS&Marketing's revenue, which is mostly derived from sales of handsets, decreased by 6.3% to KRW 1.68 trillion in 2016 from KRW 1.79 trillion in 2015, primarily due to a decrease in the number of handsets sold in 2016 as a result of the maturity of the handset market.

4. PROFITABILITY

Operating Expense

Our operating expense for 2016 amounted to KRW 15.56 trillion, representing a 0.8% increase from KRW 15.43 trillion in 2015. The increase in operating expense was primarily due to increases in payment and sales commissions as well as depreciation costs. The commissions increased by 3% year-over-year due to the impact of our subsidiaries' business expansion such as greater marketing costs related to promotional activities for 11st, our open market platform, which was partially offset by a decrease in marketing costs related 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.

Operating Profit and EBITDA

Our operating profit decreased by 10.1% to KRW 1.54 trillion from KRW 1.71 trillion in 2015 and our operating margin decreased to 9.0% in 2016 from 10.0% in 2015 as our operating revenue decreased and our operating expense increased. Our EBITDA decreased by 2.1% to KRW 4.60 trillion in 2016 from KRW 4.70 trillion in 2015 .

Non-Operating Income and Expenses

Our finance income increased significantly by 453.5% to KRW 575 billion in 2016 from KRW 104 billion in 2015, primarily due to a significant increase in gain on disposal of long term investment securities to KRW 459 billion in 2016 from KRW 11 billion in 2015 relating to the sale of our 15.0% interest in Loen Entertainment in February 2016 and the sale of our 1.42% interest in POSCO in November 2016. Our finance costs decreased by 6.7% to KRW 327 billion in 2016 from KRW 350 billion in 2015 primarily due to a decrease in impairment loss for available for sale financial assets as well as a decrease in interest expense. Gains related to investments in subsidiaries and associates decreased 30.7% to KRW 545 billion in 2016 from KRW 786 billion in 2015, primarily due to a decrease in share of profits of SK Hynix, in which we have a 20.1% interest.

OPERATING EXPENSE (KRW billion)
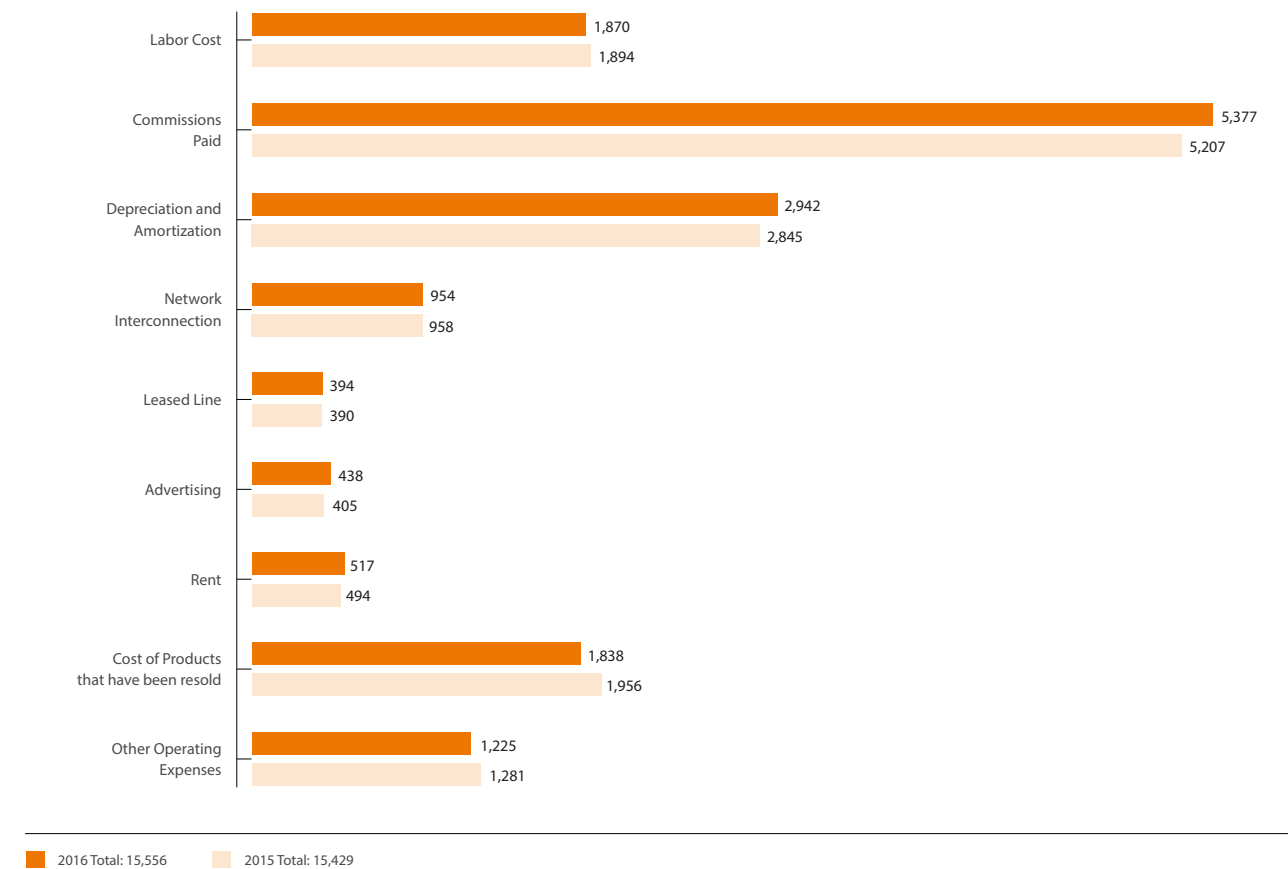
Our other non-operating income increased by 112.9% to KRW 66 billion in 2016 from KRW 31 billion in 2015 primarily due to refunds received in 2016 in connection with the overturn of certain fines previously imposed on us by the FTC(Fair Trade Commision) that we had paid. Our other non-operating expenses increased by 23.0% to KRW 299 billion in 2016 from KRW 243 billion in 2015, primarily due to increases in impairment loss on property and equipment and intangible assets, bad debt for accounts receivable – other and donations.

Income Tax

Income tax expense decreased decreased by 16.0% to KRW 436 billion in 2016 from KRW 519 billion in 2015, primarily due to SK Planet's use of tax loss carryforwards related to its loss on disposal of shares of SK Communications. Our effective tax rate in 2016 decreased by 4.7%p to 20.8% in 2016 from 25.5% in 2015.

Profit for the Year

Principally as a result of the factors discussed above, our profit for the year increased by 9.5% to KRW 1.66 trillion in 2016 from KRW 1.52 trillion in 2015. Net margin was 9.7% in 2016 compared to 8.8% in 2015.

STATEMENT OF INCOME (CONSOLIDATED)

(KRW billion)

	2016	% of Revenue	2015	% of Revenue
Operating revenue	17,092	100.0%	17,137	100.0%
Operating expense	15,556	91.0%	15,429	90.0%
Labor cost[1]	1,870	10.9%	1,894	11.1%
Commissions paid[2]	5,377	31.5%	5,207	30.4%
Depreciation and amortization[3]	2,942	17.2%	2,845	16.6%
Network interconnection	954	5.6%	958	5.6%
Leased line	394	2.3%	390	2.3%
Advertising	438	2.6%	405	2.4%
Rent	517	3.0%	494	2.9%
Cost of products that have been resold	1,838	10.8%	1,956	11.4%
Other operating expenses	1,225	7.2%	1,281	7.5%
Operating profit	1,536	9.0%	1,708	10.0%
Finance income	575	3.4%	104	0.6%
Finance costs	(327)	(1.9%)	(350)	(2.0%)
Gain (losses) related to investments in subsidiaries and associates, net	545	3.2%	786	4.6%
Other non-operating income	66	0.4%	31	0.2%
Other non-operating expenses	(299)	(1.7%)	(243)	(1.4%)
Profit before income tax	2,096	12.3%	2,035	11.9%
Income tax expense	436	2.6%	519	3.0%
Profit for the year	1,660	9.7%	1,516	8.80%
EBITDA[4]	4,603	26.9%	4,701	27.40%

(1) Labor cost = Salaries + Provisions for defined benefit liabilities
(2) Includes marketing commissions and other commissions
(3) Excludes R&D-related depreciation
(4) EBITDA = Operating profit + Depreciation and amortization + R&D-related depreciation within R&D expense

5. FINANCIAL STRUCTURE

Current Assets

We had current assets of KRW 6.00 trillion as of December 31, 2016, a 16.2% increase from KRW 5.16 trillion as of December 31, 2015. Our cash and marketable securities (including short-term financial instruments) increased by 35.2% to KRW 2.03 trillion as of December 31, 2016 from 1.51 trillion as of December 31, 2015, primarily due to an increase in cash and cash equivalents resulting from the proceeds of the sale of our 15.0% interest in Loen Entertainment in February 2016 and the sale of our 1.42% interest in POSCO in November 2016. Our accounts receivable (trade and other) increased by 11.4% from KRW 3.36 trillion as of December 31, 2016 from KRW 3.02 trillion as of December 31, 2015.
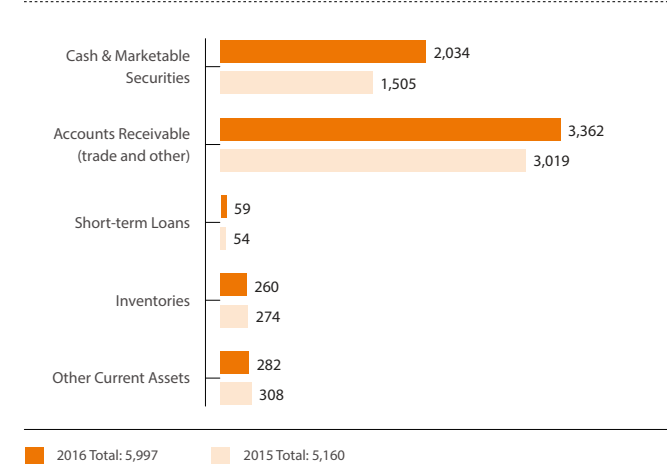
Non-current Assets

We had non-current assets of KRW 25.30 trillion as of December 31, 2016, an 8.0% increase from KRW 23.42 trillion as of December 31, 2015, primarily due to an increase in intangible assets. Our intangible assets increased by 63.8% to KRW 3.78 trillion as of December 31, 2016 from KRW 2.30 trillion as of December 31, 2015 primarily due to an increase in the carrying amount of our frequency usage rights.

Liabilities

We had KRW 15.18 trillion of total liabilities as of December 31, 2016, a 14.9% increase from KRW 13.21 trillion of total liabilities as of December 31, 2015, mainly due to an increase in long-term payables related to the acquisition of frequency usage rights in 2016. Our total interest-bearing financial debt decreased by 2.0% to KRW 7.37 trillion as of December 31, 2016 from KRW 7.52 trillion as of December 31, 2015. Our debt-to-equity ratio as of December 31, 2016 was 48.9%, compared to 49.2% as of December 31, 2015.
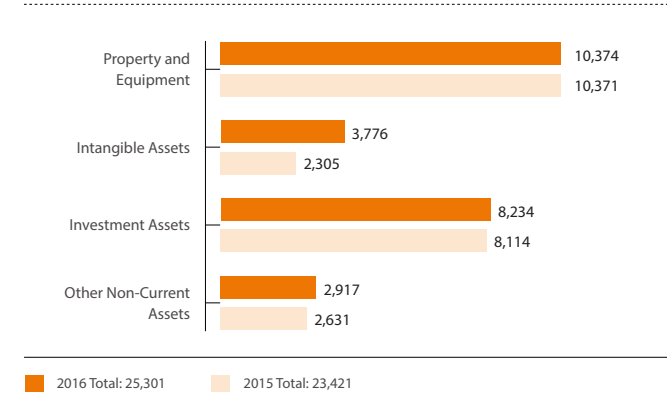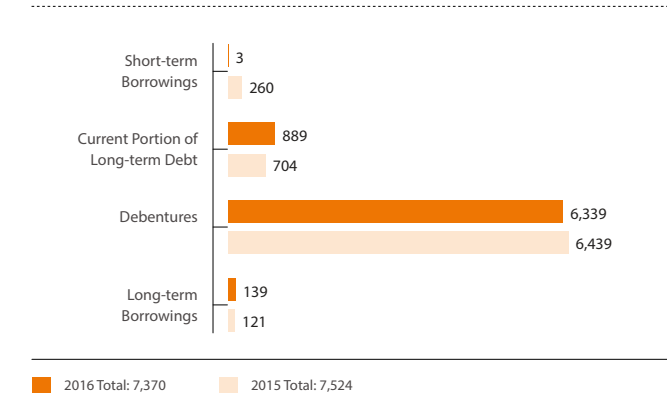
CURRENT ASSETS

(KRW billion)

Cash & Marketable Securities	2,034 / 1,505
Accounts Receivable (trade and other)	3,362 / 3,019
Short-term Loans	59 / 54
Inventories	260 / 274
Other Current Assets	282 / 308

2016 Total: 5,997   2015 Total: 5,160

NON-CURRENT ASSETS

(KRW billion)

Property and Equipment	10,374 / 10,371
Intangible Assets	3,776 / 2,305
Investment Assets	8,234 / 8,114
Other Non-Current Assets	2,917 / 2,631

2016 Total: 25,301   2015 Total: 23,421

INTEREST PAYABLE ON FINANCIAL BORROWINGS

(KRW billion)

Short-term Borrowings	3 / 260
Current Portion of Long-term Debt	889 / 704
Debentures	6,339 / 6,439
Long-term Borrowings	139 / 121

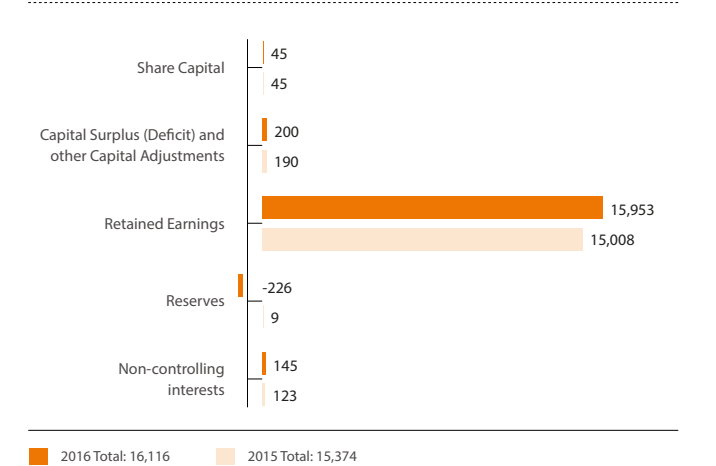2016 Total: 7,370   2015 Total: 7,524

Equity

Our total equity as of December 31, 2016 amounted to KRW 16.12 trillion, which increased by 4.8% from December 31, 2015, primarily due to an increase in retained earnings.

EQUITY

(KRW billion)

Share Capital	45 / 45
Capital Surplus (Deficit) and other Capital Adjustments	200 / 190
Retained Earnings	15,953 / 15,008
Reserves	-226 / 9
Non-controlling interests	145 / 123

2016 Total: 16,116   2015 Total: 15,374

6. CAPITAL EXPENDITURES (NON-CONSOLIDATED BASIS)

SK Telecom spent approximately KRW 1.96 trillion for capital expenditures in 2016 compared to KRW 1.89 trillion for capital expenditures in 2015, each on a separate basis. Of the amount spent in 2016, we spent approximately KRW 1.1 trillion, or 56.2%, on capital expenditures related to expanding and enhancing the quality of our LTE network and KRW 0.46 trillion on other non-network related capital expenditures primarily related to developing new products and maintenance and upgrades to our information technology systems.

Company Overview   Measuring Our Impact   Accountability   Financial & Non-Financial Statements   Other Information

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 Overseas 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	NCSI (Korea Productivity Center)	74	76	76
Safety Indicators	Rate of Micropayment Fraud VOC (%)	0.043	0.026	0.014
2.5 Privacy Protection (Data Privacy)	Customer Information Leakages (cases)	0	0	0
	Rate of Assessments Conducted Among Total Stores (%)	41.9	100 (**)	100 (***)
2.6 Electromagnetic Fields	Number 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 Company Participants 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
(**) 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

Section 2. Social Capital

MD&A		2014	2015	2016
2.8 Assessment of the Supply Chain's	Total Number of Newly Registered Partners	712	706	725
Sustainability	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

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 defines 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 the 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 females in management positions is demonstrating a steady trend of 9.9%. 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 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.
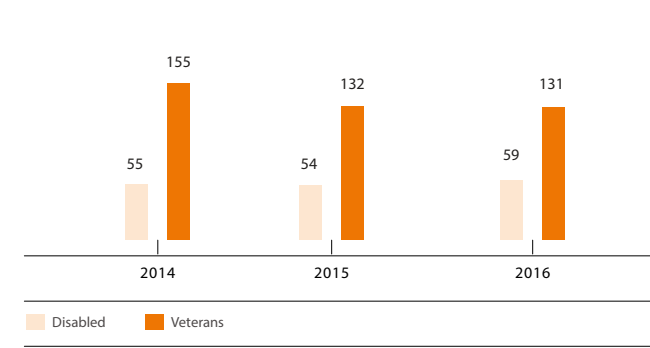
TOTAL NUMBER OF EMPLOYEES

4,253   4,046   4,399
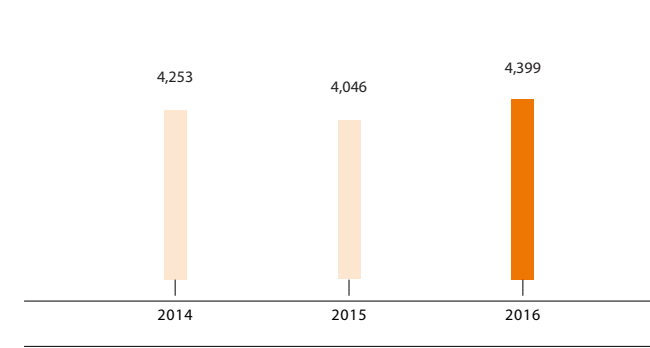
2014   2015   2016

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

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%

SPECIAL EMPLOYMENT AND MINORITIES

155   132   131
55   54   59

2014   2015   2016

☐ Disabled   ■ Veterans

FOSTERING FEMALE TALENT (%)

	2014	2015	2016
Female share of total workforce (*)	13.9	13.4	13.9
Females in management positions (**)	8.6	9.5	9.9

(*) Percentage of female employees compared to total number of employees
(**) Percentage of females in management position compared to total workforce in management position (including junior management positions and 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

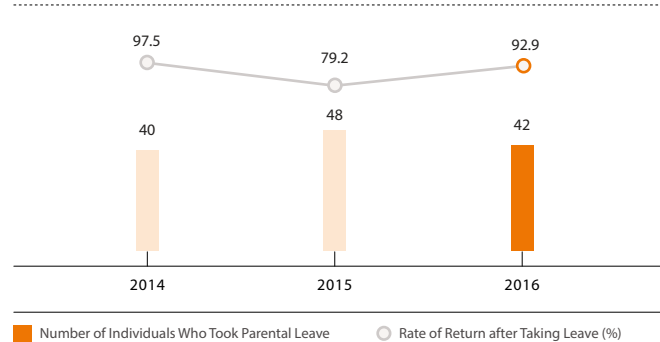|		2014	2015	2016
Total Number of Turnover Employees		265	681	359
Gender	Male	181	467	289
	Female	84	213	70
Age	Under 30	157	180	133
	Over 30 - Under 50	99	351	178
	Over 50	9	149	48

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 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 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

Legend: ■ 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 segment. 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 segment. 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 invite the proposal of practical solutions to resolve organizational and personal issues and put change into practice. With an aim 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 boosting 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 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 mental health program (for emotional health letter, health lectures, laughter exercise, healing yoga, etc.)
	- Operating the Ki Training program
Flexible Work Hours	– Operation of a Flexible Time system to allow employees to manage work hours flexibly.
Telecommuting	– 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.
	– System for telecommuting during pregnancy (after the 29th week of pregnancy, requires consultation and registration)
Childcare and Children's Education	– 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 of 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 (%)
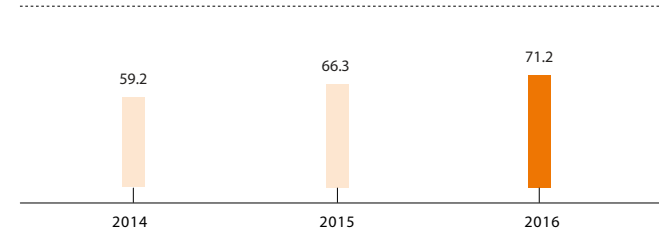
Furthermore, SK Telecom is dedicatedly pursuing greater access to service through rate reductions for disadvantaged groups. The total amount of rate reductions for disabled and low-income individuals aimed at increasing access to information was KRW 190 billion, the scale of which is being maintained 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 (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' offering 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.
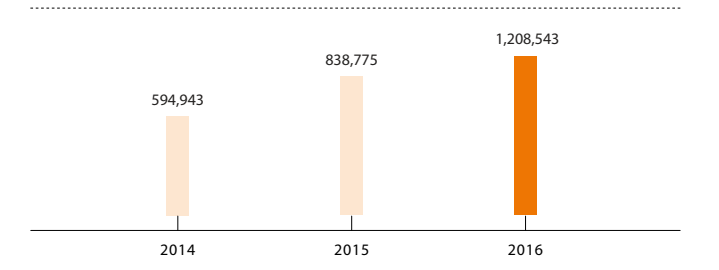
The rate of devices by LTE bandwidth shows broadband and CA devices are 50% and 46% respectively, indicating that the device rate of offering services beyond broadband at a device is 96%. Rather than pausing here, SK Telecom was the first in the country to commercialize the LTE-A pro service with a speed 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.

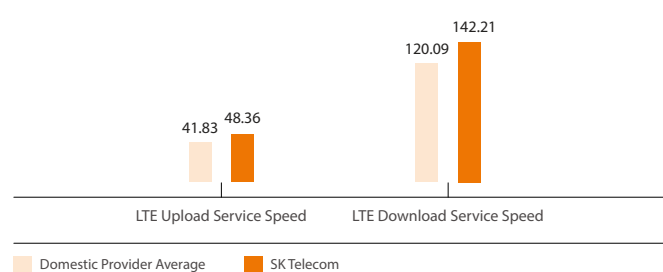#### WIRELESS NETWORK CAPACITY AND DATA TRAFFIC PROCESSED ANNUALLY

	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)

LTE SERVICE TRANSMISSION SPEED (Mbps)

LTE Upload Service Speed: Domestic Provider Average 41.83, SK Telecom 48.36
LTE Download Service Speed: Domestic Provider Average 120.09, SK Telecom 142.21

☐ 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
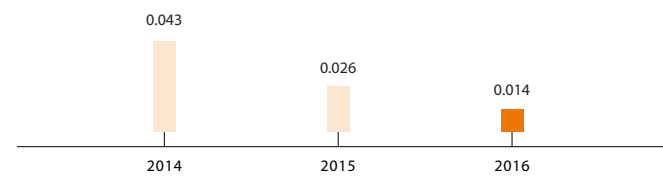
2.5 Privacy Protection (Data Privacy)

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 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 safety. 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 met the 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 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 (%)
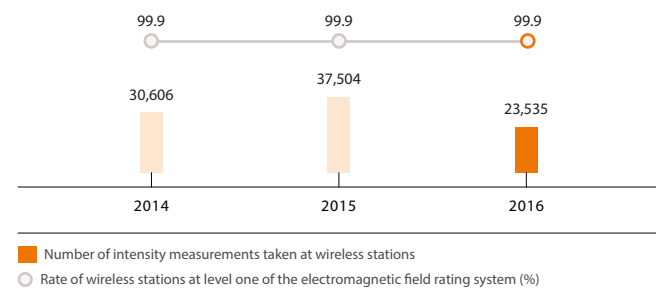
2.7 Mutual Growth with Partners

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)

	2014	2015	2016	2020 Target	Notes
Total Number of Newly Registered Suppliers	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)

Category	No. of Companies	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
	Cumulative 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 (%)
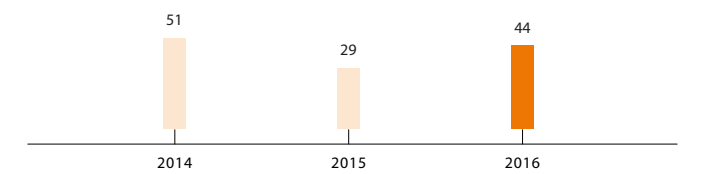
CHARITABLE CONTRIBUTION AND SPONSORSHIP

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 abides by Korea's Political Fund Act, which prohibits companies from making political contributions. The company also cooperates with the public policies implemented by the government such as job creation, gender equality and the protection of socially vulnerable groups and attempts to meet the social demands such as anti-corruption and fair competition.

We do not provide any kind of political funds, including political funds, election funds, or funds to lobby specific political groups or parties. However, we are actively cooperating for the development of

public policy and the public interest by supporting politically neutral organizations that indirectly impact policymaking.

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 of an economic & industrial association; 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 Scheme (ETS). 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_2e, 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.

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

GREENHOUSE GAS EMISSIONS

	2014	2015	2016
Total Emissions (tCO₂e)	742,859	686,118	828,073
Intensity (tCO₂e/KRW billion)	57.09	54.64	67.05
Direct Emissions (tCO₂e)	7,124	8,431	7,152
Stationary Combustion (tCO₂e)	4,877	5,650	4,945
Mobile Combustion (tCO₂e)	2,248	2,781	2,207
Indirect Emissions (tCO₂e)	735,750	677,687	820,921
Electricity (tCO₂e)	735,664	677,585	820,836
Steam (tCO₂e)	86	102	85

TOTAL GHG EMISSIONS AND INTENSITY
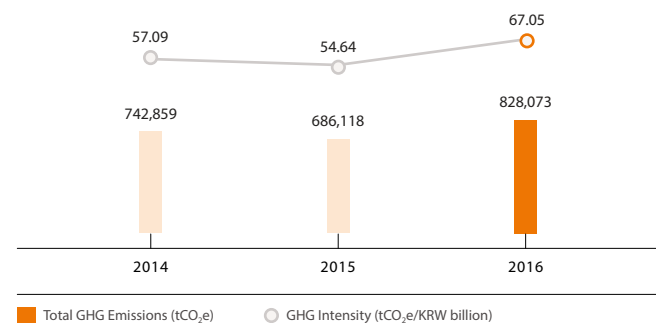
T map navigation service contributes to reducing fuel use and GHG emissions by informing drivers of optimal routes that account for the distance and real-time road conditions between the user's current location and destination. The volume of social GHGs that T map helped to reduce in 2016 is estimated 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 tCO₂e)
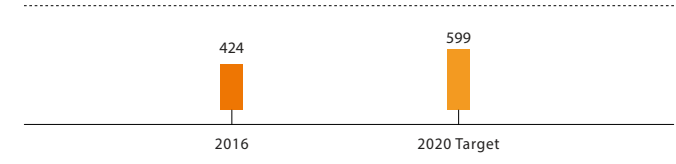
(*) The effect of reduced social GHG from use of the T map service

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 Scheme (ETS), 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 (Nm³)	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
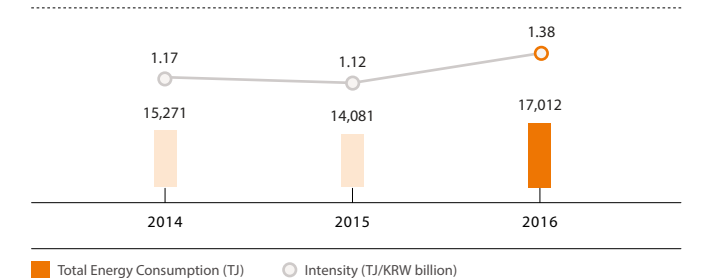
3.3   Water Consumption

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 712,910m³ 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 (m³/KRW billion)	53.46	60.34	57.72

WATER CONSUMPTION AND INTENSITY
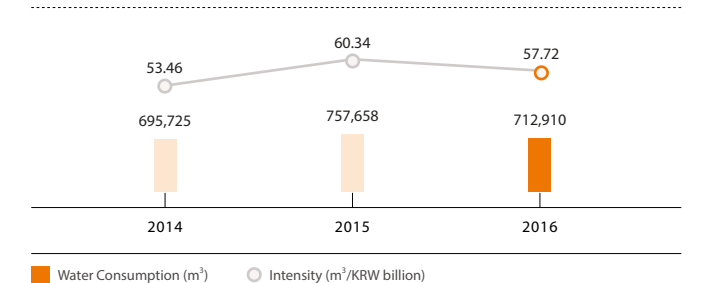
3.4 Waste and Recycling

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 (%)
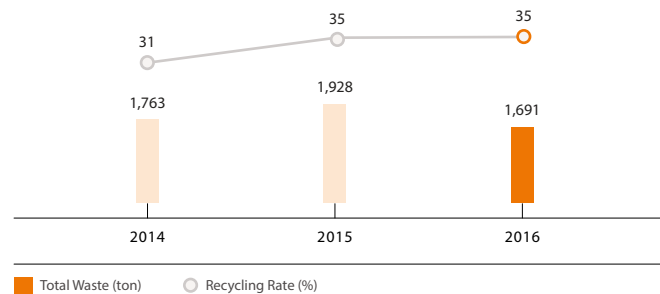
3.5 Resources

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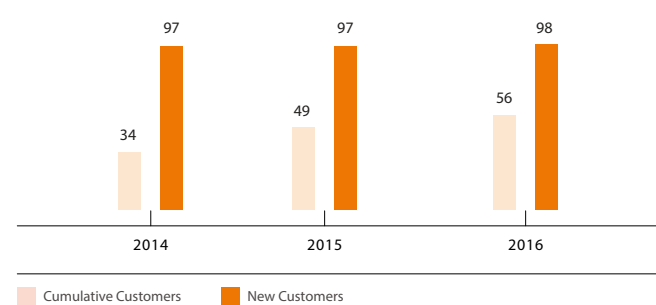
The device retrieval rate was calculated by dividing the number of devices sold by the total annual devices retrieved. In 2016, the device retrieval rate was 3.1%, a similar rate as last year.

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)
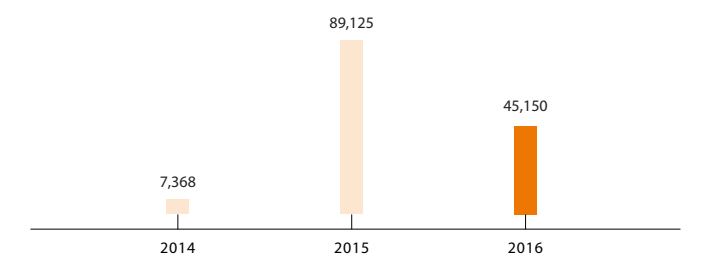
Other Disclosures

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.

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the accompanying consolidated financial statements of SK Telecom Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design udit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015 and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

February 22, 2017
Seoul, Republic of Korea
KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.

This report is effective as of February 22, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

THIRD-PARTY ASSURANCE STATEMENT

Introduction

SK Telecom Inc. (hereinafter referred to as "SK Telecom") commissioned DNV GL Business Assurance Korea Ltd. (hereinafter referred to as "DNV GL"), part of DNV GL Group, to undertake independent assurance of the Integrated Annual Report 2016 (the "Report"). DNV GL's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith.

Scope of assurance

The scope of assurance included a review of sustainability activities and performance data over the reporting period 1 st January to 31 st December 2016. This included:

- Evaluation of adherence to the AccountAbility principles provided in AA1000 AccountAbility Principles Standard (APS) 2008.
- Verification of disclosures to check the Report is prepared 'In accordance' with the GRI Guidelines G4 (Comprehensive option) (Aggregated level of data from the period between January and December in 2016)
- Evaluation of the process for determining material aspects for reporting and the management approach to material issues and the process for generating, gathering and managing the quantitative and qualitative data in the Report.

Verification Method

We performed our work using AA1000AS(2008) and DNV GL's assurance methodology VeriSustain$^{TM(*)}$, which is based on our professional experience, international assurance best practice. We provided the moderate level of assurance and Type 2 assurance as set forth in AA1000AS. The audit was carried out in May and June 2017. The site visit was made to SK Telecom Head office in Seoul, Korea. The assurance engagement was conducted in the following method based on sampling.:

- challenged the sustainability-related statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls
- interviewed representatives from the various departments
- conducted document reviews, data sampling and interrogation of supporting databases and computerized system
- reviewed the outcomes of the materiality assessment report

Limitations

The engagement excludes the sustainability management, performance and reporting practices of SK Telecom's subsidiaries, associated companies, suppliers, contractors and any third-parties mentioned in the Report. DNV GL did not interview external stakeholders as part of this Assurance Engagement. Financial statements of SK Telecom, data announced on DART system of the Financial Supervisory Service(http://dart.fss.or.kr), and data on the website(http://www.sktelecom.com) of SK Telecom subject to assurance are not included in the scope of assurance. Data assurance was conducted by checking the basis in a limited scope, including inquiry, analysis, and limited sampling method, on the data collected by SK Telecom. The aggregation and calculation process for building economic performances is reviewed and tested by the audit team. Also, environmental and social data were verified using the aggregated data. The directors of SK Telecom have sole responsibility for the preparation of the Report. The responsibility of DNV GL in performing the assurance work is to the management of SK Telecom in accordance with the terms of reference. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

(*) The VeriSustain protocol is available upon request at DNV GL Website (www.dnvgl.com/assurance/reporting/verification.html)

Opinion and Observation

On the basis of the work undertaken, nothing comes to our attention to suggest that the Report does not properly describe the adherence to the AccountAbility Principles in AA1000APS(2008) nor is prepared 'in accordance' with GRI G4 Comprehensive option. Further opinions with regards to the adherence to the following Principles are made below;

The Foundation Principle of Inclusivity

Recently SK Group has announced 'Happiness of Stakeholders' as one of the utmost management philosophies and has revised its Articles of Incorporation to reflect this philosophy. SK Telecom has identified stakeholder groups such as Customers, Suppliers, Employees, Local communities・, NGOs, Shareholders and Governments. The Stakeholder engagement policy and process have been established and is described in the Report. Material issues of stakeholders received by respective business units were reported to the Corporate Citizenship Committee under the Board of Directors and reflected in the development of sustainable management policies.

Materiality

The report presents the materiality assessment process. The relevant issue pool was formed by analyzing key issues from various information sources such as international standards, stakeholder survey, industry peers' reports and journalist reports. Issues were rated by the relevance of business and sustainability aspects and the impact on stakeholders. Material issues were determined considering the weight of profit, cost, and risk. The audit team has not noted that the material information is intentionally omitted that may influence the decision-making process of stakeholders during the engagement. The audit team has judged that six material issues are properly identified and prioritized based on the stakeholder's concerns and expectation through the materiality assessment process.

Responsiveness

The communication process with stakeholders has been established, and appropriate responses to stakeholders' views, concerns and expectations are reflected in the report. For selected material issues, contexts of sustainability are explained and performance over the mid & long term target and evaluations are clearly disclosed. The Corporate Citizenship Committee under the Board of Directors approves strategies for sustainable management including customer-oriented management, mutual growth with partners, CSV, and social responsibility activities, ethics & compliance, and environmental management. Also the committee periodically reviews major issues and achievements. SK Telecom has attempted to complete the environmental-social profit analysis (P&L) by analyzing the environmental and social impacts and quantifying its environmental and social benefit. In addition, SK Telecom has identified major human rights issues that may arise in its value chain and expanded improvement activities for identified problems to major subsidiaries and partner companies. These activities are considered a meaningful progress to achieve balanced growth based on social and environmental values as well as economic performance.

Accuracy and Reliability

Any errors and misstatements identified during the engagement were corrected prior to the Report being published. Data and information contained in the report has been described as an accurate and reliable way on the basis of sample checked, other reported information and other available evidence.

Findings in relation to specific sustainability performance information:

DNV GL has evaluated the nature and extent of SK Telecom's adherence to the AA1000 AccountAbility Principles as described above. In addition, the reliability of data and information is evaluated for Type 2 Assurance. DNV GL has interviewed the Person-in-Charge for the data and information in order to figure out the generation, aggregation and processing of data and information and reviewed the relevant documents and records based on which the statements in the Report are addressed. Especially in-depth review is conducted on the reliability of data and information with regard to Water consumption, Waste generation, Accident rate and Ethics & Compliance. The reporting of the management performance presented in the Report helps to understand the SK Telecom's impact in economic, social and environmental areas, as well as the achievements in those regards. SK Telecom has developed an effective methodology for gathering the specific information and data respectively for reporting. The data owners interviewed are able to demonstrate to trace the origin and the data source of the specific data and information are identifiable. From our analysis of the data and information, and SK Telecom's processes, we conclude that the data and information included in the Report are the results of stable and repeatable activities.

Competence and Independence

DNV GL Business Assurance is part of DNV GL Group and a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. Our environmental and social assurance specialists are present in over 100 countries. The assurance work was performed by independent team which meets DNV GL's competence requirements. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. The audit team has complied with DNV GL Code of Ethics during the assurance engagement.

13 June 2017

Seoul, Korea

In Kyoon Ahn
Country Representative
DNV GL Business Assurance Korea Ltd.

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Licensed Assurance Provider
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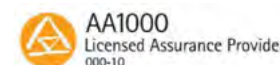
DNV·GL

GREENHOUSE GAS EMISSIONS ASSURANCE STATEMENT

Introduction

DNV GL Business Assurance Korea Ltd. ("DNV GL") was commissioned by SK Telecom Co., Ltd. ("SK Telecom") to verify the SK Telecom's Greenhouse Gas Inventory Report for the calendar year 2016 ("the report") based upon a reasonable level of assurance. SK Telecom is responsible for the preparation of the GHG emissions and Energy consumption data on the basis set out within the guidelines on the operation of greenhouse gas and energy target management scheme (Notification No. 2014-186, Korean Ministry of Environment). Our responsibility in performing this work is to the management of SK Telecom only and in accordance with terms of reference agreed with them. DNV GL expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

The GHG emissions and energy consumption data covered by our examination comprise Direct emissions (Scope 1 emissions), Energy indirect emissions (Scope 2 emissions) and Fuel, Electricity, Steam Energy consumption :
• GHG emissions under verification : GHG emissions from 2016
• Organizational boundary for reporting : SK Telecom Co., Ltd. (in Korea)

Verification Approach

The verification has been conducted by DNV GL from February through March 2016 and performed in accordance with the verification principles and tasks outlined in the guidelines on the operation of GHG and energy target management scheme (Notification No. 2014-186, Korean Ministry of Environment) and the verification guideline for ETS (Notification No. 2016-015, Ministry of Strategy and Finance). We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a reasonable verification opinion concerning the completeness of the emission inventory as well as the reported emission figures in ton CO 2 equivalent. As part of the verification process:
• We have reviewed the greenhouse gas emissions and energy consumption report for the calendar year 2016
• We have reviewed and verified the process to generate, aggregate and report the emissions and energy data

Conclusions

As a result of the work described above, in our opinion nothing has come to our attention that would cause us to believe that the greenhouse emissions and energy consumption set out in SK Telecom's report are not fairly stated. The greenhouse gas emissions and energy consumption of SK Telecom for the year 2016 were confirmed as below;

Greenhouse Gas Emissions of SK Telecom Co., Ltd. from Year 2016
(Unit : ton CO₂e)

SK TELECOM	2016년
Direct emissions(Scope 1)	7,152
Indirect emissions(Scope 2)	820,921
Total emissions	828,073

※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the real number with ± 2 tCO 2 .
※ Total emissions = Scope 1 + Scope 2

This Assurance Statement is valid as of the date of the issuance (28 th April 2016). Please note that this Assurance statement would be revised if any material discrepancy which may impact on the Greenhouse Gas Emissions of SK TELECOM is subsequently brought to our attention.

28 th April 2017
Young-Keun Kim Lead Verifier

In-Kyoon Ahn Country Manager
DNV GL Business Assurance Korea Ltd

OTHER INFORMATION

CEO HUMAN RIGHTS STATEMENT

Under the SKMS principle, "For the company's continuous development, the company creates value for customers, employees, and shareholders, fulfills a key role in social and economic development, and makes contributions to the happiness of mankind," SK Telecom aims to accomplish its business goals while fulfilling its social responsibilities and codes of conduct. The company's social responsibilities defines its human rights duties towards customers, employees, suppliers, partners and the community.

SK Telecom, as a company that practices a high level of awareness of global citizenship, respects the basic rights of all stakeholders that it encounters through products, services, contracts, purchases, and other business activities.

SK Telecom declares its support for the human rights principles stated in the UN Universal Declaration Human Rights and the UN Guiding Principles on Business and Human Rights, and the Ruggie Framework and pledges to fulfill its human rights responsibilities. SK Telecom will make every effort to prevent human rights abuses involving business and avoid complicity in such abuses. Furthermore, the company will ensure governance with integrity to take measures and provide communication regarding an organization responsible, under the UNGC Human Rights / Labor Principles, the operating structure, the monitoring process and incidents. SK Telecom will exercise due diligence to assure compliance with the policy within the whole supply chain as well as SK Telecom and its subsidiaries.

Specifically, SK Telecom, as an ICT provider, is aware of potential human rights risks in the following aspects and will do its utmost to prevent any problems that may occur:

1) Human Rights of Employees and Partner Companies (Human Rights in the Workplace)

- Fundamental prevention of wrong labor practices, such as child and forced labor
- Prevention of discrimination by gender, ethnicity, religion, disability and race
- Political, religious, and physical freedom, and respect for civil rights
- Other labor principles recommended by the International Labour Organization (ILO) and endorsed by the government: safety/health, working hours, etc.

2) Human Rights in Privacy Policies

- Demanding minimum personal information, recording and saving to comply with laws
- Notification prior to saving information, fiduciary duty, and ability to freely delete information
- Optimal security system for preventing leaks, including data encryption
- Limited and responsible use of personal information for service/marketing purposes

3) Human Rights in Access to Information & Freedom of Expression
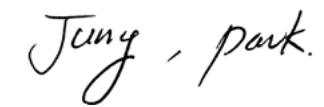
- Obligation to ensure equality of access to services regardless of class/disabilities
- Efforts to bridge the digital/smart divide: education, rate plans, and systems
- Responsibility for distributed information to protect minors, including children and adolescents
- Fundamental support for freedom of expression

4) Prevention of Misuse of Technologies, Services, and Data (Human Rights in Technology)

- Refusal to use technologies, electronic devices and data for dual purposes
- Prevention of misuse of technologies, such as wiretapping, signal interference, or hacking

SK Telecom always keeps the channels of stakeholder communication open to prevent any human rights violations. If you have witnessed or experienced incidents of such violations, please inform the company through the appropriate channel. (http://sktelecom.com/en/sktelecom/csr/csr04_02.jsp)

SK Telecom is committed to fulfilling its social responsibilities and pursuing the happiness of stakeholders and pledges to take the lead in advocating and complying with the Human Rights principles.

May 2017

President and CEO, SK Telecom
Jung Ho Park

SUPPLIER ESG CODE OF CONDUCT

I. Scope

SK Telecom's Supplier ESG Code of Conduct covers all suppliers that have transactions with the company. It also requires suppliers to comply with SK Telecom's Business Principles and Practices in their transactions with sub-suppliers.

II. Processes for Responsible Supply Chain Management

SK TELECOM'S PROCESS FOR A RESPONSIBLE SUPPLY CHAIN

III. Policy

The phrase "Supplier" in this Supplier Policy shall, where relevant, also include all employees, contractors, subcontractors and agents of the Supplier.
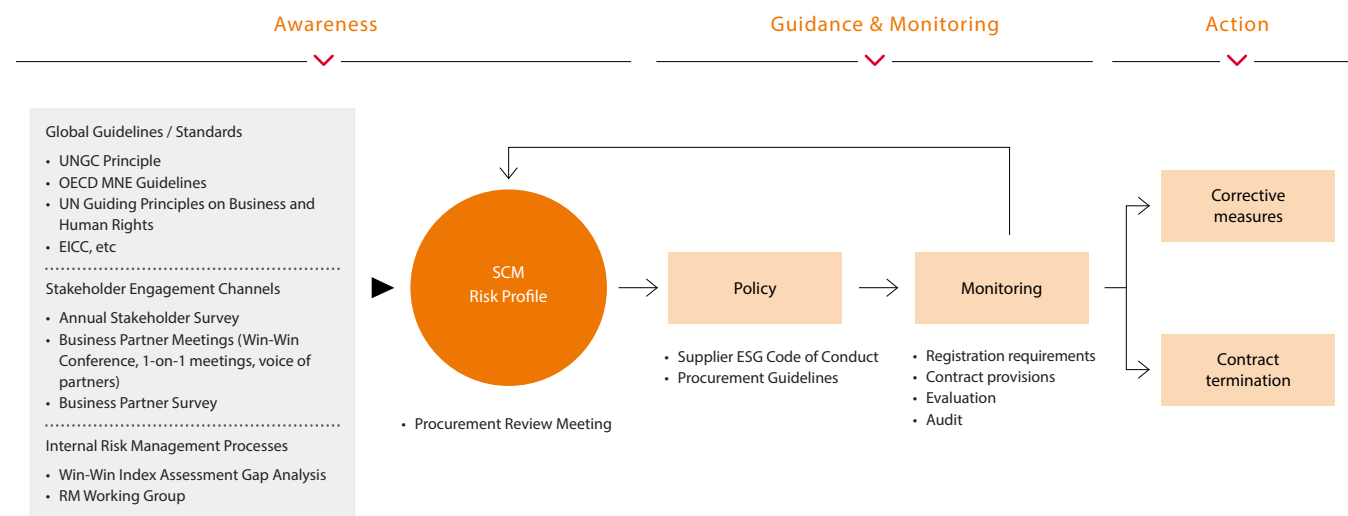
As one of the world's leading ICT companies, SK Telecom has adopted the Business Principles to ensure stakeholders' trust and that its behavior meets the highest standards of integrity.

Thus, SK Telecom requires all of its suppliers to adopt SK Telecom's Business Principles and Practices as their code of conduct. Under the Business Principles, suppliers shall faithfully abide by the code of conduct to prevent risks that may arise in finance, reputation and business concerning SK Telecom and the suppliers themselves, and shall realize a win-win partnership for mutual benefits. SK Telecom ensures that its suppliers will achieve sustainability by managing their

environmental and social performances based on the Supplier ESG Code of Conduct, and to apply such a policy to their subcontractors under the overarching goal of realizing the sustainable supply chain management as defined by SK Telecom.

1. ANTI-BRIBERY
Supplier shall act with honesty, integrity and fairness in its dealings both internally and externally. Supplier shall not tolerate any form of bribery, including improper offers of payments or gifts to or from employees. Supplier shall avoid any contracts that might lead to, or suggest, a conflict of interest between personal activities and the business. Supplier shall neither give nor accept hospitality or gifts that might appear to incur an obligation. Supplier shall pursue mutually beneficial relationships and seek to promote the application of SK Telecom's Business Principles with relevant business partners and suppliers.

2. FAIR-COMPETITION & COMPLIANCE
Suppliers shall actively participate in SK Telecom's endeavors for fair trade compliance and shall conduct business in compliance with fair trade laws and systems to ensure fair competition. Supplier shall comply with the provisions of all applicable domestic and international laws and appropriate standards and principles.

3. PRIVACY PROTECTION
Suppliers shall protect the information they acquire in the course of the business operation related to SK Telecom, and shall not use such information for purposes other than for carrying out the Company's rightful business activities, unless otherwise allowed under the relevant laws. Suppliers shall not acquire or use SK Telecom's or other companies' information or trade confidential information in an illegal or improper manner.

4. FINANCIAL INTEGRITY
SK Telecom will provide the best possible return for its shareholders over the longer term. Suppliers recognize that SK Telecom will maximize corporate value through transparent and efficient business management as it continues to pursue management innovation, and shall share its profits with its shareholders but will also take into account social and environmental considerations.

5. PUBLIC POLICY
Suppliers recognize that SK Telecom will voice its opinions on government proposals and other matters that may have an impact on SK Telecom and its stakeholders. Suppliers recognize that SK Telecom will not make gifts or donations to political parties or intervene in party political matters.

6. CUSTOMER VALUE
Suppliers recognize that SK Telecom shall maintain the quality of products and services that customers expect, and create an environment in which customers can use the products and services safely and beneficially, thereby using its best efforts to increase its customer value.

7. Environment
Suppliers shall practice environment-friendly business management and abide by international standards and laws pertaining to environmental protection, and the internal regulations. Suppliers are also advised to establish an environment management system which

includes an independent audit by a third party.

8. HEALTH & SAFETY
Suppliers shall institute systems, and provide regular education and training that promote Employees' health and safety, and comply with relevant international standards, laws and internal regulations governing employee health and safety. Suppliers shall exert its utmost efforts to encourage their Employees to present a spirit of challenge and creativity based on mutual trust and pride, and help the Employees pursue happiness together with their colleagues.

9. CONTRIBUTION TO COMMUNITY
Suppliers recognize that SK Telecom will actively participate in social contribution activities including volunteer activities and disaster relief as a responsible corporate citizen in the community.

10. HUMAN RIGHTS
Suppliers shall not engage in any form of discrimination against their stakeholders including but not limited to customers, employees and community members in all locations where they conduct business based on race, ethnicity, religion, gender, disability, etc. Suppliers, in all locations where they conduct business, shall recognize and protect basic human rights through various activities including but not limited to underage protection and customer privacy protection. Suppliers will also make the utmost efforts to maintain the optimum working conditions for their employees including work-hour compliance, a guarantee of minimum wages, prohibition on the use of child or forced labor, etc.

GRI INDEX

GRI G4 GENERAL STANDARD DISCLOSURES

General Standard Disclosure	Indicator	Description	Cross Reference/Direct Answer/Omission	3rd Party Assurance
Strategy and	G4-1	CEO Message	pp. 20-23	√
Analysis	G4-2	Key Impacts, risks and opportunities	pp. 68-71	√
Organizational	G4-3	Name of the organization	SK Telecom Co., Ltd.	√
Profile	G4-4	Primary brands, products, and services	pp. 26-27	√
	G4-5	Location of the headquarters	SK-T Tower, 65, Eulji-ro, Jung-gu, Seoul	√
	G4-6	Number and name of countries the organization operates	pp. 26-27, 138	√
	G4-7	Nature of ownership and legal form	p. 16	√
	G4-8	Markets served (geographic breakdown, sectors served, and types of customer and beneficiaries)	pp. 26-27	√
	G4-9	Scale of the organization	pp. 26-29, 100-101	√
	G4-10	Total number of employees	pp. 100-101	√
	G4-11	Percentage of total employees covered by collective bargaining agreements	p. 103, As stated in Article 35 of the Labor Union & Labor Relations Act, 100% of the target for the collective bargaining agreement is covered with 50% of labor union membership	√
	G4-12	Organization's supply chain	pp. 78-81	√
	G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	pp. 28-35	√
	G4-14	Whether and how the precautionary approach is addressed	p. 20-23, SK Telecom supports precautionary principles and responds to large risks with unpredictable impacts such as climate change through UNGC LEAD activities	√
	G4-15	Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes	About This Report, pp.130-131	√
	G4-16	Memberships of associations	About This Report, pp.130-131	√
Identified	G4-17	Entities included in the organization's consolidated financial statements, and whether any entity is not covered by the report	pp. 33-35, The entities list is included on pp. 7-9 of the 2016 Business Report	√
Material Aspects and Boundaries	G4-18	Process for defining the report content and the Aspect Boundaries and the application of reporting principles on the process	pp. 36-39	√
	G4-19	List of all material aspects identified in the process	pp. 36-39	√
	G4-20	Aspect Boundary within the organization limitation related to the Aspect Boundary within the organization	pp. 36-39	√
	G4-21	Aspect Boundary outside the organization limitation related to the Aspect Boundary outside the organization	pp. 36-39	√
	G4-22	Any restatements of information provided in previous reports, and the reasons	Specific attention indicated as notes if necessary	√
	G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	Specific attention indicated as notes if necessary	√
Stakeholder	G4-24	Stakeholder groups engaged	pp. 36-39	√
Engagement	G4-25	Basis for identification and selection of stakeholders	pp. 64-65	√
	G4-26	Approach to stakeholder engagement	pp. 64-65	√
	G4-27	Key topics and concerns raised by stakeholders, and how the organization has responded to those topics	pp. 64-65	√
Report Profile	G4-28	Reporting period	About This Report	√
	G4-29	Date of most recent previous report	About This Report	√
	G4-30	Reporting cycle (Annual, biennial)	About This Report	√
	G4-31	Contact point	p. 140	√
	G4-32	'In accordance' option	About This Report	√
	G4-33	Policy and current practice with external assurance	About This Report	√

GRI G4 GENERAL STANDARD DISCLOSURES

General Standard Disclosure	Indicator	Description	Cross Reference/Direct Answer/Omission	3rd Party Assurance
Governance	G4-34	Governance Structure of organization including the highest governance body and its committee	pp. 60-62, 64	√
	G4-35	Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees	pp. 60-62, 64	√
	G4-36	Whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics	p. 64	√
	G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	p. 64	√
	G4-38	Composition of the highest governance body and its committee	p. 62	√
	G4-39	Whether the Chair of the highest governance body is also an executive officer	p. 60	√
	G4-40	Nomination and selection processes for the highest governance body and its committees	pp. 60-61	√
	G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	pp. 60-61	√
	G4-42	Highest governance body's and senior executives' roles in the development, approval, and updating the organization's purpose, value or mission statements, strategies, policies and goals to economic, environmental and social impacts	pp. 63-64	√
	G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	p. 64	√
	G4-44	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	p. 63	√
	G4-45	Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities	pp. 64, 66	√
	G4-46	Highest governance body's role in reviewing the effectiveness of the organization's risk management process	pp. 64, 66	√
	G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	pp. 61-62, 64, 66	√
	G4-48	Highest committee or position that formally reviews and approves the sustainability report	p. 64	√
	G4-49	Process for communicating critical concerns to the highest governance body	pp. 60-64	√
	G4-50	Nature and total number of critical concerns that were communicated to the highest governance body, and policy to resolve the concerns	pp. 61-62, 64	√
	G4-51	Remuneration policies for the highest governance body and senior executives and remuneration policy performance criteria and highest governance body and senior executives' relevance to economic, environmental and social goals	p. 63	√
	G4-52	The process for determining remuneration (Participation of remuneration advisory committee, independent management performance, relationship of remuneration advisory committee with organization)	p. 63	√
	G4-53	How stakeholder's view and sought and taken into account regarding remuneration (Includes vote result and suggestion for remuneration policy)	pp. 60-63	√
	G4-54	Ratio of the annual total compensation for the organization's highest-paid individual to the median annual total compensation for all employees (excludes the highest- paid individual)	p. 63	√
	G4-55	Ratio of the percentage in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees (excludes the highest- paid individual)	p. 63	√
Ethics and	G4-56	Values, principles, standards and norms of behavior such as codes of conduct	pp. 72-73	√
Integrity	G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior	p. 74	√
	G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior (System report, whistle blow system, hotline etc.)	p. 74	√

GRI G4 SPECIFIC STANDARD DISCLOSURES

Ⓜ GRI G4 material aspects

Economic Category

Aspect	Indicator	Description	Cross Reference/Direct Answer/Omission	3rd Party Assurance
Economic Performance	G4-EC1	Direct economic value generated and distributed	p. 90	√
	G4-EC2	Financial implications and other risks and opportunities due to climate change	pp. 70-71	√
	G4-EC3	Coverage of the organization's defined benefit plan obligations	Applied to all full-time employees as Defined Contributions or Defined Benefits	√
	G4-EC4	Financial assistance received from government	p. 90	√
Market Presence	G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage	SK Telecom provides entry level wages higher than the local minimum wage in all regional operations and does not discriminate according to gender. However, details were not disclosed due to internal information policies.	√
	G4-EC6	Proportion of senior management hired from the local community	p. 101	√
Indirect Economic Impacts	G4-EC7	Development and impact of infrastructure investments and services supported	pp. 50-53	√
	G4-EC8	Significant indirect economic impacts	pp. 50-53	√
Procurement Practices	G4-EC9	Proportion of spending on local suppliers at significant locations of operation	p. 79	√

Evironmental Category

Aspect	Indicator	Description	Cross Reference/Direct Answer/Omission	3rd Party Assurance
Energy Ⓜ	G4-DMA	Disclosures on Management Approach	p. 43	√
	G4-EN3	Energy consumption within the organization	pp. 110-111	√
	G4-EN4	Energy consumption outside of the organization	pp. 110-111	√
	G4-EN5	Energy intensity	pp. 110-111	√
	G4-EN6	Reduction of energy consumption	pp. 110-111	√
	G4-EN7	Reductions in energy requirements of products and services	pp. 50-53	√
Water	G4-EN8	Total water withdrawal by source	p. 111	√
Emissions Ⓜ	G4-DMA	Disclosures on Management Approach	p. 43	√
	G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	pp. 109-110	√
	G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	pp. 109-110	√
	G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	pp. 109-110	√
	G4-EN18	Greenhouse gas (GHG) emissions intensity	pp. 109-110	√
	G4-EN19	Reduction of greenhouse gas (GHG) emissions	pp. 109-110	√
	G4-EN20	Emissions of ozone depleting substances (ODS)	ODS emissions are very insignificant due to the nature of the industry	√
	G4-EN21	NOX, SOX, and other significant air emissions	Other emissions such as NOx and SOx are very insignificant due to the nature of the industry	√
Effluents and Waste	G4-EN22	Total water discharge by quality and destination	p. 111	√
	G4-EN23	Total weight of waste by type and disposal method	p. 111	√
Products and Services Ⓜ	G4-DMA	Disclosures on Management Approach	pp. 54-57	√
	G4-EN27	Extent of impact mitigation of environmental impacts of products and services	p. 57	√
Compliance	G4-EN29	Monetary value of significant fines and total number of non monetary sanctions for non compliance with environmental laws and regulations	0 cases of environmental law violations, no fines or penalties paid	√
Overall	G4-EN31	Total environmental protection expenditures and investments by type	pp. 112-113	√
Supplier Environmental Assessment Ⓜ	G4-DMA	Disclosures on Management Approach	pp. 78-81	√
	G4-EN32	Percentage of new suppliers that were screened using environmental criteria	p. 79	√
	G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	pp. 78-81	√

GRI G4 SPECIFIC STANDARD DISCLOSURES

Ⓜ GRI G4 material aspects

Social Category : Labor Practices and Decent Work

Aspect	Indicator	Description	Cross Reference/Direct Answer/Omission	3rd Party Assurance
Employment	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	p. 101	√
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	pp. 102-103	√
	G4-LA3	Return to work and retention rates after parental leave, by gender	p. 102	√
Occupational Health and Safety	G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work related fatalities, by region and by gender	p. 103	√
Training and Education	G4-LA9	Average hours of training per year per employee by gender, and by employee category	pp. 102-103	√
	G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	pp. 102-103	√
	G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	p. 103	√
Diversity and Equal Opportunity	G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	pp. 24-25	√
Supplier Assessment for Labor Practices Ⓜ	G4-DMA	Disclosures on Management Approach	pp. 78-81	√
	G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	p. 79	√
	G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	pp. 78-81	√

Social Category : Human Rights

Aspect	Indicator	Description	Cross Reference/Direct Answer/Omission	3rd Party Assurance
Child Labor	G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	pp. 75-77	√
Forced or Compulsory Labor	G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	pp. 75-77	√
Assessment	G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	pp. 75-77	√
Supplier Human Rights Assessment	G4-HR10	Percentage of new suppliers that were screened using human rights criteria	p. 79	√
	G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	pp. 79-81	√

SASB INDEX

GRI G4 SPECIFIC STANDARD DISCLOSURES

Ⓜ GRI G4 material aspects

Social Category : Society

Aspect	Indicator	Description	Cross Reference/Direct Answer/Omission	3rd Party Assurance
Local Communities	G4-SO1	Percentage of operations with implemented local community engagement, impact assessment, and development programs	Community engagement was focused on Korea, where over 95% of the revenues are generated, and SKT did impact assessments and development programs	
	G4-SO2	Operations with significant actual and potential negative impacts on local communities	No significant potential/actual/negative impacts on local communities found	√
Anti-corruption Ⓜ	G4-DMA	Disclosures on Management Approach	pp. 72-74	√
	G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	p. 72, There is a companywide ethical management diagnosis process	√
	G4-SO4	Communication and training on anti corruption policies and procedures	p. 73	√
	G4-SO5	Conformed incidents of corruption and actions taken	p. 74	√
Public Policy	G4-SO6	Total value of political contributions by country and recipient/ beneficiary	p. 109	
Anti-competitive Behavior	G4-DMA	Disclosures on Management Approach	p. 74	√
	G4-SO7	Total number of legal actions for anti competitive behavior, anti trust, and monopoly practices and their outcomes	0 cases of violations or legal corrective measures related to unfair trade practices	√
Compliance	G4-SO8	Monetary value of significant fines and total number of non monetary sanctions for non compliance with laws and regulations	No fines or penalties paid related to unfair trade practices	√
Supplier Assessment for Impacts on Society Ⓜ	G4-DMA	Disclosures on Management Approach	pp. 78-81	√
	G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	p. 79	√
	G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	pp. 78-81	√

Social Category : Product Responsibility

Aspect	Indicator	Description	Cross Reference/Direct Answer/Omission	3rd Party Assurance
Product and Service Labeling	G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information labeling	0 cases of violation related to product and service information and labeling	
	G4-PR5	Results of surveys measuring customer satisfaction	p.106	√
Marketing Communications Ⓜ	G4-DMA	Disclosures on Management Approach	pp.68-69	√
	G4-PR6	Sale of banned or disputed products	0 cases. There were no products that posed a severe risk to stakeholders, caused social controversy or were banned in 2016	√
	G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications	0 cases of violations related to marketing communications	√
Customer Privacy Ⓜ	G4-DMA	Disclosures on Management Approach	pp.106-107	√
	G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	p.106	√
Compliance	G4-PR9	Monetary value of significant fines for non compliance with laws and regulations concerning the provision and use of products and services	p.113	

ACTIVITY METRIC

Accounting Metric	Category	Unit	Code	Cross Reference/Direct Answer
Wireless Subscribers	Quantitative	Number	TC0301-A	p.32
Wireline Subscribers	Quantitative	Number	TC0301-B	p.35
Broadband Subscribers	Quantitative	Number	TC0301-C	p.35
Network traffic, percentage on cellular network, and percentage on fixed network	Quantitative	Petabytes, %	TC0301-D	p.105
Network bandwidth capacity, percentage leased	Quantitative	Mbps, %	TC0301-E	p. 105, pp. 47-48, SK Telecom directly owns the networks in the domestic mobile telecom business; it rents lines to MVNO businesses as required by the Telecommunications Business Act

DISCLOSURE METRIC

Topic	Accounting Metric	Category	Unit	Code	Cross Reference/Direct Answer
Environmental Footprint of Operations	Total energy consumed, percentage grid electricity, percentage renewable energy; amount of energy consumed by (a) cellular and (b) fixed networks	Quantitative	GJ / %	TC0301-01	pp. 110-111
Data Privacy	Discussion of policies and practices relating to collection, usage, and retention of customer information and personally identifiable information	Discussion and Analysis	n/a	TC0301-02	pp. 106-107
	Percentage of users whose customer information is collected for secondary purpose, percentage who have opted-in	Quantitative	%	TC0301-03	-
	Amount of legal and regulatory fines and settlements associated with customer privacy	Quantitative	KRW	TC0301-04	p. 113
	Number of government or law enforcement requests for customer information, percentage resulting in disclosure	Quantitative	Number, %	TC0301-05	p. 113
Data Security	Number of data security breaches and percentage involving customers' personally identifiable information	Quantitative	Number, %	TC0301-06	No information security violations
	Discussion of management approach to identifying and addressing data security risks	Discussion and Analysis	n/a	TC0301-07	pp. 106-107
Product End-of-Life Management	Materials recovered through take back programs, percentage of recovered materials that are (a) reused, (b) recycled, and (c) landfilled	Quantitative	Weight (tons), percentage by weight	TC0301-08	pp. 111-112
Managing Systemic Risks from Technology Disruptions	Average interruption frequency and average interruption duration	Quantitative	Disruptions/customer, Hours/customer	TC0301-09	p. 105
	Description of systems to provide unimpeded service during service interruptions	Discussion and Analysis	n/a	TC0301-10	p. 66-67, 105
Fair Competition	Amount of legal and regulatory fines and settlements associated with anti-competitive practices	Quantitative	KRW	TC0301-11	No fines or penalties paid related to unfair competition

UNGC INDEX

The UN supports the 10 principles of the UN Global Compact (UNGC) and advocates the 10 universal principles including those related to human rights, the environment, labor and anti-corruption, and requests support for a wide range of the UN's development plans including the Sustainable Development Goals (SDGs).

SK Telecom joined the UN Global Compact (UNGC), a UN organization that collaborates with businsses, in 2007. As a founding member of UNGC Korea, a local association of UNGC, SK Telecom not only adheres to the 10 principles but also broadly supports the UN's development plans such as the SDGs. SK Telecom became the first in the country to be designated as a UNGC LEAD company in January 2011. SK Telecom has offered the Board Program (a CSR education program for board members) to the Corporate Citizenship Committee and took the initiative to apply the global CSR best practices to Korea.

In April 2013, SK Telecom publicly declared its support for the Universal Declaration of Human Rights and the human rights principles in the UN Guiding Principles on Business and Human Rights: Ruggie Framework, and SK Telecom's CEO affirmed that the company would fulfill its responsibility related to respect for human rights.

By complying with and supporting the UNGC principles, SK Telecom will undertake a variety of activities to solve domestic and international social issues and to spread global CSR trends in the future as well.

UNGC ACTIVITIES

Associations / Initiatives	Joining date	Purpose / Remarks
UNGC Headquarters	May 2007	Involvement in the global CSR initiative activities helped advance the internal CSR system and gain a better reputation in
UNGC Korea	Sept. 2007	CSR at home and abroad
UNGC LEAD	Jan. 2011	

UN GLOBAL COMPACT ADVANCED CRITERIA INDEX

UNGC Advanced Criteria		Cross Reference / Direct Answer
Fulfillment of the UNGC 10 Principles in Strategy and Operation		
Criterion 1	Commitment to integrate the UNGC 10 principles into business function and units	pp. 20-23, 130
Criterion 2	Practicing the UNGC 10 principles across the value chain	pp. 120-123, 130
Definite Human Rights Policy and Procedure		
Criterion 3	Human rights commitment, strategy, and policy	pp. 75-77,120-121
Criterion 4	Effective management system to incorporate the human rights principles into business and management procedures	pp. 75-77
Criterion 5	Monitoring and evaluation mechanism to ensure compliance with the human right principles in the business and management procedures	pp. 75-77

UN GLOBAL COMPACT ADVANCED CRITERIA INDEX

UNGC Advanced Criteria		Cross Reference / Direct Answer
Definite Labor Policy and Procedure		
Criterion 6	Labor commitment, strategy, and policy	p. 103
Criterion 7	Effective management system to incorporate the labor principles into business and management procedures	p. 103, Through the trade union and collective bargaining, the labor principles are integrated and the Labor Management Council is in operation
Criterion 8	Monitoring and evaluation mechanism to ensure compliance with the labor principles in the business and management procedures	The grievance channel for employees is in operation and the Labor Management Council checks the relevant issues
Definite Environmental Policy and Procedure		
Criterion 9	Environment commitment, strategy, and policy	pp. 50-57
Criterion 10	Effective management system to incorporate the environmental principles Monitoring and evaluation mechanism to ensure compliance with the environmental principles in the business and management procedures	pp. 50-57, 109-111
Criterion 11	Monitoring and evaluation mechanism to ensure compliance with the environmental principles in the business and management procedures	pp. 50-57, 109-111
Definite Ethics and Compliance Policy and Procedure		
Criterion 12	Ethics commitment, strategy, and policy	p. 72
Criterion 13	Effective management system to incorporate the ethical principles into business and management procedures	pp. 72-74
Criterion 14	Monitoring and evaluation mechanism to ensure compliance with the ethical principles in the business and management procedures	pp. 72-74
Activities to Support the More Broad and Comprehensive UN Objectives and Goals		
Criterion 15	Contribution through key businesses to help achieve the UN objectives and goals	pp. 50-53
Criterion 16	Strategic community investment and charity work to help achieve the UN objectives and goals	pp. 108-109
Criterion 17	Public engagement and communication to help achieve the UN objectives and goals	pp. 109, 103
Criterion 18	Partnerships and outside initiatives to help achieve the UN objectives and goals	About This Report
Governance and Leadership for Sustainability		
Criterion 19	CEO's sustainability commitment and leadership	pp. 20-23
Criterion 20	The Board of Directors' selection and oversight of sustainability agenda items	pp. 60-62, 64-65
Criterion 21	Stakeholder engagement	pp. 36-39, 64-65

NON-CONSOLIDATED FINANCIAL STATEMENTS

NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KRW million)

Assets	2016	2015	2014
Current Assets	3,661,115	2,713,529	2,689,913
Cash and cash equivalents	874,350	431,666	248,311
Short-term financial instruments	95,000	121,500	143,000
Short-term investment securities	97,340	92,262	197,161
Accounts receivable - trade, net	1,594,504	1,528,751	1,559,281
Short-term loans, net	54,143	47,741	67,989
Accounts receivable - other, net	772,570	264,741	305,990
Accrued revenue	460	7,505	6,354
Advance payment	30,988	80,926	51,619
Prepaid expenses	107,989	92,220	86,070
Inventories, net	32,479	45,991	23,694
Advanced payments and other	1,292	226	444
Non-current Assets	21,787,459	20,433,411	20,022,549
Long-term financial instruments	102	10,062	69
Long-term investment securities	560,966	726,505	608,797
Investments in associates and joint ventures	8,726,538	8,810,548	8,181,769
Property and equipment, net	7,298,539	7,442,280	7,705,906
Goodwill	1,306,236	1,306,236	1,306,236
Intangible assets, net	3,275,663	1,766,069	1,928,169
Long-term loans, net	11,160	35,080	38,457
Long-term accounts receivable	147,139	0	0
Long-term prepaid expenses	27,918	29,802	28,551
Guarantee deposits	173,287	166,656	156,807
Long-term derivative financial assets	176,465	139,923	67,728
Deferred tax assets	58,410	0	0
Defined benefit assets	24,787	0	0
Other non-current assets	249	250	60
Total Assets	25,448,574	23,146,940	22,712,462

Liabilities and Equity	2016	2015	2014
Current Liabilities	4,464,160	3,491,306	3,378,046
Accrued payables - other	1,546,252	927,170	1,086,485
Unearned revenue	71,431	50,100	39,148
Withholdings	642,582	607,690	801,119
Accrued expenses	663,918	540,770	615,488
Income tax payable	461,999	375,189	91,315
Prepaid income	1,360	10,014	92,783
Unearned income	86,950	0	0
Derivative financial liabilities	59,027	37,551	50,456
Current liabilities	0	230,000	200,000
Short-term borrowings	628,868	592,637	211,863
Current long-term borrowings	301,773	120,185	189,389
Non-current liabilities	6,727,460	5,876,174	5,792,195
Debentures	4,991,067	5,033,495	4,655,137
Long-term borrowings	61,416	72,554	80,147
Long-term payables - other	1,602,943	550,964	657,001
Long-term unearned revenue	2,389	2,768	19,544
Defined benefit obligations	0	4,006	15,555
Derivative financial liabilities	0	89,296	130,889
Other non-current liabilities	21,493	20,055	27,676
Deferred tax liabilities	0	56,274	144,876
Other non-current liabilities	48,152	46,762	61,370
Total Liabilities	11,191,620	9,367,480	9,170,241
Equity			
Share capital	44,639	44,639	44,639
Other paid up capital	371,481	369,446	433,894
Retained earnings	13,902,627	13,418,603	12,996,790
Reserves	(61,793)	(53,228)	66,898
Total Equity	14,256,954	13,779,460	13,542,221
Total Liabilities and Equity	25,448,574	23,146,940	22,712,462

NON-CONSOLIDATED STATEMENT OF INCOME

(KRW million)

	2016	2015	2014
Operating revenue	12,350,479	12,556,979	13,012,644
Revenue	12,350,479	12,556,979	13,012,644
Operating expense	10,568,307	10,898,203	11,275,484
Labor cost	634,754	694,666	588,635
Commissions paid	4,716,555	5,102,723	5,591,245
Depreciation and amortization	2,242,546	2,155,531	2,095,702
Network interconnection	687,048	720,879	771,786
Leased line	347,741	358,031	370,549
Advertising	174,186	175,776	213,605
Rent	424,929	403,317	377,112
Cost of products that have been resold	502,770	462,256	457,049
Other operating expense	837,778	825,024	809,801
Operating income	1,782,172	1,658,776	1,737,160
Finance income	323,563	246,394	82,276
Finance cost	261,393	314,191	293,338
Other non-operating income	54,288	15,277	37,422
Other non-operating expense	200,771	132,993	184,177
Gain (losses) related to investments in subsidiaries, associates and joint ventures	135,077	3,819	57,593
Profit before income tax	1,562,782	1,469,444	1,321,750
Corporate tax	345,508	362,683	293,209
Net profit for the term	1,217,274	1,106,761	1,028,541
Earnings per share			
Basic earnings per share (KRW)	17,001	15,233	14,262
Diluted earnings per share (KRW)	17,001	15,233	14,262

NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(KRW million)

	33rd	32nd	31st
Net profit for the term	1,217,274	1,106,761	1,028,541
Other inclusive gains and losses	(18,884)	(119,740)	(118,086)
Items not reclassified as a profit or loss during the follow-up period	(10,319)	386	(13,808)
Remeasurement factors of defined benefit systems	(10,319)	386	(13,808)
Items reclassified as a profit or loss during the follow-up period	(8,565)	(120,126)	(104,278)
Gain or loss from appreciation of tradable financial assets	5,385	(121,528)	(66,103)
Gain or loss from appreciation of derivative products	(13,950)	1,402	(38,175)
Total inclusive gains and losses for the term	1,198,390	987,021	910,455

NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(KRW million)

				Equity						
	Share Capital	Other Paid Up Capital						Retained Earnings	Reserves	Total Equity
		Capital Excess of Par Value	Treasury Stock	Loss on Disposal of Treasury Stock	Hybrid Bond	Other	Total			
2014.01.01 (Basic Capital)	44,639	2,915,887	(2,139,683)	(18,087)	398,518	(722,741)	433,894	12,665,699	171,176	13,315,408
Payment of dividends	0	0	0	0	0	0	0	(666,802)	0	(666,802)
Business combination under common control	0	0	0	0	0	0	0	0	0	0
Interest on hybrid bond	0	0	0	0	0	0	0	(16,840)	0	(16,840)
Acquisition of treasury stock	0	0	0	0	0	0	0	0	0	0
Proceeds from treasury stock	0	0	0	0	0	0	0	0	0	0
Total income Profit for the year	0	0	0	0	0	0	0	1,028,541	0	1,028,541
Other comprehensive income	0	0	0	0	0	0	0	(13,808)	(104,278)	(118,086)
2014.12.31 (End of term capital)	44,639	2,915,887	(2,139,683)	(18,087)	398,518	(722,741)	433,894	12,996,790	66,898	13,542,221
2015.01.01 (Basic capital)	44,639	2,915,887	(2,139,683)	(18,087)	398,518	(722,741)	433,894	12,996,790	66,898	13,542,221
Payment of dividends	0	0	0	0	0	0	0	(668,494)	0	(668,494)
Business combination under common control	0	0	0	0	0	0	0	0	0	0
Interest on hybrid bond	0	0	0	0	0	0	0	(16,840)	0	(16,840)
Acquisition of treasury stock	0	0	(490,192)	0	0	0	(490,192)	0	0	(490,192)
Proceeds from treasury stock	0	0	369,249	18,087	0	38,408	425,744	0	0	425,744
Total income Profit for the year	0	0	0	0	0	0	0	1,106,761	0	1,106,761
Other comprehensive income	0	0	0	0	0	0	0	386	(120,126)	(119,740)
2015.12.31 (End of term capital)	44,639	2,915,887	(2,260,626)	0	398,518	(684,333)	369,446	13,418,603	(53,228)	13,779,460
2016.01.01 (Basic capital)	44,639	2,915,887	(2,260,626)	0	398,518	(684,333)	369,446	13,418,603	(53,228)	13,779,460
Payment of dividends	0	0	0	0	0	0	0	(706,091)	0	(706,091)
Business combination under common control	0	0	0	0	0	2,035	2,035	0	0	2,035
Interest on hybrid bond	0	0	0	0	0	0	0	(16,840)	0	(16,840)
Acquisition of treasury stock	0	0	0	0	0	0	0	0	0	0
Proceeds from treasury stock	0	0	0	0	0	0	0	0	0	0
Total income Profit for the year	0	0	0	0	0	0	0	1,217,274	0	1,217,274
Other comprehensive income	0	0	0	0	0	0	0	(10,319)	(8,565)	(18,884)
2016.12.31 (End of term capital)	44,639	2,915,887	(2,260,626)	0	398,518	(682,298)	371,481	13,902,627	(61,793)	14,256,954

NON-CONSOLIDATED STATEMENT OF CASH FLOWS

(KRW million)

	2016	2015	2014
Cash flows from operating activities	3,575,572	2,947,129	3,221,433
Cash generated from operating activities	4,005,289	3,219,373	3,580,032
Net profit for the term	1,217,274	1,106,761	1,028,541
Adjustment for income and expenses	2,931,278	2,811,718	2,886,389
Changes in assets and liabilities related to operating activities	(143,263)	(699,106)	(334,898)
Interest received	23,014	18,786	20,954
Dividends received	113,955	59,462	13,048
Interest paid	(199,332)	(221,309)	(224,119)
Income tax paid	(367,354)	(129,183)	(168,482)
Cash flows from investing activities	(1,974,842)	(2,062,182)	(2,622,617)
Cash inflows from investing activities	629,565	745,965	319,389
Decrease in short-term financial instruments, net	0	105,158	0
Decrease in short-term financial securities, net	36,500	21,500	30,500
Collection of short-term loans	232,745	387,922	197,925
Decrease in long-term financial instruments	0	7	2,522
Proceeds from disposal of long-term investment securities	336,669	22,106	54,218
Proceeds from disposal of investments in associates and joint ventures	1,063	185,557	0
Increase in cash flow from combining businesses	360	0	0
Disposition of tangible assets	14,539	23,372	25,677
Proceeds from disposal of intangible assets	7,689	343	1,127
Disposition of non-current assets scheduled to be disposed of	0	0	3,667
Collection of long-term loans	0	0	3,660
Proceeds from disposal of other non-current assets	0	0	93
Cash outflows for investing activities	(2,604,407)	(2,808,147)	(2,942,006)
Increase in short-term investment securities, net	6,335	0	94,802
Increase in long-term financial instruments	237,197	364,687	195,700
Acquisition of long-term investment securities	40	10,000	2,522
Acquisition of investments in associates and joint ventures	19,501	296,254	28,801
Acquisition of property and equipment	87,088	306,382	210,060
Acquisition of tangible assets	1,674,027	1,752,804	2,319,016
Acquisition of intangible assets	580,219	77,830	91,060
Increase in other non-current assets	0	190	0
Increase in long-term loans	0	0	45

(KRW million)

	2016	2015	2014
Cash flows from financing activities	(1,158,738)	(701,420)	(798,911)
Cash inflows from financing activities	607,725	927,204	801,035
Proceeds from short-term borrowings	0	30,000	0
Proceeds from long-term borrowings	0	0	3,552
Issuance of debentures	607,474	897,029	797,364
Cash inflows from derivative transactions	251	175	119
Cash outflows for financing activities	(1,766,463)	(1,628,624)	(1,599,946)
Repayment in short-term borrowings, net	230,000	0	60,000
Repayment of long-term borrowings	12,814	12,814	12,814
Repayment of long-term non-trade payables	120,718	190,134	207,668
Repayment of debentures	680,000	250,000	629,940
Payment of dividends	706,091	668,494	666,802
Acquisition of treasury stock	0	490,192	0
Interest on hybrid bond	16,840	16,840	16,840
Outflow of cash due to transaction of derivative products	0	150	5,882
Net increase (decrease) in cash and cash equivalents	441,992	183,527	(200,095)
Cash and cash equivalent at beginning of the year	431,666	248,311	448,459
Effects of exchange rate changes on cash and cash equivalents	692	(172)	(53)
Cash and cash equivalents at end of the year	874,350	431,666	248,311

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http://www.sktelecom.com

DATE OF ESTABLISHMENT

March 29, 1984

PAID IN CAPITAL

KRW 44,639 million As of December 31, 2016

NUMBER OF COMMON SHARES

80,745,711 Shares As of December 31, 2015

SECURITIES LISTINGS

Korea Stock Exchange: 017670.KS (Common Stock)
New York Stock Exchange: SKM (ADS)
London Stock Exchange: SKMD (ADS)

TRANSFER AGENT AND REGISTRAR

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AVAILABLE FILINGS

Form 20-F
Form 6-K: Quarterly Reports, Proxy Statements, and other material announcements

ANNUAL GENERAL SHAREHOLDERS' MEETING

Friday, March 24, 2017, at 9 AM
SK-T tower, 65, Eulji-ro, Jung-gu, Seoul 100-999, Korea

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Office of the Board of Directors	Jinsok Lee	Compliance Team	Jeongmin Choi
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Information Security Planning Team	Miae Han	Global Alliance Planning Team	Gyujin Shin
Customer Communication Team	Dong Huh	Policy Team	Dongsu Moon
Customer Billing Team	Jinha Lee		Seungchan Maeng
Ethics Management Team	Jungah Kwak		Jinwoong Yu
Management Support Team 1	Jaechul Jang		Dongkyun Ham
Vitality Enhancement Team	Sungyong Park	Service Policy Team	Gwangjoo Lee
Pricing Team	Seungha Lee	Business Cooperation Team	Wonsuk Lee
Affiliate Marketing & Promotion Team	Jongyoon Ho	Technology Cooperation Team	Sangyeup Lee
Payment Business Team	Yongyoup Lee		Minseok Jang
Infra Strategy Team	Taehee Wang	EMD Team	Mijung Song
Solution Planning Team	Dongwon Lee A	Labor Relations Team	Taehyun Kim
O&M Innovation Team	Daesung Kim	HR Planning Team	Jongyo Kim
T map Business Team	Yoonbong Yoo	HR Team	Yongseon Park
Technology Strategy Team	Sungtaek Kim	General Affairs Team	Kyungwoo Kim
	Wonte Kim	Leadership Innovation Team	Kyungae Kim
Corporate Strategy Team	Jongho Kim	CSV Team	Sungnam Shin
	Younsoo Na		Hyungeal Jang
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Accounting Team	Yein Cho	Healthcare ICT Business Team	Sangkyung Jo
Tax Team	Yongmin Kim		
IR Office	Sunhyun Kim		
	Hunchul Yoo		
	Daeyong Woo		
	Hyunny Lee		

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