SK TELECOM CO LTD
Form 20-F
April 29, 2016
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As filed with the Securities and Exchange Commission on April 29, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2015

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from to

Commission file number 1-14418

SK Telecom Co., Ltd.

(Exact name of Registrant as specified in its charter)

SK Telecom Co., Ltd.

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

SK T-Tower

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

(Address of principal executive offices)

Ms. Tae Hee Kim

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

Telephone No.: 82-2-6100-2114

Facsimile No.: 82-2-6100-7830

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

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

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

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

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

None

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

None

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

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

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

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

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

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

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

Large accelerated filer þ **Accelerated filer** ¨ **Non-accelerated filer** ¨

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

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

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

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

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CERTAIN DEFINED TERMS AND CONVENTIONS USED IN THIS ANNUAL REPORT

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

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

All references to Won, or in this annual report are to the currency of Korea, all references to Dollars or US$ are to the currency of the United States of America, all references to CHF or Franc are to the currency of Switzerland, all references to MYR are to the currency of Malaysia, all references to euro or are to the currency of the European Union and all references to Australian Dollars or AUD are to the currency of the Commonwealth of Australia.

Pursuant to amendments to the Government Organization Act and the Act on the Establishment and Operation of Korea Communications Commission, both effective as of March 23, 2013, the Ministry of Science, ICT and Future Planning (the MSIP) was established. The MSIP is charged with regulating information and telecommunications, which function was formerly performed by the Korea Communications Commission (the KCC) under the previous Government. The KCC, which had taken over the regulatory functions relating to information and telecommunications policies and radio and broadcasting management from the Ministry of Information and Communication (the MIC) in 2008, is currently charged with regulating the public interest aspects of and fairness in broadcasting. In this annual report, we refer to the MIC and the KCC as the relevant governmental authorities in connection with any approval granted or action taken by the MIC or the KCC, as applicable, prior to such amendments and to the MSIP or other relevant governmental authority in connection with any approval granted or to be granted or action taken or to be taken by the MSIP or such other relevant governmental authority subsequent to such amendments.

Subscriber information for the wireless and fixed-line telecommunications industry set forth in this annual report are derived from information published by the MSIP unless expressly stated otherwise.

The consolidated financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (the IASB). As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014, and 2013 included in this annual report.

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

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

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, as defined in Section 27A of the U.S. Securities Act of 1933, as amended (the Securities Act), and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally,

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these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, considering, depends, estimate, expect, intend, plan, planning, planned, project and similar expressions, or that certain events, actions or results may, mi could occur, be taken or be achieved.

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

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

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

- our plans for capital expenditures in 2016 for a range of projects, including investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our platform business portfolio and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth engines, as well as initiatives related to our ongoing businesses in the ordinary course;

- our efforts to make significant investments to build, develop and broaden our businesses, including developing our three next-generation growth platforms, Internet of Things (IoT) solutions, lifestyle enhancement and advanced media;

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

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

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

- the success of our various joint ventures and investments;

- our ability to successfully manage our acquisition in 2012 of a stake in SK hynix Inc. (known as Hynix Semiconductor Inc. at the time of such acquisition, SK Hynix), a memory-chip maker;

- our ability to successfully complete the acquisition of a stake in CJ HelloVision Co., Ltd. (CJ HelloVision), a fixed-line cable TV broadcast service provider, and integrate CJ HelloVision s business with that of SK Broadband Co., Ltd. (SK Broadband);

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

We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. Risks and uncertainties associated with our business include, but are not limited to, risks related to changes in the regulatory environment, technology changes, potential litigation

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and governmental actions, changes in the competitive environment, political changes, foreign exchange currency risks, foreign ownership limitations, credit risks and other risks and uncertainties that are more fully described under the heading Item 3. Key Information Risk Factors and elsewhere in this annual report. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

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PART I

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

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

Item 1.B. ***Advisers***
Not applicable.

Item 1.C. ***Auditors***
Not applicable.

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

Item 3. ***KEY INFORMATION***

Item 3.A. ***Selected Financial Data***
You should read the selected consolidated financial and operating data below in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report. The selected consolidated financial data set forth below as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements and related notes thereto, which have been prepared in accordance with IFRS as issued by the IASB.

In addition to preparing consolidated financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with Korean International Financial Reporting Standards (K-IFRS) as adopted by the Korean Accounting Standards Board (the KASB), which we are required to file with the Financial Services Commission of Korea (the FSC) and the Korea Exchange Inc. (the Korea Exchange) under the Financial Investment Services and Capital Markets Act (the FSCMA). English translations of such financial statements are furnished to the SEC on Form 6-K. Beginning with our financial statements prepared in accordance with K-IFRS as of and for the year ended December 31, 2012, we are required to adopt certain amendments to K-IFRS No. 1001, Presentation of Financial Statements, as adopted by the KASB in 2012. The amendments require operating income, which is calculated as operating revenue less operating expense, to be separately presented on the consolidated statement of income. Operating expense represents expenses incurred in our main operating activities and includes cost of products that have been resold and selling, general and administrative expenses.

In our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report, such changes in presentation were not adopted. As a result, the presentation of operating income in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report differs from the presentation of operating income in the consolidated statements of income prepared in accordance with K-IFRS for the corresponding periods. For additional information, see Item 5.A. Operating Results Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

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	Year Ended December 31, 2015	2014	2013	2012	2011
	(In billions of Won, except per share and number of shares data)				
STATEMENT OF INCOME DATA					
Operating Revenue and Other Income	17,167.6	17,220.3	16,677.0	16,343.3	15,852.8
Revenue	17,136.7	17,163.8	16,602.1	16,141.4	15,803.2
Other income	30.9	56.5	74.9	201.9	49.6
Operating Expense	15,672.2	15,612.4	15,098.6	14,605.6	13,690.1
Operating Income	1,495.4	1,607.8	1,578.4	1,737.6	2,162.7
Profit before Income Tax	2,035.4	2,253.8	1,827.1	1,519.4	2,212.3
Profit from Continuing Operations	1,515.9	1,799.3	1,426.3	1,231.2	1,610.3
Profit (Loss) from Discontinued Operation, net of income taxes			183.2	(115.5)	(28.3)
Profit for the Year	1,515.9	1,799.3	1,609.5	1,115.7	1,582.1
Basic Earnings per Share(1)	20,988	25,154	23,211	16,525	22,848
Diluted Earnings per Share(2)	20,988	25,154	23,211	16,141	22,223
Basic Earnings per Share from Continuing Operations(1)	20,988	25,154	20,708	18,015	23,339
Diluted Earnings per Share from Continuing Operations(2)	20,988	25,154	20,708	17,583	22,699
Dividends Declared per Share (Won)	10,000	9,400	9,400	9,400	9,400
Dividends Declared per Share (US$)(3)	8.6	8.6	8.9	8.8	8.1
Weighted Average Number of Shares	71,551,966	70,936,336	70,247,592	69,694,999	70,591,937

	As of December 31, 2015	2014	2013	2012	2011
	(In billions of Won)				
STATEMENT OF FINANCIAL POSITION DATA					
Working Capital (Deficit)(4)	(96.3)	(337.2)	(945.8)	(880.5)	(556.1)
Property and Equipment, Net	10,371.3	10,567.7	10,196.6	9,712.7	9,031.0
Total Assets	28,581.4	27,941.2	26,576.5	25,595.6	24,366.0
Non-current Liabilities(5)	7,950.8	7,272.7	6,340.7	6,565.9	4,959.7
Share Capital	44.6	44.6	44.6	44.6	44.6
Total Equity	15,374.1	15,248.3	14,166.6	12,854.8	12,732.7

	Year Ended December 31, 2015	2014	2013	2012	2011
	(In billions of Won, except percentage data)				
OTHER FINANCIAL DATA					
Capital Expenditures(6)	2,478.8	3,008.0	2,879.1	3,394.3	2,960.6
R&D Expense(7)	322.7	397.8	363.7	346.3	295.9
Depreciation and Amortization Expense	2,845.3	2,714.7	2,661.6	2,421.1	2,286.6
Net Cash Provided by Operating Activities	3,778.1	3,677.4	3,558.6	3,999.7	6,306.4
Net Cash Used in Investing Activities	(2,880.5)	(3,683.2)	(2,506.5)	(5,309.6)	(4,239.1)
Net Cash Provided by (Used in) Financing Activities	(964.6)	(559.4)	(573.2)	585.3	(1,079.3)
Margins (% of total sales):					
Operating Margin(8)	8.7%	9.3%	9.5%	10.6%	13.6%
Net Margin(8)	8.8%	10.4%	9.7%	6.8%	9.9%

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	As of or for the Year Ended December 31,				
	2015	2014	2013	2012	2011
SELECTED OPERATING DATA					
Population of Korea (in millions)(9)	51.5	51.3	51.1	50.9	50.7
Our Wireless Penetration(10)	55.6%	55.7%	53.5%	52.9%	52.3%
Number of Employees(11)	25,992	25,689	23,789	22,148	20,955
Wireless Subscribers (in thousands) (12)	28,626	28,279	27,352	26,961	26,553
Our LTE Subscribers (in thousands) (13)	18,980	16,737	13,487	7,530	634
Our LTE Penetration(14)	66.3%	59.2%	49.3%	27.9%	2.4%
Average Monthly Data Usage per Subscriber(15)	3.9 GB	3.0 GB	2.0 GB	1.8 GB	
Average Monthly Churn Rate(16)	1.5%	2.0%	2.3%	2.6%	2.7%
Cell Sites	55,085	50,158	44,764	35,584	21,999

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

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

(3) The Dollar amounts shown for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 were translated at the rate of Won 1,169.3 to US$1.00, Won 1,090.9 to US$1.00, Won 1,055.3 to US$1.00, Won 1,063.2 to US$1.00 and Won 1,158.5 to US$1.00, respectively, the noon buying rates in effect at the end of the respective years.

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

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

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

(7) Consists of research and development costs that are expensed and costs that are amortized during the respective period as well as donations to Korean research institutions and educational organizations in 2012 and 2011 of Won 4.0 billion and Won 20.0 billion, respectively.

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

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

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

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

(12) Wireless subscribers include those subscribers who are temporarily deactivated, including (i) subscribers who voluntarily deactivate temporarily for a period of up to three months no more than twice a year and (ii) subscribers with delinquent accounts who may be involuntarily deactivated up to two months before permanent deactivation, which we determine based on various factors, including prior payment history. The number of subscribers as of December 31, 2015, 2014, 2013 and 2012 include 2.7 million subscribers, 2.1 million subscribers, 1.1 million subscribers and 0.4 million subscribers, respectively, of mobile virtual network operators (MVNO) that lease our wireless networks.

(13) The number of LTE subscribers as of December 31, 2015 and 2014 include 0.1 million subscribers and approximately 29,000 subscribers, respectively, of MVNOs that lease our LTE network.

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

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

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

Exchange Rates

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

Year Ended December 31,	At End of Period	Average Rate(1)	High	Low
	(Won per US$1.00)			
2011	1,158.5	1,106.9	1,197.5	1,049.2
2012	1,063.2	1,126.2	1,185.0	1,063.2
2013	1,055.3	1,094.7	1,161.3	1,050.1
2014	1,090.9	1,052.3	1,117.7	1,008.9
2015	1,169.3	1,131.0	1,196.4	1,063.0

	Past Six Months High	Low
	(Won per US$1.00)	
October 2015	1,180.0	1,120.9
November 2015	1,172.7	1,136.5
December 2015	1,188.0	1,140.7
January 2016	1,217.0	1,190.4
February 2016	1,242.6	1,186.1
March 2016	1,229.6	1,138.9
April 2016 (through April 22)	1,158.4	1,126.0

Source: Federal Reserve Bank of New York.

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

On April 22, 2016, the noon buying rate was Won 1,147.9 to US$1.00.

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

Not applicable.

Item 3.C. ***Reasons for the Offer and Use of Proceeds***

Not applicable.

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

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

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

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

The collective market share of our competitors amounts to approximately 50.6%, in terms of number of wireless subscribers, as of December 31, 2015. We also compete for subscriber activations with MVNOs, including MVNOs that lease our networks. MVNOs generally provide rate plans that are relatively cheaper than similar rate plans of the wireless network providers from which they lease their networks, including us. In addition, other companies may enter the telecommunications service market by acquiring the required licenses from the MSIP. For example, in October 2015, Sejong Telecom, K Mobile and Quantum Mobile applied for licenses to become Korea s fourth mobile network operator. Although the MSIP rejected the applications of all three companies in January 2016, the MSIP may continue its efforts to find an eligible applicant to be Korea s fourth mobile network operator in the future.

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

Our fixed-line telephone service competes with KT and LG U+, as well as other providers of voice over Internet protocol (VoIP) services. As of December 31, 2015, our market share of the fixed-line telephone and VoIP service market was 16.2% (including the services provided by SK Broadband and SK Telink Co., Ltd. (SK Telink)) in terms of number of subscribers compared to KT with 57.5% and LG U+ with 17.5%. In addition, our broadband Internet access and Internet protocol TV (IPTV) services provided through SK Broadband competes with other providers of such services, including KT, LG U+ and cable companies. As of December 31, 2015, our market share of the broadband Internet market was 25.1% in terms of number of subscribers compared to KT with 41.6% and LG U+ with 17.4%. As of December 31, 2015, our market share of the pay TV market (which includes IPTV, cable TV and satellite TV) was 12.1% compared to KT with 22.7% and LG U+ with 7.9% and the collective market share of other pay TV providers with 57.3%.

Continued competition from other wireless and fixed-line service providers has also resulted in, and may continue to result in, a substantial level of deactivations among our subscribers. Subscriber deactivations, or churn, may significantly harm our business and results of operations. In 2015, the monthly churn rate in our wireless telecommunications business ranged from 1.3% to 2.1%, with an average monthly churn rate of 1.5%, which was a decrease from 2.0% in 2014. Intensification of competition in the future may cause our churn rates to increase, which in turn may cause us to increase our marketing expenses as a percentage of sales to attract and retain subscribers.

With respect to the commerce business operated by SK Planet Co., Ltd. (SK Planet), 11st, our marketplace business, faces intense competition from various e-commerce providers, including online open marketplaces such as Gmarket, Auction and Interpark and online social commerce operators such as Coupang, Ticket Monster and Wemakeprice. We also face competition from traditional retailers with online and mobile shopping portals such as SSG.com and Lotte.com, home shopping providers with online and mobile shopping portals such as CJ Mall by CJ O Shopping, GS Shop by GS Homeshopping and Hyundai Hmall by Hyundai Homeshopping, and various

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online marketplaces for specific consumer segments or product groups. The industry in which 11st competes is evolving rapidly and is intensely competitive, and we face a broad array of competitors domestically and increasingly, internationally.

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

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

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

In December 2014, we commenced tri-band LTE-A services, which bundles three different bandwidths to allow faster network service at speeds of up to 300 Mbps in Seoul and other metropolitan areas. Since then, we have expanded coverage nationwide and as of December 31, 2015, the nationwide geographic coverage percentage of our tri-band LTE-A service was approximately 51.9% according to the MSIP. KT and LG U+ have also launched similar LTE-A services around the same time as us. The more successful operation of an LTE network or development of improved LTE technology by a competitor, including better market acceptance of a competitor s LTE services, could materially and adversely affect our existing wireless telecommunications businesses as well as the returns on future investments we may make in our LTE network or our other businesses. For a more detailed description of our backbone networks, see Item 4.B. Business Overview Cellular Services Digital Wireless Network.

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

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

We have made, and intend to continue to make, capital investments to develop, launch and enhance our LTE service, including launching LTE-A services. In 2015, 2014 and 2013, we spent Won 1,022.7 billion, Won 1,357.2 billion and Won 1,439.4 billion, respectively, in capital expenditures to build and enhance our LTE network. We plan to make further capital investments related to our LTE and LTE-A services in the future. Our wireless technology-related investment plans are subject to change, and will depend, in part, on market demand for LTE and LTE-A services, the competitive landscape for provision of such services and the development of competing technologies. There may not be sufficient demand for services based on our latest wireless technologies, as a result of competition or otherwise, to permit us to recoup or profit from our wireless technology-related capital investments.

Our growth strategy calls for significant investments in new businesses and regions, including businesses and regions in which we have limited experience.

We seek growth through investments in new businesses. While we believe that entering into new businesses enables us to diversify our business portfolio, we may be exposed to additional risks. For example, in February 2012, we acquired a 21.1% equity stake in SK Hynix, one of the world s largest memory-chip makers by revenue, for an aggregate purchase price of approximately Won 3.4 trillion, and became its largest shareholder. From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged downturns, which often occur in connection with a deterioration of global economic conditions, and is subject to intense competition. For example, SK Hynix and its subsidiaries, on a consolidated basis, incurred net losses of Won 158.8 billion and Won 56.0 billion in 2012 and 2011, respectively, primarily due to increased supply and weak demand for semiconductor products. Although the memory semiconductor industry has recovered since then and SK Hynix has been recording net profits since 2013, the industry is subject to cyclical fluctuations and we expect that there may be future downturns in the industry. Accordingly, SK Hynix s operating results would be adversely affected if it fails to compete successfully or decrease manufacturing costs at an adequate level. Since our share of any net losses incurred by SK Hynix would be reflected in our income statement as share of losses related to investments in associates, any significant loss of SK Hynix could have a material adverse effect on our results of operations.

We believe that we must continue to make significant investments to build, develop and broaden our existing businesses. Entering into new businesses and regions in which we have limited experience may require us to make substantial investments, and despite such investments, we may still be unsuccessful in these efforts to expand and diversify. We might not be able to recoup or profit from our investments in new businesses and regions. In addition, when we enter into these businesses and regions with partners through joint ventures or other strategic alliances, we and those partners may have disagreements with respect to strategic directions or other aspects of business, or may otherwise be unable to coordinate or cooperate with each other, any of which could materially and adversely affect our operations in such businesses and regions.

We may fail to successfully complete or integrate our new acquisitions and joint ventures and may fail to realize the anticipated benefits.

We continue to seek opportunities to develop new businesses that we believe are complementary to our existing product and service portfolio and expand our global business through selective acquisitions.

On November 2, 2015, we entered into a share purchase agreement with CJ O Shopping Co., Ltd. (CJ O Shopping) to acquire a 30.0% interest in CJ HelloVision, a fixed-line cable TV broadcast service provider, for an aggregate purchase price of Won 500.0 billion. Upon the acquisition of CJ HelloVision, SK Broadband will be merged with and into CJ HelloVision, after which we will have a 78.3% equity stake in the merged company. The acquisition and subsequent merger are subject to certain closing conditions, including obtaining regulatory approval from the relevant authorities. We may be delayed in, or fail to, obtain the necessary regulatory approvals and in such case, we may not be able to complete the acquisition and subsequent merger as planned.

In 2014 and 2015, we acquired an 83.9% interest in Neosnetworks Co., Ltd. (Neosnetworks), a provider of residential and small business electronic security and other related alarm monitoring services, for an aggregate purchase price of approximately Won 64.0 billion and a 49.0% equity stake in Iriver Ltd. (Iriver), a manufacturer of digital audio players and other portable media devices, for an aggregate purchase price of approximately Won 54.5 billion. In 2014, a 95.2%-owned subsidiary of SK Planet acquired a 100.0% ownership interest in Shopkick Inc. (Shopkick), the developer of shopkick, a mobile shopping application that checks in and rewards customers that arrive at a participating retail store in order to penetrate the mobile commerce market in the United States. For a more detailed description of our recent investments in new businesses, see Item 5.B. Liquidity and Capital Resources Capital Requirements Investments in New Businesses and Global Expansion and Other Needs.

While we are hoping to benefit from a range of synergies from the acquisitions as well as develop new growth engines for our business, we may not be able to successfully complete or integrate such acquisitions or new businesses and may fail to realize the expected benefits in the near term, or at all.

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

According to data published by the MSIP and the historical population data published by the Ministry of the Interior, the penetration rate for the Korean wireless telecommunications industry as of December 31, 2015 was approximately 114.4%, which is relatively high compared to many industrialized countries. Therefore, we expect that the penetration rate for wireless telecommunications service in Korea will remain relatively stable. As a result

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of the already high penetration rate in Korea for wireless telecommunications services coupled with our leading market share, we expect our subscriber growth rate to decrease. Slowed growth in the penetration rate without a commensurate increase in revenues through the introduction of new services and increased use of our services by existing subscribers would likely have a material adverse effect on our financial condition, results of operations and cash flows.

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

One of the principal limitations on a wireless network s subscriber capacity is the amount of spectrum available for use by the network. We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our CDMA services, 20 MHz of bandwidth in the 2.1 GHz spectrum for our WCDMA services, 40 MHz of bandwidth in the 2.1 GHz spectrum, 20 MHz of bandwidth in the 800 MHz spectrum and 35 MHz of bandwidth in the 1.8 GHz spectrum for our LTE services, as well as 27 MHz of spectrum in the 2.3 GHz band for our wireless broadband Internet (WiBro) services.

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

We intend to participate in the frequency bandwidth auctions to be held by the MSIP in 2016 and aim to acquire bandwidths that are complementary to our existing network. We may be required to pay a substantial amount to acquire bandwidth capacity in order to meet increasing bandwidth demand and we may not be successful in acquiring the necessary bandwidth to meet such demand, which may adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

As a network-based wireless telecommunications provider, we have had, and expect to continue to have, significant capital expenditure requirements as we continue to build out, maintain and upgrade our networks. We spent Won 2,478.8 billion for capital expenditures in 2015. We expect to spend a similar amount for capital expenditures in 2016 compared to 2015 for a range of projects, including investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our platform business portfolio and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth engines, as well as initiatives related to our ongoing businesses in the ordinary course. If we acquire new bandwidths in the frequency bandwidth auctions to be held by the MSIP in 2016, we may be required to spend additional amounts on capital expenditures in connection with building out our networks on such new bandwidths.

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

As of December 31, 2015, we had approximately Won 1,601.8 billion in contractual payment obligations due in 2016, almost all of which involve repayment of debt obligations. See Item 5.B. Liquidity and Capital Resources Contractual Obligations and Commitments.

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

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

We purchase wireless network equipment from a small number of suppliers. To date, we have purchased substantially all of the equipment for our networks from Samsung Electronics Co., Ltd. (Samsung Electronics), Ericsson-LG Co., Ltd. (Ericsson-LG) and Nokia Siemens Networks B.V. We believe Samsung Electronics currently manufactures approximately half of the wireless handsets sold to our subscribers. Although other manufacturers sell the equipment we require, sourcing such equipment from other manufacturers could result in unanticipated costs in the maintenance and enhancement of our wireless networks. Inability to obtain the equipment needed for our networks in a timely manner may have an adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

Malicious and abusive Internet practices could impair our services.

Our wireless and fixed-line subscribers increasingly utilize our network to access the Internet and, as a consequence, we or they may become victim to common malicious and abusive Internet activities, such as unsolicited mass advertising (i.e., spam), hacking of personal information and dissemination of viruses, worms and other destructive or disruptive software. These activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers and damage to our or our customers equipment and data. Significant incidents could lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to us to service our customers and protect our network. For example, in July 2011, there was a leak of personal information of subscribers of websites operated by SK Communications Co., Ltd. (SK Communications), our consolidated subsidiary. Various lawsuits have been filed against SK Communications alleging that the leak was caused by its poor management of subscribers personal information. With respect to three of the lawsuits for which final judgments have been rendered, the relevant courts have rendered judgments in favor of SK Communications. As of December 31, 2015, twelve of the lawsuits, seeking damages of approximately Won 0.8 billion in aggregate, were pending at various district courts, various high courts and the Supreme Court of Korea. Any significant loss of our subscribers or revenue due to incidents of malicious and abusive Internet practices or significant increase in costs of serving those subscribers could adversely affect our business, financial condition and results of operations.

Labor disputes may disrupt our operations.

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

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

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

Most of our businesses are subject to extensive governmental supervision and regulation. When the current president Park Geun-hye took office in February 2013, she announced that the Government will work toward reducing telecommunications service charges and promoting transparency in the decision making of telecommunications service providers. Accordingly, the Government has set detailed policy objectives to (1) gradually reduce and abolish initial subscription fees by 2015, (2) expand MVNO and mobile VoIP service, (3) intensify regulations on handset subsidies and (4) construct a data-based rate system.

Pursuant to the above policy objectives, the MSIP discussed with us, KT and LG U+ gradually reducing and abolishing initial subscription fees by 2015. Accordingly, we gradually reduced our initial subscription fees by 40% in August 2013 and again by an additional 50% in August 2014. Starting in November 2014, we ceased charging initial subscription fees to new subscribers. KT and LG U+ also gradually reduced the initial subscription fees that they charge and have ceased charging initial subscription fees to new subscribers as of March 31, 2015. Similarly, the Government has periodically reviewed the rates charged by wireless telecommunications service providers and has, from time to time, suggested rate reductions. Although these suggestions were not binding, we have implemented some rate reductions in response to such recommendations. The MSIP may suggest other rate reductions in the future and any further rate reductions we make in response to such suggestion may adversely affect our results of operations.

In furtherance of the above policy objectives, the Government also enacted the MDDIA, which became effective on October 1, 2014. The MDDIA was enacted for the purpose of establishing a transparent and fair distribution practice for mobile devices, and it limits the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers. Pursuant to the MDDIA, wireless telecommunications service providers are prohibited from (i) unfairly providing discriminatory subsidies based on criteria such as type of subscription, subscription plan and characteristics of the subscriber, (ii) providing subsidies exceeding a maximum limit established by the KCC (such limit to be determined between Won 250,000 and Won 350,000, which may be adjusted every six months, with the current limit set at Won 330,000, effective as of April 24, 2015) for the purchase of mobile phone models that were launched within the last 15 months, and (iii) entering into a separate agreement with subscribers imposing obligations to use a specific subscription plan as a condition for providing subsidies. In addition, under the MDDIA, wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving subsidies. It is difficult to estimate the impact the MDDIA will have on our results of operations as we believe the imposition of the MDDIA may affect the wireless telecommunications industry in various ways that we cannot fully predict, including the impact on our competitors and consumer behavior, which may have an adverse impact on our business. See Item 5. Operating and Financial Review and Prospects Item 5.A. Operating Results Overview New Regulations Relating to Handset Subsidies.

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

Furthermore, the Government sets the policies regarding the use of frequencies and allocates the spectrum of frequencies used for wireless telecommunications. See Item 4.B. Business Overview Law and Regulation

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Competition Regulation Frequency Allocation. The reallocation of the spectrum to our existing competitors could increase competition among wireless telecommunications service providers, which may have an adverse effect on our business.

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

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

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

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

The Government endeavors to promote competition in the Korean telecommunications markets through measures designed to prevent a dominant service provider from exercising its market power and deterring the emergence and development of viable competitors. We have been designated by the MSIP as the dominant network service provider in respect of our wireless telecommunications business. As such, we are subject to additional regulations to which certain of our competitors are not subject. For example, under current Government regulations, we must obtain prior approval from the MSIP to raise our existing rates or introduce new rates. See Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation. The MSIP could also require us to charge higher usage rates than our competitors for future services or to take certain actions earlier than our competitors, as when the KCC required us to introduce number portability earlier than our competitors, KT and LG U+.

We also qualify as a market-dominating business entity under the Fair Trade Act, which subjects us to additional regulations, including the application of varied interconnection rates. For more information about the interconnection rates applicable to us and our competitors, see Item 4.B. Business Overview Interconnection.

The additional regulations to which we are subject has affected our competitiveness in the past and may materially hurt our profitability and impede our ability to compete effectively against our competitors in the future.

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

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

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

Our services are currently carried through our wireless and fixed-line networks, which could be vulnerable to damage or interruptions in operations due to fires, floods, earthquakes, power losses, telecommunication failures, network software flaws, unauthorized access, computer viruses and similar events. The occurrence of any of these events could impact our ability to deliver services and have a negative effect on our results of operations.

A global or Korean economic downturn may have a material adverse impact on our business and the ability to meet our funding needs, and could cause the market value of our common shares and American Depositary Shares (ADSs) to decline.

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. In addition, the global financial markets continue to experience significant volatility as a result of, among other things, the slowdown of economic growth and financial instability in China and other major emerging market economies, as well as political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Egypt, as well as in Ukraine and Russia. In light of the high level of interdependence of the global economy, any of the foregoing factors may continue to negatively impact local economic conditions in Korea and global economic conditions and financial markets, which could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risks related to changes in the global and Korean economic environments, changes in interest rates and instability in the global financial markets. Adverse global and Korean economic conditions may lead to overall decline and volatility in securities prices of Korean companies, including ours, which may result in trading and valuation losses on our trading and investment securities portfolio. Increases in credit spreads, as well as limitations on the availability of credit resulting from heightened concerns about the stability of the markets generally and the strength of counterparties specifically may lead many lenders and institutional investors to reduce or cease providing funding to borrowers, which may negatively impact our liquidity and results of operations. Major market disruptions and adverse changes in economic conditions and regulatory climate may further impair our ability to meet our desired funding needs. We cannot predict future changes in economic conditions. Adverse developments in the global or Korean economies or financial markets may have a material adverse effect on our business and the ability to meet our funding needs, as well as negatively affect the market value of our common shares and ADSs.

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

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

- an increase in the amount of Won required by us to make interest and principal payments on our foreign currency-denominated debt; and
- an increase, in Won terms, of the costs of equipment that we purchase from overseas sources which we pay for in Dollars or other foreign currencies.

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

- the amounts a registered holder or beneficial owner of ADSs will receive from the American Depositary Receipt (ADR) depositary in respect of dividends, which will be paid in Won to the ADR depositary and converted by the ADR depositary into Dollars;
- the Dollar value of the proceeds that a holder will receive upon sale in Korea of our common shares; and
- the secondary market price of our ADSs.

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

Risks Relating to Korea

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

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

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has also fluctuated widely. See Item 3.A. Selected Financial Data Exchange Rates. A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index (known as the KOSPI) and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

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

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the euro, the Japanese yen or the Chinese renminbi exchange rates), interest rates, inflation rates or stock markets;

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

continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;

decreases in the market prices of Korean real estate;

declines in consumer confidence and a slowdown in consumer spending;

the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China), as well as a slowdown in the growth of China s economy, which is Korea s most important export market;

social and labor unrest;

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

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

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

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

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

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

natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;

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

- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;

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

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

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

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

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea s political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il s third son, Kim Jong-un, has assumed power as his father s designated successor, the long-term outcome of such leadership transition remains uncertain.

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In addition, there have been heightened security concerns in recent years stemming from North Korea s nuclear weapon and long-range missile programs as well as its hostile military and other actions against Korea. Some of the significant incidents in recent years include the following:

From time to time, North Korea has conducted ballistic missile tests. Most recently in February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program.

North Korea renounced its obligations under the Nuclear Non Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such test (as well as North Korea s long-range rocket launch in February 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea s actions and significantly expanding the scope of the sanctions applicable to North Korea.

In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North Korea and Korea subsequently entered into an agreement on August 25, 2015 intended to diffuse military tensions.

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

North Korea s economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. There can be no assurance that the level of tension affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on our business, results of operations and financial condition and the market value of our common shares and ADSs.

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

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

Risks Relating to Securities

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

The Telecommunications Business Act currently sets a 49.0% limit on the aggregate foreign ownership of our issued shares. Under the Telecommunications Business Act, as amended, a Korean entity, such as SK Holdings Co., Ltd. (SK Holdings), is deemed to be a foreign entity if its largest shareholder (determined by aggregating the shareholdings of such shareholder and its related parties) is a foreigner and such shareholder (together with the shareholdings of its related parties) holds 15.0% or more of the issued voting stock of the Korean entity. As of December 31, 2015, SK Holdings owned 20,363,452 shares of our common stock, or approximately 25.22%, of our issued shares. If SK Holdings were considered to be a foreign shareholder, then its shareholding in us would be included in the calculation of our aggregate foreign shareholding and our aggregate foreign shareholding (based on our foreign ownership level as of December 31, 2015, which we believe was 39.38%) would exceed the 49.0% ceiling on foreign shareholding. As of December 31, 2015, the two largest foreign shareholders of SK Holdings each held a 3.5% stake therein.

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

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

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

As of December 31, 2015, SK Holdings owned 25.22% of our total issued common shares and has not agreed to any restrictions on its ability to dispose of our shares. See Item 7.A. Major Shareholders. We can make no prediction as to the timing or amount of any sales of our common shares. We cannot assure you that future sales of our common shares, or the availability of our common shares for future sale, will not adversely affect the prevailing market value of our common shares or ADSs from time to time.

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

Under the deposit agreement, holders of our common shares may deposit those shares with the ADR depositary s custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the ADR depositary and receive our common shares. However, under the terms of the deposit agreement, as amended, the depositary bank is required to obtain our prior consent to any such deposit if, after giving effect to such deposit, the total number of our common shares represented by ADSs, which was 9,259,552 shares as of March 31, 2016, exceeds a specified maximum, subject to adjustment under certain circumstances. In addition, the depositary bank or the custodian may not accept deposits of our common shares for issuance of ADSs under certain circumstances, including (1) if it has been determined by us that we should block the deposit to prevent a violation of applicable Korean laws and regulations or our articles of incorporation or (2) if a person intending to make a deposit has been identified as a holder of at least 3.0% of our common shares. See Item 10.B. Memorandum and Articles of Association Description of American Depositary Shares. It is possible that we may not give the consent. Consequently, an investor who has surrendered his or her ADSs and withdrawn the underlying shares may not be allowed to deposit the shares again to obtain ADSs.

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

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

- a registration statement filed by us under the Securities Act is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from, or is not subject to, the registration requirements of the Securities Act.

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

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

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

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

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

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

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

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

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

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

Item 4. *INFORMATION ON THE COMPANY*

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

As Korea s first wireless telecommunications service provider, we have a recognized history of leadership and innovation in the domestic telecommunications sector. Today, we remain Korea s leading wireless telecommunications services provider and have continued to pioneer the commercial development and implementation of state-of-the-art wireless technologies. We believe we are also a leader in developing new products and services that reflect the increasing convergence of telecommunications technologies, as well as the growing synergies between the telecommunications sector and other industries, and are well-positioned to become Korea s leading platform service provider through our three next-generation growth platforms, IoT solutions, lifestyle enhancement and advanced media.

In 2008 and 2009, we acquired additional equity interests in SK Broadband to increase our total equity interest in SK Broadband to 50.6%. In June 2015, SK Broadband became our wholly-owned subsidiary pursuant to a share exchange transaction (the Share Exchange) through which we acquired all of the shares of SK Broadband that we did not otherwise own in exchange for 1,692,824 of our treasury shares and cash.

In September 2009, we completed the acquisition of the leased-line business and related ancillary businesses of SK Networks Co., Ltd. (SK Networks) for approximately Won 892.8 billion and assumed Won 611.4 billion of debt as part of the transaction. Historically, we have relied on KT and SK Networks to provide a substantial majority of the transmission lines we lease.

In February 2012, we acquired a 21.1% equity stake in SK Hynix, one of the world s largest memory-chip makers by revenue, for an aggregate purchase price of approximately Won 3.4 trillion, and became its largest shareholder.

On March 31, 2016, we had a market capitalization of approximately Won 16.8 trillion (US$14.8 billion, as translated at the noon buying rate of March 31, 2016) or approximately 1.3% of the total market capitalization on

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the KRX KOSPI Market, making us the fifteenth largest company listed on the KRX KOSPI Market based on market capitalization on that date. Our ADSs, each representing one-ninth of one share of our common stock, have traded on the NYSE since June 27, 1996.

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

Recent Developments

On November 2, 2015, we entered into a share purchase agreement with CJ O Shopping to acquire a 30.0% interest in CJ HelloVision, a fixed-line cable TV broadcast service provider, for an aggregate purchase price of Won 500.0 billion. In November 2015, we conducted a tender offer for shares of CJ HelloVision and acquired 6,671,993 shares for Won 80.1 billion. Upon the acquisition of CJ HelloVision, SK Broadband will be merged with and into CJ HelloVision pursuant to a merger agreement dated November 2, 2015, and we will be allocated 0.4761236 shares of the merged company for each share of SK Broadband to have a 78.3% equity stake in the merged company. The acquisition and subsequent merger are subject to certain closing conditions, including obtaining regulatory approval from the relevant authorities.

Following the acquisition and subsequent merger, we expect to develop additional technology and infrastructure to integrate our various media service offerings. As of December 31, 2015, CJ HelloVision had a market share of 14.4% of the pay TV market with approximately 4.2 million cable TV subscribers. For further details regarding the acquisition and subsequent merger, refer to the Form 6-Ks furnished to the SEC on November 3, 2015 entitled Decision on Acquisition of Shares of CJ HelloVision and Decision on Merger of SK Broadband, the Form 6-K/A furnished to the SEC on February 16, 2016 entitled Changes to the Merger Ratio and Number of New Shares to be Issued Relating to the Merger of SK Broadband and CJ HelloVision, the Form 6-K/As furnished to the SEC on April 4, 2016 entitled Changes to the Number of Shares to be Held after Share Acquisition and Scheduled Acquisition Date and Changes to the Merger Schedule Relating to the Merger of SK Broadband and CJ HelloVision.

Korean Telecommunications Industry

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

There are currently three mobile network operators in Korea: our company, KT and LG U+. As of December 31, 2015, the market share of the Korean wireless telecommunications market, in terms of number of subscribers, of KT and LG U+ was approximately 30.4% and 20.2%, respectively (compared to our market share of 49.4%), each including MVNO subscribers leasing the respective networks. As of December 31, 2015, MVNOs had a combined market share of 10.1%, of which MVNOs leasing our networks represented 4.6%, MVNOs leasing KT s networks represented 4.7% and MVNOs leasing LG U+ s networks represented 0.8%.

Telecommunications industry growth in Korea has been among the most rapid in the world, with fixed-line penetration being under five lines per 100 population in 1978 and increasing to 47.9 lines per 100 population as of December 31, 2006 before decreasing to 31.7 lines per 100 population as of December 31, 2015, and wireless

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penetration increasing from 7.0 subscribers per 100 population in 1996 to 112.4 subscribers per 100 population as of December 31, 2015. The table below sets forth certain subscription and penetration information regarding the Korean telecommunications industry as of the dates indicated:

	As of December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except for per population amounts)				
Population of Korea(1)	51,529	51,328	51,141	50,948	50,734
Wireless Subscribers	57,937	56,310	54,681	53,624	52,507
Wireless Subscribers per 100 Population	112.4	109.7	106.9	105.3	103.5
Telephone Lines in Service	16,341	16,939	17,620	18,261	18,633
Telephone Lines per 100 Population	31.7	33.0	34.5	35.8	36.7

(1) Source: The Ministry of the Interior.

Since the introduction of short text messaging in 1998, Korea s wireless data market has grown rapidly. This growth has been driven, in part, by the rapid development of wireless Internet service since its introduction in the second half of 1999 and the implementation of LTE technology providing for fast data transmission speeds and large data transmission capacity. As of December 31, 2015, approximately 53.7 million Korean wireless subscribers owned Internet-enabled handsets capable of accessing wireless Internet services, including 43.7 million subscribers that own smartphones that have direct access to the Internet using mobile Internet technology. The table below sets forth certain penetration information regarding the number of Internet-enabled handsets, smartphones and wireless subscribers in Korea as of the dates indicated:

	As of December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except for percentage data)				
Number of Wireless Internet-Enabled Handsets	53,737	52,833	50,858	50,420	49,297
Number of Smartphones	43,668	40,560	37,517	32,727	22,578
Total Number of Wireless Subscribers	57,937	56,310	54,681	53,624	52,507
Penetration of Wireless Internet-Enabled Handsets	92.8%	93.8%	93.0%	94.0%	93.9%
Penetration of Smartphones	75.4%	72.0%	66.9%	61.0%	43.0%

In addition to its well-developed wireless telecommunications sector, Korea has one of the largest Internet markets in the Asia Pacific region. According to Korea Internet & Security Agency, the percentage of Internet users in Korea is greater than 80% of the population. From the end of 2005 to the end of 2015, the number of broadband Internet access subscribers increased from approximately 12.2 million to approximately 20.0 million. In connection with such growth in broadband Internet usage, the number of IPTV subscribers has also increased rapidly. The table below sets forth certain information regarding broadband Internet access subscribers and IPTV subscribers as of the dates indicated:

	As of December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Number of Broadband Internet Access Subscribers(1)	20,025	19,199	18,738	18,253	17,860
Number of IPTV Subscribers	12,314	10,840	8,738	6,457	4,894

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

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Item 4.B. *Business Overview*

Overview

We are Korea s leading wireless telecommunications services provider and continue to pioneer the commercial development and implementation of state-of-the-art wireless and fixed-line technologies and services as well as develop our three next-generation growth platforms, IoT solutions, lifestyle enhancement and advanced media. Our operations are reported in three segments:

- cellular services, which include wireless voice and data transmission services, sales of wireless devices, IoT solutions platform services and lifestyle enhancement platform services;

- fixed-line telecommunication services, which include fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV) and business communications services; and

- other businesses, which include our commerce business and our hardware business.

Our Business Strategy

We believe that the current trends in the Korean telecommunications industry are characterized by technological change, evolving consumer needs and increasing digital convergence. Against the backdrop of these industry trends, we aim to maintain our leading position in the Korean market for wireless telecommunications services as well as actively develop differentiated services on our growth platforms, comprising our IoT solutions platform, lifestyle enhancement platform and advanced media platform, through which we will continue our growth in a rapidly changing business environment. Our corporate vision is to be a Partner for New Possibilities for both individuals and businesses by leveraging our network infrastructure and cutting-edge technologies. To take advantage of these industry trends and further realize our corporate vision, we have undertaken the following strategic initiatives.

- *Maintain our leadership in the wireless services business by offering differentiated value-added products and services.* We plan to maintain our leadership in the wireless services business by providing products and services with differentiated value propositions offered by our competitors. For example, we will continue to develop high-quality devices with convenient features at reasonable price points that run exclusively on our networks such as the Luna and the Sol. In addition, we will continue to offer various rate plans that are tailored to meet our customers needs for increased data usage such as our Commuter Free plan, which offers unlimited wireless data usage during rush hour for a fixed rate. We plan to strengthen our customer relationships by engaging our subscribers to integrate our service offerings in various aspects of their daily lives such as T map, our interactive navigation service which we provide to our wireless subscribers free of charge, Club T Kids, our childcare and kids community platform service offered exclusively for our wireless subscribers, and oksusu, our mobile IPTV service with a wide range of unique media offerings. We also provide bundled subscriptions to our wireless and fixed-line service offerings, and we believe such bundled subscriptions contribute to increased customer retention and acquisition of new subscribers for both our wireless and fixed-line services due to convenience. In addition, we believe our T Membership program, our membership service, also contributes to our subscriber retention with the breadth of membership benefits we provide through our membership partners.

- *Strengthen our three next-generation growth platforms.* As part of our initiative to be the leading next-generation platform provider, we aim to continue to develop our next-generation growth platforms, IoT solutions, lifestyle enhancement and advanced media, to provide services which we believe complement and create synergies with our wireless and fixed-line services and through which we can generate new sources of revenue growth.

Through our IoT solutions platform, we offer Smart Home, a home monitoring service platform for residential customers and customized IoT solutions utilizing machine-to-machine (M2M) connections to our business customers. We will continue to analyze our users lifestyles to provide value-added services that can be integrated in our Smart Home users daily lives and collaborate with our partners to develop a wide range of compatible appliances and devices. In addition, we endeavor to provide customized value-added services to our business customers and create an ecosystem through which domestic and global

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manufacturers can develop innovative hardware for our IoT solutions platform. Through our lifestyle enhancement platform, we provide various value-added services to enhance our customers lifestyles. Through our 3C strategy, we aim to provide high-quality content through which customers with similar interests and needs can form communities from which we generate commerce by marketing and advertising targeted products and services. We believe these services will enable us to increase the retention of our wireless subscribers as well as attract new customers. Furthermore, we will continue to enlarge the scope of our media services and content offerings available on our advanced media platform to provide our subscribers with a vast library of high-quality content that can be accessed through our wireless and fixed-line networks.

Further expand our commerce business globally. With the expertise we have gained through our operation of 11st, our online open marketplace, and our online-to-offline (O2O) commerce businesses in Korea as well as certain markets in Southeast Asia and the U.S., we intend to further expand into other overseas markets and lead the growth of the e-commerce industry in such markets.

Cellular Services

We offer wireless voice and data transmission services, sell wireless devices and provide IoT solutions and lifestyle enhancement platform services through our cellular services segment. Our wireless voice and data transmission services are offered through our backbone networks that collectively can be accessed by approximately 99.0% of the Korean population. We had 28.6 million wireless subscribers, including MVNO subscribers leasing our networks, as of December 31, 2015, representing a market share of 49.4%, the largest market share among Korean wireless telecommunications service providers. The table below sets forth the number of subscribers, including subscribers of MVNOs that lease our wireless networks, using our various digital wireless networks as of the dates indicated:

	As of December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(in thousands)				
Network					
LTE	18,980	16,737	13,487	7,530	634
WCDMA	7,008	8,020	9,909	14,459	19,037
CDMA	2,638	3,521	3,957	4,972	6,882
Total	28,626	28,279	27,352	26,961	26,553

As part of our initiative to be the leading next-generation platform provider, we aim to continue to develop our IoT solutions platform and lifestyle enhancement platform to provide services which we believe complement and create synergies with our wireless telecommunications service.

In 2015, 2014 and 2013, our cellular services segment revenue was Won 13,269.3 billion, Won 13,527.9 billion and Won 13,315.5 billion, respectively, representing approximately 77.4%, 78.8% and 80.2%, respectively, of our consolidated revenue.

Wireless Services

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

To complement our basic voice transmission services, we provide a voice-over-LTE service, known as our HD Voice service, to all of our LTE subscribers. HD Voice service is a premium communication service which features high-quality voice transmission, fast call connection, voice-to-video call switching and digital content sharing during calls. In addition, we provide T phone service, which is available on most devices running on the Google Android operating system. Our T phone service provides our customers with a number of convenient call functions, including a function to block spam calls and a function called T114 that informs customers of the phone numbers of stores, hospitals and other facilities closest in proximity to the customer s current location. As of December 31, 2015, there were more than 8.0 million subscribers to the T phone service compared to approximately 4.3 million subscribers as of December 31, 2014.

We also offer our subscribers a wide range of wireless data transmissions services. Our messaging service allows our subscribers to send and receive text, graphic, audio and video messages. In addition, our subscribers can access a wide variety of digital content and services through mobile applications providing music, video, gaming, news, commerce and financial services as well as solutions that enable subscribers to access the Internet and e-mail. We intend to continue to build our wireless data services as a platform for growth, extending our portfolio of wireless data services and developing new content for our subscribers.

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

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

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

Wireless Device Sales

We offer several categories of wireless devices, including smartphones and basic phones, tablets and other Internet access devices and wearable devices. As of December 31, 2015, approximately 20.6 million, or 72.0%, of our subscribers owned smartphones that have direct access to the Internet compared to approximately 19.5 million subscribers, or 68.1%, as of December 31, 2014.

Smartphones and Basic Phones. All of the smartphones we offer are enabled to utilize our LTE and/or WCDMA networks and run on various operating systems, such as Apple iOS and Google Android. Most of the basic phones we offer are enabled to utilize our WCDMA networks and have the ability to access wireless Internet services.

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

Wearable Devices. We offer various wearable devices including smart watches, T pet, our pet tracking device, and T kids phone Joon . These devices utilize our WCDMA network and have specific features for the relevant target customer. For example, T pet devices enable pet owners to send voice messages to their pets, track their position using global positioning system (GPS) technology as well as track and log their activity. T kids phone Joon is a wearable phone targeted towards children and provides simple calling, messaging and chat services as well as GPS tracking capabilities. We offer targeted rate plans that are specific to these wearable devices. See Rate Plans below.

We purchase a substantial majority of our wireless devices from Samsung Electronics, Apple and LG Electronics. We also offer a number of devices that were designed by us to exclusively run on our networks such as the Luna which was launched in September 2015 and the Sol which was launched in January 2016. The Luna and the Sol were both designed to include convenient features to easily access media contents that are popular among our subscribers and to provide high-quality devices at a relatively low-to-mid range price point. We intend to continue to work with device manufacturers to develop exclusive devices offering high quality and convenience at competitive prices.

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IoT Solutions Platform Services

Through our IoT solutions platform, we provide a home monitoring service platform for residential customers and network access and enhanced services to support telemetry-type applications, which are characterized by M2M wireless connections, to business customers.

In May 2015, we launched Smart Home, a mobile application-based home monitoring service for residential customers. Smart Home is a paid subscription service available not only to our wireless and fixed-line service subscribers but also to subscribers of our competitors wireless and fixed-line services. Through Smart Home, users can control and monitor their home environment from their mobile devices and enhance the safety and convenience of their daily lives. We have partnered with more than 30 electronics and appliance manufacturers, including Samsung Electronics and LG Electronics, to develop a wide range of appliances, electronic devices, door security, heating and lighting systems that are compatible with our Smart Home service.

We also provide network access and customized IoT solutions to our business customers. Our M2M services support devices that are used in a variety of market segments, including retail, utilities, security, automotive, agriculture and data analytics. For example, we provide enhanced solutions to businesses in order to connect with and monitor their equipment, such as fleet management devices used to monitor city-operated rental bicycles and utility monitoring devices for smart grid applications.

Lifestyle Enhancement Platform Services

Through our lifestyle enhancement platform, we provide various value-added services to enhance our customers lifestyles in areas such as shopping, childcare, security, finance and education with customized content based on their personal interests. Through our 3C strategy, we aim to provide high-quality content through which customers with similar interests and needs can form communities from which we generate commerce by marketing and advertising targeted products and services. We provide certain services exclusively to our wireless service subscribers as well as certain services to users regardless of whether they have a wireless service subscription with us.

Examples of services we provide exclusively to our wireless service subscribers are Club T Kids and Petween. Club T Kids comprises a care service platform for parents through the T Kids mobile application and a community platform for kids through the T kids phone Joon. Through the T Kids mobile application, parents can call their children, check their location, sign up for various children s activity programs and order organic groceries. Through the T kids phone Joon, kids can communicate with their parents, send messages to and chat with their friends, play games and collect character badges. Through Petween, which is currently accessible through the Petween website, pet owners can communicate with each other, access petcare advice from veterinarians and purchase petcare products. We believe these services provide differentiated value to our wireless service subscribers lifestyles and enhance their loyalty to us.

Examples of services we provide to users regardless of whether they have a wireless service subscription with us are Deal Light and Beauty Link. Deal Light, which is accessible through the Deal Light website and mobile application, is an online marketplace for used products in which we participate directly in the purchase and sale process and pick up the product from the seller and then verify, clean, package, process payment for, and deliver the product to, the buyer. Beauty Link, which is accessible through a mobile application, provides information about nail salons such as location, service offerings and price as well as customer feedback. We believe we can attract new customers by offering specialized services such as these.

In addition, we provide other value-added services that enhance our customers lifestyles. We provide location-based services such as T map, an interactive navigation service which we provide to our wireless subscribers free of charge and which wireless subscribers to our competitors can subscribe to for a monthly fee. T map uses GPS technology to transmit driving directions, real-time traffic updates and emergency rescue assistance to wireless devices. In addition, we provide mobile phone verification services, enabling users to process secure mobile payment transactions.

Rate Plans

We offer our wireless telecommunications services on both a postpaid and prepaid basis. Approximately 94% of our subscribers received our wireless telecommunications services on a postpaid basis as of December 31, 2015. Postpaid accounts primarily represent retail subscribers under contract with SK Telecom under which a subscriber is billed in advance a monthly fixed rate in return for a monthly network service allowance, and usage for outgoing voice calls and wireless data services beyond the allowance is billed in arrears. The standard contract period for our rate plans is 24 months, although our subscribers have the option to enter into shorter term contracts or no fixed-term contract at all. We provide various subsidies and discounts, including handset subsidies, depending on the length of the contract. Our prepaid service enables individuals to obtain wireless telecommunications services without a fixed-term contract by paying for all services in advance according to expected usage. We do not charge our customers for incoming calls, although we do receive interconnection charges from KT and other companies for calls from the fixed-line network terminating on our networks and interconnection revenues from other wireless network operators. See Item 4.B. Business Overview Interconnection.

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

Basic Rate Plans. We offer various postpaid account plans for smartphones and basic phones that are designed to meet a wide range of subscriber needs and interests. As of December 31, 2015, approximately 7 million subscribers have subscribed to Band Data plans, which are our representative smartphone rate plans featuring unlimited domestic voice minutes and text messaging and a fixed data transmission allowance per month as well as free access to live TV on oksusu, our mobile IPTV service, that range from Won 29,000 to Won 100,000 per month. Our Voice Free plans are available for our basic phones and feature a fixed allowance of voice minutes and 50 text messages per month with rates that range from Won 19,000 to Won 94,000 per month We also offer a standard rate plan for Won 11,000 per month, through which the subscriber is charged per usage amount, other than on text message usage up to 50 messages per month.

In addition, we provide a variety of differentiated rate plans for our customer segments by age such as children, teenagers and senior citizens. We also offer rate plans for specific customer segments, such as our Band Data Global Pack rate plans for foreigners featuring unlimited domestic voice minutes and text messaging, a fixed allowance of international voice minutes and data transmission per month and our rate plans for people in the military service featuring unlimited domestic voice minutes, text messaging and data transmission for Won 2,000 per day of use while on leave.

For our T Pocket Pie device, we provide a fixed monthly data transmission allowance of 10 GB for Won 15,000 per month and 20 GB for Won 22,500 per month. With respect to the wearable devices that we offer, we offer targeted rate plans such as the T Outdoor rate plan for smart watches at Won 10,000 to Won 11,000 per month, the T pet rate plan for our T pet device at Won 5,000 per month and the T kids rate plan for our T kids phone Joon devices at Won 8,000 per month.

Data Add-on Rate Plans. We offer a variety of optional add-on rate plans that are designed to meet a wide range of subscriber needs with respect to increased data usage that followed the widespread use of smartphones and faster transmission speeds made possible by LTE technology. For example, we offer data plans that offer unlimited data based on time, place and occasion such as our Subway Free plan, which offers unlimited wireless data usage on subway platforms and inside subways and our Commuter Free plan, which offers unlimited wireless data usage during rush hour, each for a fixed rate of Won 9,000 per month. We also offer a daily allowance of 1 GB of oksusu access and a monthly allowance of 8,000 points to purchase media content on oksusu through our Band Play Pack plan for Won 5,000 per month. Safe Option Premium offers an additional daily data transmission allowance of 50 MB to subscribers who have used the maximum data transmission on their existing plan without incurring additional data transmission fees for a fixed rate of Won 8,000 per month. We also offer T Data Coupons, through which subscribers can purchase a fixed amount of data for a fixed price. T Data Coupons range from Won 2,000 for 100MB of data to Won 33,000 for 5GB of data. As T Data Coupons are valid for one year after first use, we believe they are attractive to sporadic data users. T Data Coupons can also be sent as gifts to family and friends that need additional data allowance. We believe that our data add-on rate plan offerings have contributed to the increase in data usage to 3.9 GB of average monthly data usage per LTE subscriber as of December 31, 2015 from 3.0 GB as of December 31, 2014.

Roaming Plans. We provide fixed-rate international roaming plans such as our T Roaming Data Unlimited OnePass plan which provides data roaming services at different speeds depending on usage amount for Won 9,000 per day using WCDMA networks and is available in 148 countries and our T Roaming LTE Data Unlimited OnePass plan which provides data roaming services at different speeds depending on usage amount for Won 15,000 per day using LTE networks and is available in 55 countries. Our T Roaming Data OnePass Premium plan provides data roaming services at different speeds depending on usage amount and a usage charge for outgoing voice calls of Won 500 per minute for Won 12,000 per day using WCDMA networks and is available in 35 countries. With respect to international calls placed by a subscriber, unless the subscriber uses one of our fixed-rate international roaming plans, we bill the subscriber the international rate charged by the Korean international telephone service provider through which the call is routed. We remit to that provider the international charge less our usage charges. See Item 4.B. Business Overview Interconnection.

Digital Wireless Network

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

LTE Network. We commenced commercial wireless telecommunications services based on LTE technology, which is generally referred to as a fourth generation technology, on July 1, 2011 and expanded the coverage area of our LTE services to nationwide by the end of April 2012. We launched our LTE multi-carrier service in the 1.8 GHz spectrum in July 2012. In June 2013, we commenced providing commercial LTE-A services at speeds of up to 150 Mbps using carrier aggregation technology which combines spectrum frequencies to improve data transmission speed and capacity, and in June 2014, we launched wideband LTE-A services at speeds of up to 225 Mbps and expanded coverage nationwide in 2014. In December 2014, we commenced tri-band LTE-A services, which bundles three different bandwidths to allow faster network service at speeds of up to 300 Mbps in Seoul and other metropolitan areas. Since then, we have expanded coverage nationwide and as of December 31, 2015, the nationwide geographic coverage percentage of our tri-band LTE-A service was approximately 51.9% according to the MSIP. We continue to deploy improved LTE-A technology to increase the maximum data transmission speed of our services. LTE technology has become widely accepted globally as the standard fourth generation technology. LTE technology enables data to be transmitted at speeds faster than our CDMA and WCDMA networks. Our continued upgrades to our LTE technology enables even faster data transmission speeds, as shown below.

Wireless network technology (Month of commencement of services)	**Maximum download speed for data transmission**	**Maximum upload speed for data transmission**
LTE (July 2011)	75 Mbps	37.5 Mbps
LTE-A (June 2013)	150 Mbps	75 Mbps
Wideband LTE-A (June 2014)	225 Mbps	112.5 Mbps
Tri-band LTE-A (December 2014)	300 Mbps	150 Mbps

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

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

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

Wi-Fi Network. Wi-Fi technology enables our subscribers with Wi-Fi-capable devices such as smartphones, laptops and tablet computers to access mobile Internet. We started to build Wi-Fi access points in 2010 and, as of December 31, 2015, we had more than 139,000 Wi-Fi access points in public areas such as shopping malls, restaurants, coffee shops, subways and airports where, generally, the demand for high-speed wireless Internet service is high. While each Wi-Fi access point typically has a radius of approximately 20-30 meters, some of our Wi-Fi hot zones, which have multiple Wi-Fi access points, including those installed at public transportation facilities and amusement parks, have much wider service areas. We plan to continue to increase the number of Wi-Fi access points in 2016. We also have a WiBro network that we use as a backhaul for our Wi-Fi network.

Network Infrastructure

The principal components of our wireless networks are:

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

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

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

As of December 31, 2015, our LTE, WCDMA, CDMA and WiBro networks had an aggregate of 55,085 cell sites.

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

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

Marketing, Distribution and Customer Service

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

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

We strive to improve subscriber retention through our T Membership program, which is a membership service available to our wireless subscribers. Our T Membership program provides various membership benefits to its members such as discounts with our membership partners for dining, shopping, entertainment and travel, access to our online membership shopping mall and invitations to various promotional events. Although our competitors also have similar membership programs, we believe that our T Membership program has a competitive advantage over our competitors membership programs due to our large subscriber base and breadth of membership benefits.

Distribution. For our distribution network, we use a combination of approximately 26 branch offices and 561 stores directly operated by us through our wholly-owned subsidiary, PS&Marketing Co., Ltd. (PS&Marketing), 4,119 authorized exclusive dealers and an extensive network of independent retailers in order to increase subscriber growth while reducing subscriber acquisition costs.

As part of our initiative to provide a differentiated customer service experience, we operate T Premium Stores that allow our potential and existing subscribers to experience certain of our services such as services that are available through our IoT solutions platform and lifestyle enhancement platform. As of December 31, 2015, we operated 120 T Premium Stores and we intend to further expand the number of T Premium Stores in 2016.

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

Currently, authorized dealers are entitled to an initial commission for each new subscriber registered by the dealer, as well as an average ongoing commission calculated as a percentage of that subscriber s monthly plan-based rate for the first four years. In order to strengthen our relationships with our exclusive dealers, we offer a dealer financing plan, pursuant to which we provide to each authorized dealer an interest-free or low-interest loan of up to Won 4.0 billion with a repayment period of up to three years. As of December 31, 2015, we had an aggregate of Won 58.6 billion outstanding in loans to authorized dealers.

Customer Service. We provide high-quality customer service directly through our two wholly-owned subsidiaries, Service Ace Co., Ltd. and Service Top Co., Ltd., rather than rely on outsourcing. Network O&S Co., Ltd. operates our switching stations and related transmission and power facilities and offers quality customer service primarily to our business customers. We have held the top position with respect to our telecommunications service and retail sales service in Korea s leading three customer satisfaction indices, the National Customer Satisfaction Index, the Korean Customer Satisfaction Index and the Korean Standard Service Quality Index, for over 15 years each.

Fixed-line Telecommunication Services

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

	As of December 31,		
	2015	2014	2013
Fixed-Line Telephone (including VoIP)(1)	4,672,195	4,774,748	4,801,047
Broadband Internet	5,036,057	4,810,493	4,569,105
IPTV(2)	3,481,969	2,819,130	2,081,260

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

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

In 2015, 2014 and 2013, our fixed-line telecommunication services segment revenue was Won 2,494.5 billion, Won 2,449.9 billion and Won 2,324.4 billion, respectively, representing approximately 14.6%, 14.3% and 14.0%, respectively, of our consolidated revenue.

Fixed-line Telephone Services

Our fixed-line telephone services comprise local, domestic long distance, international long distance and VoIP services. VoIP is a technology that transmits voice data through an Internet Protocol network. As of December 31, 2015, we had approximately 4.7 million fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink). Our fixed-line telephone services are primarily offered under the B phone brand name. SK Telink also provides affordable international calling services under the brand name 00700.

Broadband Internet Access Services

Our broadband Internet access network covered more than 80% of households in Korea as of December 31, 2015. As of December 31, 2015, we had approximately 5.0 million broadband Internet access subscribers. We offer broadband Internet access products with various throughput speeds, including band Giga, which is up to 10 times faster than data transmission speeds on networks utilizing fiber-to-the-home, or FTTH, technology and allows for data transmission at a maximum speed of 1 Gbps.

Advanced Media Platform (including IPTV)

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

We have offered video-on-demand services since 2006 and launched real-time IPTV services in 2009. We currently offer IPTV services under the brand name B tv with access to more than 130 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. As of December 31, 2015, we had approximately 3.5 million IPTV subscribers.

In January 2016, we launched oksusu, a mobile IPTV service that is a combination of the services we previously provided as B tv mobile and hoppin and provides subscribers access to a wide variety of media contents, including various television programs, movies and other video contents that can be downloaded to wireless devices. Oksusu subscribers have access to more than 100 live TV channels, a wide range of sports contents and popular U.S. and other foreign TV shows, among other contents. We are also collaborating with media content developers to provide original media content for our oksusu service. As of December 31, 2015, we had approximately 4.1 million subscribers to oksusu.

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

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Business Communications Services

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

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

Rate Plans

For our residential customers, we offer both bundled rate plans for a combination of our fixed-line service offerings as well as individual rate plans for each separate service offering. Bundled rate plans are offered at a discount compared to subscribing to the same services through individual rate plans. Approximately 83% of subscribers to our fixed-line services subscribe to two or more of our services through our bundled rate plans. Bundled rate plans for a combination of fixed-line telephone, broadband Internet access and IPTV services range from Won 20,000 to Won 46,000 per month.

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

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

Marketing, Distribution and Customer Service

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

We currently outsource a significant portion of our retail sales force needs. We market our services and provide after-sales service support to customers through more than 80 customer centers and a network of more than 170 authorized exclusive dealers located throughout Korea. In addition, SK Telecom s direct retail stores and authorized dealers for wireless telecommunications services also market our fixed-line telephone, broadband Internet and advanced media platform services (including IPTV), which we believe has contributed to the increase in the number of subscribers to such services. We have contracts with our customer centers to sell our services exclusively. These centers receive a commission for each service contract and installation contract secured. In addition, we pay these centers for the maintenance and repair work that they perform for our subscribers. Customer and service centers often enter into sub-contracts with smaller distribution outlets within their area to increase their sales coverage and engage in telemarketing efforts. Authorized dealers are entitled to an initial commission for each new subscriber registered by the dealer.

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

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 commerce business, our healthcare business and our hardware business, which we include in our others segment. In 2015, 2014 and 2013, our others segment revenue was Won 1,372.9 billion, Won 1,186.0 billion and Won 962.2 billion, respectively, representing approximately 8.0%, 6.9% and 5.8%, respectively, of our consolidated revenue.

Commerce Business

Our commerce business consists primarily of our marketplace business and O2O commerce business operated by our subsidiary, SK Planet.

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

As of December 31, 2015, the mobile version of 11st was the leading mobile commerce platform in terms of unique visitors according to Korean Click. The mobile version of 11st is continuing to grow with an increase in the percentage of annual gross merchandise volume, which represents the total annual monetary value of customer purchases of goods and services, net of estimated refunds, derived from the mobile platform to 41% in 2015 from 28% in 2014.

We have expanded our online open marketplace business globally to Turkey, Indonesia and Malaysia. In March 2013, Dogus Planet, a joint venture between SK Planet and Dogus Group, a Turkish conglomerate, launched n11.com in Turkey. In March 2014, XL Planet, a joint venture between SK Planet and XL Axiata Tbk, an Indonesian mobile telecommunications service provider, launched elevenia in Indonesia. Further, in April 2015, Celcom Planet, a joint venture between SK Planet and Celcom Axiata, a Malaysian telecommunications service provider, launched 11street in Malaysia.

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

O2O Commerce. We provide diverse O2O commerce solutions under the Syrup brand name, which include the following:

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

- OK Cashbag by Syrup, Korea s largest loyalty points program in terms of number of members with more than 50,000 participating merchants and 38 million members, which allows members to collect and redeem loyalty points at its partnering merchants and offers differentiated marketing services to such partnering merchants;

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

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Syrup Gifticon, an online and mobile gift exchange and delivery service;

Syrup Order, a food ordering service that allows users to conveniently place and pay for orders at restaurants in advance; and

Syrup Table, a location-based restaurant discovery service that provides users with information about nearby restaurants.

The cumulative number of daily average users of our O2O commerce solutions was 3.0 million as of December 31, 2015.

We are also expanding our O2O commerce solutions business globally. In October 2014, a 95.2%-owned subsidiary of SK Planet acquired a 100.0% ownership interest in Shopkick, the developer of shopkick, a mobile shopping application that checks in and rewards customers that arrive at a participating retail store, for an aggregate purchase price of Won 230.9 billion and the assumption of Won 18.7 billion in current liabilities.

Hardware Business

We manufacture projection display devices, high-end audio devices and intelligent agent machines through our hardware business.

Projection Display Devices. We offer projection display devices under the brand name UO Smart Beam Laser. The UO Smart Beam Laser is a high definition pico projector that uses laser diodes to deliver bright and sharp images with a liquid crystal on silicon, or LCOS, based engine and is compatible with a wide range of computers and mobile devices. The UO Smart Beam Laser was selected as a 2016 CES Innovation Awards Honoree in the Home Video/Audio Components and Accessories category.

High-end Audio Devices. We offer high-end audio devices under the brand name Astell&Kern that are manufactured by our subsidiary, Iriver. Two of Iriver s audio devices were selected as 2016 CES Innovation Awards Honorees in the Portable Media Player and Accessories category and High Performance Home Audio/Video category, respectively.

In August 2014, we acquired a 39.3% equity interest in Iriver, a manufacturer of digital audio players and other portable media devices, which we increased to 49.0% in December 2014, for an aggregate purchase price of approximately Won 54.5 billion. We also acquired Won 5.0 billion of convertible bonds issued by Iriver, which may be converted into additional equity interests in Iriver when certain conditions are met.

Intelligent Agent Machines. We co-developed educational smart robots, Atti and Albert, as a learning tool for young children with diverse interactive games and educational content. We have also developed a coding training program utilizing our smart robots to teach children how to develop software in a fun and easy way. We have provided our smart robots to various countries globally, including Spain, France, China, Brazil and Colombia. In October 2015, we signed an agreement to provide Albert to be utilized in 300 preschool classrooms in Costa Rica to make learning more effective and interesting for children.

Miscellaneous Businesses

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

We also operate a mobile application marketplace, T Store. We collaborated with KT and LG U+ to launch One Store in June 2015. One Store is a combination of T Store and the mobile application marketplaces separately operated by KT and LG U+. Through this joint collaboration, we expect to increase the competitiveness of One Store to compete with Google Playstore, the leading mobile application marketplace in Korea.

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

Interconnection

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

Domestic Calls

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

Wireless-to-Fixed-line. According to our interconnection arrangement with KT, for a call from our wireless network to KT s fixed-line network, we collect the usage rate from our wireless subscriber and in turn pay KT the interconnection charges. Similarly, KT pays interconnection charges to SK Broadband for a call from KT s wireless network to SK Broadband s fixed-line network. The interconnection rate applicable to both KT and SK Broadband was Won 13.44 per minute, Won 14.73 per minute and Won 16.74 per minute for 2015, 2014 and 2013, respectively.

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

The interconnection rates paid by fixed-line network service providers to each wireless network service provider are set out below. In December 2010, the KCC announced that a single interconnection rate will apply to all wireless telecommunications service providers starting from 2013, which will eliminate the cost benefit that KT and LG U+ currently derive from the differences in interconnection rates. However, in November 2012, the KCC announced that it would continue to apply varied interconnection rates for the year 2013 considering the cost difference among wireless network service providers and our position as a dominant network service provider. These regulations currently remain effective; however, it is unclear whether the MSIP will continue to maintain varied interconnection rates due to our dominant market position.

	Rate per Minute		
Applicable Year	**SK Telecom**	**KT**	**LG U+**
2012	27.05	28.03	28.15
2013	26.27	26.98	27.04
2014	22.22	22.73	22.78
2015	19.53	19.92	19.96

Wireless-to-Wireless. The MIC implemented interconnection charges for calls between wireless telephone networks in Korea starting in January 2000. Under these arrangements, the operator originating the call pays an interconnection charge to the operator terminating the call. The applicable interconnection rate is the same as the fixed-line-to-wireless interconnection rate set out in the table above.

Our revenues from the wireless-to-wireless charge were Won 582.6 billion in 2015, Won 651.2 billion in 2014 and Won 641.2 billion in 2013. Our expenses from these charges were Won 579.0 billion in 2015, Won 700.3 billion in 2014 and Won 615.6 billion in 2013. The charges above were agreed among the parties involved and confirmed by the KCC.

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International Calls and International Roaming Arrangements

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

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

Competition

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

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

The following table shows the market share information, based on number of subscribers, as of December 31, 2015, for the following markets.

	Market Share (%)			
	SK Telecom	KT	LG U+	Others
Wireless Service(1)	49.4	30.4	20.2	
LTE Service(1)	46.2	30.0	23.8	
Fixed-Line Telephone (including VoIP)	16.2	57.5	17.5	8.8
Broadband Internet	25.1	41.6	17.4	15.9
IPTV(2)	12.1	22.7	7.9	57.3

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

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

Cellular Services

As of December 31, 2015, we had 28.6 million subscribers, representing a market share of approximately 49.4%, including MVNO subscribers leasing our networks. As of December 31, 2015, KT and LG U+ had 17.6 million and 11.7 million subscribers, respectively, representing approximately 30.4% and 20.2%, respectively, of the total number of wireless subscribers in Korea on such date, each including MVNO subscribers leasing its networks. As of December 31, 2015, we had 18.9 million LTE subscribers and KT and LG U+ had 12.2 million and 9.7 million LTE subscribers, respectively, each including MVNO subscribers leasing its networks.

In 2015, we had 6.0 million activations and 5.6 million deactivations. For 2015, our monthly churn rate ranged from 1.3% to 2.1%, with an average monthly churn rate of 1.5% for 2015, which decreased by 0.5%p from 2014. In 2015, we gained 47.7% of the total number of new wireless subscribers and subscribers that migrated to a different wireless telecommunications service provider, compared to KT with 28.6% and LG U+ with 23.8%.

We also compete for subscriber activations with MVNOs, including MVNOs that lease our networks. MVNOs generally provide rate plans that are relatively cheaper than similar rate plans of the wireless network providers from which they lease their networks, including us. To date, thirteen MVNOs have commenced providing wireless

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telecommunications services. As of December 31, 2015, MVNOs had a combined market share of 10.1%, of which MVNOs leasing our networks represented 4.6%, MVNOs leasing KT s networks represented 4.7% and MVNOs leasing LG U+ s networks represented 0.8%.

In addition, other companies may enter the telecommunications service market by acquiring the required licenses from the MSIP. For example, in October 2015, Sejong Telecom, K Mobile and Quantum Mobile applied for licenses to become Korea s fourth mobile network operator. Although the MSIP rejected the applications of all three companies in January 2016, the MSIP may continue its efforts to find an eligible applicant to be Korea s fourth mobile network operator in the future. For a description of the risks associated with the competitive environment in which we operate, see Item 3.D. Risk Factors Risks Relating to Our Business Competition may reduce our market share and harm our results of operations and financial condition.

Prior to 2015, competition in the wireless telecommunications business had caused us to significantly increase our marketing and advertising expenses. Between 2012 and 2014, marketing expenses as a percentage of SK Telecom s revenue, on a separate basis, fluctuated heavily between 23.9% to 33.7%, depending on the competitive landscape. However, in 2015, such percentage fluctuated between 23.0% and 27.0%. We attribute such stabilization to the maturity of the LTE market and the implementation of the MDDIA, which prohibits wireless telecommunications service providers from unfairly providing discriminatory subsidies based on certain criteria and from providing subsidies exceeding a maximum limit established by the KCC for the purchase of mobile phone models that were launched within the last 15 months, among other restrictions and requirements. For a more detailed discussion of the MDDIA, see Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation.

We expect that due to the limitations on subsidies pursuant to the MDDIA, the differentiated product and service offerings we provide, the vast library of high-quality media content we offer and the competitiveness of our T Membership program will continue to play an important role in enhancing the loyalty of our wireless subscribers.

We face competition from KT and LG U+ as well as other platform service providers in our other cellular service businesses. For example, our Smart Home service competes with KT s Giga IoT Home service and LG U+ s IoT@Home service. Although it is difficult to determine the markets in which we compete with respect to certain of our lifestyle enhancement platform services, we generally compete with various other Internet or mobile platform service companies such as Naver and Kakao Corp. (Kakao) in connection with such services.

Fixed-Line Telecommunication Services

Our fixed-line telephone service competes with KT and LG U+ as well as providers of other VoIP services. As of December 31, 2015, our market share of the fixed-line telephone and VoIP service market was 16.2% (including the services provided by SK Broadband and SK Telink) in terms of number of subscribers compared to KT with 57.5% and LG U+ with 17.5%.

We are the second largest provider of broadband Internet access services in Korea in terms of both revenue and subscribers, and our network covered more than 80% of households in Korea as of December 31, 2015. As of December 31, 2015, our market share of the broadband Internet market was 25.1% in terms of number of subscribers compared to KT with 41.6% and LG U+ with 17.4%.

Our IPTV service competes with other providers of such pay TV services, including KT, LG U+ and cable companies. As of December 31, 2015, our market share of the pay TV market (which includes IPTV, cable TV and satellite TV) was 12.1% compared to KT with 22.7% and LG U+ with 7.9% and the collective market share of other pay TV providers of 57.3%. With respect to our mobile IPTV business, we face competition from similar services provided by KT and LG U+. We also face increasing competition from global media streaming service providers such as Amazon Video and Netflix, which launched its services in Korea in January 2016.

Other Businesses

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

Interpark and online social commerce operators such as Coupang, Ticket Monster and Wemakeprice. We also face competition from traditional retailers with online and mobile shopping portals such as SSG.com and Lotte.com, home shopping providers with online and mobile shopping portals such as CJ Mall by CJ O Shopping, GS Shop by GS Homeshopping and Hyundai Hmall by Hyundai Homeshopping, and various online marketplaces for specific consumer segments or product groups.

The O2O commerce solutions industry is in its early stages of development and is heavily fragmented with a wide range of services being introduced. Thus, it is difficult to determine the markets in which we compete with respect to such services at this stage of the industry s development.

Other Investments and Relationships

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

SK Hynix

In February 2012, we acquired a 21.1% equity stake in SK Hynix, one of the world s largest memory-chip makers by revenue, for an aggregate purchase price of approximately Won 3.4 trillion, and became its largest shareholder. By investing in the export-driven semiconductor business, we aim to achieve a more diversified business portfolio, as well as seeking global growth opportunities utilizing SK Hynix s overseas network. SK Hynix designs, manufactures and sells advanced memory semiconductor products, including DRAM and NAND flash products, used in various electronic devices. SK Hynix operates four wafer fabrication facilities in Korea and China.

In 2015, 2014 and 2013, SK Hynix and its subsidiaries, on a consolidated basis, had revenues of Won 18,798.0 billion, Won 17,125.6 billion and Won 14,165.1 billion, respectively, profit before income tax of Won 5,269.1 billion, Won 5,047.7 billion and Won 3,074.9 billion, respectively, and profit for the year of Won 4,323.6 billion, Won 4,195.2 billion and Won 2,872.9 billion, respectively. As of December 31, 2015, 2014 and 2013, SK Hynix and its subsidiaries, on a consolidated basis, had total assets of Won 29,677.9 billion, Won 26,883.3 billion and Won 20,797.3 billion, respectively, and total equity of Won 21,387.7 billion, Won 18,036.3 billion and Won 13,066.9 billion, respectively.

Healthcare Business

We believe that the healthcare business is one of the new growth industries as society ages and medical and health technologies evolve and become integrated with information and communication technologies (ICT). In 2011, we began pursuing new opportunities in the healthcare business area by acquiring a 9.3% equity interest in NanoEnTek Inc. (NanoEnTek), a biotechnology and nanotechnology company manufacturing, among others, point-of-care diagnostics devices. In April 2014, we became the largest shareholder of NanoEnTek with a 26.0% equity interest. In January 2016, NanoEnTek acquired Bio Focus Co., Ltd., a manufacturer of in vitro diagnostic products. In January 2012, we established a joint venture, Healthconnect Co., Ltd. (Healthconnect), with Seoul National University Hospital to develop a health management service model for mobile device users utilizing ICT and currently hold a 49.5% equity interest in Healthconnect.

We are also seeking opportunities in global healthcare markets. In the first quarter of 2013, we acquired a 49.0% equity interest in X ian Tianlong Science and Technology Co., Ltd. (Tianlong), a Chinese medical device manufacturer, which has since expanded its product portfolio with the development of a new diagnostic product and entry into new business areas. In July 2014, we established the SK Telecom Healthcare R&D Center in Shenzhen, China and the Shenzhen VISTA-SK Medical Center, which we believe will provide us with a strong foothold in expanding our healthcare business in China. Shenzhen VISTA-SK Medical Center was established through a joint venture with Vista Medical Center, a major private healthcare service provider based in Beijing, China, and has the capacity to provide medical examinations and checkups to approximately 30,000 people annually. We also collaborate with a hospital in the Wuxi region to operate a Smart Primary Healthcare Center based on ICT healthcare solutions, and we plan to provide a mobile healthcare clinic to underserved regions. We believe that there are opportunities to create synergies among these centers and the medical device business of Tianlong in expanding our healthcare business in China.

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In June 2014, we also entered into a contract to provide medical information systems to six Saudi Arabian hospitals for approximately Won 70.0 billion through a consortium with Seoul National University Bundang Hospital. We established a joint venture in Saudi Arabia in March 2016 to provide medical information systems to additional hospitals and further expand our healthcare business in the Middle East.

Packet One Networks

In July 2010, we acquired a 27.2% equity interest in Packet One Networks (P1), a Malaysian fourth generation WiMAX telecommunications company and subsidiary of Green Packet Berhad, for US$101 million. In connection with P1 s plan to increase its capital, we made an additional investment of MYR50 million (approximately US$16.3 million) in 2011, which increased our ownership interest to 28.2%. P1 is the first WiMAX service provider in the country which has established itself as the market leader in high-speed wireless broadband services. In February 2014, Green Packet Berhad entered into a share purchase agreement with Telekom Malaysia Berhad (TM), the largest fixed-line telecommunications provider in Malaysia, under which TM became P1 s largest shareholder.

KEBHana Card

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

Other Investments

Our other investments include:

- *POSCO.* We currently own a 1.42% interest in the outstanding capital stock of POSCO, with a book value as of December 31, 2015 of Won 206.6 billion. POSCO is the largest fully integrated steel producer in Korea, and one of the largest steel producers in the world.

- *SKY Property Management.* We currently own a 33.0% equity interest in SKY Property Management Ltd. (SKY Property Management), with a book value as of December 31, 2015 of Won 251.2 billion. SKY Property Management was established in 2008 to manage buildings and real estate developments in China, in which affiliated companies of the SK Group had invested or will invest.

- *Kakao*. We currently own a 2.0% equity interest in Kakao, with a book value as of March 31, 2016 of Won 134.7 billion, pursuant to the transaction in February 2016 through which we sold our 15.0% interest in Loen Entertainment to Kakao for Won 219.9 billion in cash and 1,357,367 new shares of Kakao.

For more information regarding our investment securities, see note 9 of the notes to our consolidated financial statements.

Law and Regulation

Overview

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

- entry into the telecommunications industry;

- scope of services provided by telecommunications service providers;

allocation of radio spectrum;

setting of technical standards and promotion of technical standardization;

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- rates, terms and practices of telecommunications service providers;
- interconnection and revenue-sharing between telecommunications service providers;
- research and development of policy formulation for information and telecommunications; and
- competition among telecommunications service providers.

Pursuant to amendments to the Government Organization Act and the Act on the Establishment and Operation of Korea Communications Commission, both effective as of March 23, 2013, the MSIP was established. The MSIP is charged with regulating information and telecommunications, the function which was formerly performed by the KCC in the previous Government. The KCC, which had taken over the regulatory functions relating to information and telecommunications policies and radio and broadcasting management from the MIC in 2008, is currently charged with regulating the public interest aspects of and fairness in broadcasting. In this annual report, we refer to the MIC and the KCC as the relevant governmental authorities in connection with any approval granted or action taken by the MIC or the KCC, as applicable, prior to such amendments and to the MSIP or other relevant governmental authority in connection with any approval granted or to be granted or action taken or to be taken by the MSIP or such other relevant governmental authority subsequent to such amendments.

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

The MSIP may revoke our licenses or suspend any of our businesses if we fail to comply with its rules, regulations and corrective orders, including the rules restricting beneficial ownership and control and corrective orders issued in connection with any violation of rules restricting beneficial ownership and control or any violation of the conditions of our licenses. Alternatively, in lieu of suspension of our business, the MSIP may levy a monetary penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years. A network service provider that wants to cease its business or dissolve must obtain MSIP approval.

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

Competition Regulation

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

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

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

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

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

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

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

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

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

Number Portability. In January 2003, the MIC announced its plan to implement number portability with respect to wireless telecommunications service in Korea. The number portability system allows wireless subscribers to switch wireless telecommunications service providers while retaining the same mobile phone number.

In addition, the Government has been integrating mobile telephone identification numbers into a common prefix identification number 010 and gradually retracting the current mobile service identification numbers which had been unique to each wireless telecommunications service provider, including 011 for our cellular services, since January 1, 2004. All new subscribers have been given the 010 prefix starting January 2004. As the next step in the 010 integration process, the mobile telephone number prefix for all WCDMA and LTE service users has been changed to 010 as of January 1, 2014. The MSIP plans to complete the integration process by around 2018, when all mobile telephone numbers would have the prefix identification number 010.

Rate Regulation. Most network service providers must report to the MSIP the rates and contractual terms for each type of service they provide. However, as the dominant network service provider for specific services (based on having the largest market share in terms of number of subscribers and meeting certain revenue thresholds), we must obtain prior approval of the MSIP on our rates and terms of service; provided, however, that such pre-approval of the MSIP is not required, if we are planning to reduce the rates for any type of services that we provide under the

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MSIP-approved contractual terms. The MSIP s policy is to approve rates if they are appropriate, fair and reasonable (that is, if the rates have been reasonably calculated, considering supply costs, profits, classification of costs and profits for each service, cost savings through changes in the way services are provided and the influence on fair competition, among others). The MSIP may order changes in the submitted rates if it deems the rates to be significantly unreasonable or against public policy. On October 23, 2015, the Government proposed a bill to the National Assembly to change the approval requirement to a simple reporting requirement, which is the requirement for our competitors. However, the bill is still under review by the relevant sub-committee and was not passed during the most recent term of the National Assembly and will be automatically repealed on May 31, 2016 if not passed by then. Although the Government may resubmit this bill in the future, there is no assurance as to whether such bill will be passed.

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

Moreover, under the amended Telecommunications Business Act, which became effective on September 23, 2010, an MVNO system was adopted for a duration of three years until September 22, 2013. The expiration date of the system was extended to September 22, 2016 under the amended Telecommunications Business Act, which became effective on August 13, 2013. Under this system, the MSIP may designate and obligate certain wireless telecommunications services providers to allow an MVNO, at such MVNO s request, to use their telecommunication network facilities at a rate mutually agreed upon that complies with the standards set by the MSIP. We were designated as the only wireless telecommunications services provider obligated to allow the other wireless telecommunications services provider to use our telecommunications network facilities. To date, thirteen MVNOs have commenced providing wireless telecommunications services using the networks leased from us.

On October 1, 2014, the MDDIA, enacted for the purpose of establishing a transparent and fair mobile distribution practice, became effective. The MDDIA limits the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers. Pursuant to the MDDIA, wireless telecommunications service providers are prohibited from (i) unfairly providing discriminatory subsidies based on criteria such as type of subscription, subscription plan and characteristics of the subscriber, (ii) providing subsidies exceeding a maximum limit established by the KCC (such limit to be determined between Won 250,000 and Won 350,000, which may be adjusted every six months, with the current limit set at Won 330,000, effective as of April 24, 2015) for the purchase of mobile phone models that were launched within the last 15 months, and (iii) entering into a separate agreement with subscribers imposing obligations to use a specific subscription plan as a condition for providing subsidies. In addition, under the MDDIA, wireless telecommunications service providers are obliged to provide benefits, such as discounted rates, to subscribers who subscribe to the service without receiving subsidies.

Interconnection. Dominant network service providers such as ourselves that own essential infrastructure facilities or possess a certain market share are required to provide interconnection of their telecommunications network facilities to other service providers upon request. The MSIP sets and announces the standards for determining the scope, procedures, compensation and other terms and conditions of such provision, interconnection or co-use. We have entered into interconnection agreements with KT, LG U+ and other network service providers permitting these entities to interconnect with our network. We expect that we will be required to enter into additional agreements with new operators as the MSIP grants permits to additional telecommunications service providers.

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Frequency Allocation. The MSIP has the discretion to allocate and adjust the frequency bandwidths for each type of service and may auction off the rights to certain frequency bandwidths. Upon allocation of new frequency bandwidths or adjustment of frequency bandwidths, the MSIP is required to give a public notice. The MSIP also regulates the frequency to be used by each radio station, including the transmission frequency used by equipment in our cell sites. All of our frequency allocations are for a definite term. We pay fees to the MSIP for our frequency usage that are determined based upon our number of subscribers, frequency usage by our networks and other factors. For 2015, 2014 and 2013, the fee amounted to Won 189.8 billion, Won 188.1 billion and Won 206.5 billion, respectively.

We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our CDMA services, 20 MHz of bandwidth in the 2.1 GHz spectrum for our WCDMA services, 40 MHz of bandwidth in the 2.1 GHz spectrum, 20 MHz of bandwidth in the 800 MHz spectrum and 35 MHz of bandwidth in the 1.8 GHz spectrum for our LTE services, as well as 27 MHz of spectrum in the 2.3 GHz band for our WiBro services. For more information regarding the license fees for the various bandwidths that we use, see Item 5.B. Liquidity and Capital Resources Capital Requirements Capital Expenditures and note 17 of the notes to our consolidated financial statements.

For risks relating to the maintenance of adequate bandwidth capacity, see Item 3.D. Risk Factors Risks Relating to Our Business Our business and results of operations may be adversely affected if we fail to acquire adequate additional spectrum or use our bandwidth efficiently to accommodate subscriber growth and subscriber usage.

Mandatory Contributions and Obligations

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

In addition to such universal services for handicapped and low-income citizens, we are also required to make certain monetary contributions to compensate for other service providers costs for the universal services. The size of a service provider s contribution is based on its net annual revenue (calculated pursuant to the MSIP guidelines, which differ from our accounting practices). In 2015, our contribution amount was Won 21.0 billion for our fiscal year 2014. In 2014, our contribution amount was Won 21.8 billion for our fiscal year 2013. In 2013, our contribution amount was Won 19.2 billion for our fiscal year 2012. As a wireless telecommunications services provider, we are not considered a provider of universal telecommunications services and do not receive funds for providing universal service. Other network service providers that do provide universal services make all or a portion of their contribution in the form of expenses related to the universal services they provide.

Foreign Ownership and Investment Restrictions and Requirements

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

As of December 31, 2015, SK Holdings owned 20,363,452 shares of our common stock, or approximately 25.22% of our issued shares. As of December 31, 2015, the two largest foreign shareholders of SK Holdings each held a 3.5% stake therein. If such foreign shareholders increase their shareholdings in SK Holdings to 15% or more and any such foreign shareholder constitutes the largest shareholder of SK Holdings, SK Holdings will be considered a foreign shareholder, and its shareholding in us would be included in the calculation of our aggregate foreign shareholding. If SK Holdings shareholding in us is included in the calculation of our aggregate foreign shareholding, then our aggregate foreign shareholding, assuming the foreign ownership level as of December 31, 2015 (which we believe was 39.38%), would reach 64.60%, exceeding the 49.0% ceiling on foreign shareholding.

If our aggregate foreign shareholding limit is exceeded, the MSIP may issue a corrective order to us, the breaching shareholder (including SK Holdings if the breach is caused by an increase in foreign ownership of SK Holdings) and the foreign shareholder which owns in the aggregate 15.0% or more of SK Holdings. Furthermore, SK Holdings will be prohibited from exercising its voting rights with respect to the shares held in excess of the 49.0% ceiling, which may result in a change in control of us. In addition, the MSIP will be prohibited from granting us licenses or permits necessary for entering into new telecommunications businesses until our aggregate foreign shareholding is reduced to below 49.0%. If a corrective order is issued to us by the MSIP arising from the violation of the foregoing foreign ownership limit, and we do not comply within the prescribed period under such corrective order, the MSIP may:

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

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

We are required under the Foreign Exchange Transaction Act to file a report with a designated foreign exchange bank or with the Ministry of Strategy and Finance (the MOSF), in connection with any issue of foreign currency denominated securities by us in foreign countries. Issuances of US$30 million or less require the filing of a report with a designated foreign exchange bank, and issuances that are over US$30 million in the aggregate within one year from the filing of a report with a designated foreign exchange bank require the filing of a report with the MOSF.

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

- the acquisition by an entity (and its related parties) of 15.0% or more of the equity of a network service provider;
- a change in the largest shareholder of a network service provider;
- agreements by a network service provider or its shareholders with foreign governments or parties regarding important business matters of such network service provider, such as the appointment of officers and directors and transfer of businesses; and
- a change in the shareholder that actually controls a network service provider.

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

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Patents and Licensed Technology

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

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

Seasonality of the Business

Our business is not affected by seasonality.

Item 4.C. *Organizational Structure*

Organizational Structure

We are a member of the SK Group, based on the definition of group under the Fair Trade Act. As of December 31, 2015, SK Group members owned in aggregate 25.2% of the shares of our issued common stock. The SK Group is a diversified group of companies incorporated in Korea with interests in, among other things, telecommunications, trading, energy, chemicals, engineering and leisure industries.

Significant Subsidiaries

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

Item 4.D. *Property, Plants and Equipment*

The following table sets forth certain information concerning our principal properties as of December 31, 2015:

Location	Primary Use	Approximate Area in Square Feet
Seoul Metropolitan Area	Corporate Headquarters	988,447
	Regional Headquarters	607,249
	Customer Service Centers	107,277
	Training Centers	616,845
	Central Research and Development Center	482,719
	Others(1)	962,781
Busan	Regional Headquarters	363,282
	Others(1)	637,960
Daegu	Regional Headquarters	148,065
	Others(1)	232,375
Jeolla and Jeju Provinces	Regional Headquarters	265,614
	Others(1)	690,313
Chungcheong Province	Regional Headquarters	459,302
	Others(1)	784,438

(1) Includes cell sites.

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

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

Item 4A. ***UNRESOLVED STAFF COMMENTS***

We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Exchange Act.

Item 5. ***OPERATING AND FINANCIAL REVIEW AND PROSPECTS***

You should read the following discussion together with our consolidated financial statements and the related notes thereto which appear elsewhere in this annual report. We prepare our consolidated financial statements in accordance with IFRS as issued by the IASB. In addition, you should read carefully the section titled Critical Accounting Policies, Estimates and Judgments as well as note 4 of the notes to our consolidated financial statements which provide summaries of certain critical accounting policies that require our management to make difficult, complex or subjective judgments relating to matters which are highly uncertain and that may have a material impact on our financial conditions and results of operations.

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

Overview

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

In our cellular services segment, we earn revenue principally from our wireless voice and data transmission services through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by our wireless subscribers as well as interconnection fees paid to us by other telecommunications operators for use of our wireless network by their customers and subscribers. We also derive revenue from sales of wireless devices by our subsidiary, PS&Marketing. Other sources of revenue include revenue from our IoT solutions platform services and lifestyle enhancement 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 and broadband Internet services and advanced media platform services (including IPTV) through monthly plan-based fees and usage charges as well as interconnection fees paid to us by other telecommunications operators for use of our fixed-line network by their customers and subscribers. In addition, we derive revenue from international calling services and our business communications services through customized fee arrangements with our business customers.

In our others segment, we earn revenue principally from our commerce business through third-party seller fees earned (including commissions) for transactions in which we act as a selling agent to the mini malls on 11st, our online open marketplace platform, as well as advertising revenue from 11st and our O2O commerce solutions. Other sources of revenue include revenue from our hardware businesses through sales of projection display devices, high-end audio devices and intelligent agent machines, revenue from our security business operated by our subsidiary, Neosnetworks, advertising revenue from our Nate portal service operated by our subsidiary, SK Communications, and sales commissions through our mobile application marketplaces.

Our cellular service revenue and fixed-line telecommunications service revenue depend principally upon the number of our wireless subscribers, the rates we charge for our services, the frequency and volume of subscriber usage of our services and the terms of our interconnection with other telecommunications operators. Our others revenue depends principally upon the gross merchandise volume, which is the total monetary value of customer purchases of goods and services, net of estimated refunds, of 11st and the number of merchants that utilize 11st and our O2O platforms to advertise and promote their products and services and the extent of such advertisement and promotion.

Among other factors, management uses operating income of each reportable segment presented in accordance with K-IFRS (segment operating income) in its assessment of the profitability of each reportable segment. The sum of segment operating income for all three reportable segments differs from our operating income presented in accordance with IFRS by IASB as segment operating income does not include certain items such as gain and loss from disposal of property and equipment and intangible assets and impairment loss on property and equipment and intangible assets. For a reconciliation of operating income presented in accordance with IFRS by IASB and operating income presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

In addition to the information set forth below, see note 5 of the notes to our consolidated financial statements for more detailed information regarding each of our reportable segments.

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

New Regulations Relating to Handset Subsidies. We provide handset subsidies to subscribers who agree to use our service for a predetermined service period and purchase handsets on an installment basis. Generally, handset subsidies may be provided to any subscriber that uses our service and purchases handsets either directly from us or through third parties. Prior to the implementation of the MDDIA, there was intense competition among wireless telecommunications service providers to acquire subscribers by providing higher subsidies. In October 2014, the Government started limiting the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers under the MDDIA. Pursuant to the MDDIA, wireless telecommunications service providers are prohibited from (i) unfairly providing discriminatory subsidies based on criteria such as type of subscription, subscription plan and characteristics of the subscriber, (ii) providing subsidies exceeding a maximum limit established by the KCC (such limit to be determined between Won 250,000 and Won 350,000, which may be adjusted every six months, with the current limit set at Won 330,000, effective as of April 24, 2015) for the purchase of mobile phone models that were launched within the last 15 months, and (iii) entering into a separate agreement with subscribers imposing obligations to use a specific subscription plan as a condition for providing subsidies. In addition, under the MDDIA, wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving subsidies.

In 2015, the increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA due to the increase in the applicable discount rate to 20% in April 2015 from 12% in October 2014 contributed to a decrease in revenue. Such increase also led to a decrease in our marketing expenses in 2015 compared to 2014. Furthermore, failure to comply with the MDDIA may lead to suspension of our business or imposition of monetary penalties. For more information about the MDDIA and the penalties imposed for violating Government regulations, see Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation and Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings KCC and MSIP Proceedings.

Abolishment of Initial Subscription Fees. Upon recommendation by the MSIP, we, KT and LG U+ agreed to gradually reduce initial subscription fees charged to new customers and in August 2013, reduced the initial subscription fee by 40% and again by an additional 50% in August 2014. Starting in November 2014, we ceased charging any initial subscription fees to new customers. The gradual reduction and ultimate abolishment of initial subscription fees adversely impacted our wireless service revenues in 2014 and 2015 compared to 2013 and may continue to have a material impact on our results of operations in 2016. For more information about the rates we charge, see Item 4.B. Business Overview Cellular Services Rate Plans and Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation.

Decrease in Interconnection Fees. Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Charges for interconnection affect our revenues and operating results. The MSIP determines the basic framework for interconnection arrangements, including policies relating to interconnection rates in Korea. Under our interconnection agreements, we are required to make payments in respect of calls which originate from our networks and terminate in the networks of other Korean telecommunications operators, and the other operators are required to make payments to us in respect of calls which originate in their networks and terminate in our network. The MSIP has continued to gradually decrease the interconnection rates in Korea, which has led to a continued decrease in our interconnection revenue as well as interconnection expenses from 2012 to 2015 and any further reduction in interconnection rates by the MSIP may continue to impact our results of operations. For more information about our interconnection revenue and expenses, see Item 4.B. Business Overview Interconnection.

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

Our billing ARPU increased by 1.3% to Won 36,582 in 2015 from Won 36,101 in 2014 and increased by 4.5% in 2014 from Won 34,551 in 2013. The increases in billing ARPU in 2015 and 2014 were primarily due to the increase in LTE subscribers who subscribe to data plans with higher monthly basic charges than our other wireless telecommunications services and greater data service usage attributable to increases in the number of smartphone users. In 2015, the increase in billing ARPU was partially offset by a decrease in revenue due to the increase in the applicable discount rate for subscribers that elected to receive discounted rates in lieu of receiving handset subsidies according to the MDDIA.

Our total ARPU decreased by 0.3% to Won 43,970 in 2015 from Won 44,124 and increased by 4.1% in 2014 from Won 42,377 in 2013. The decrease in total ARPU in 2015 was primarily due to decreases in initial subscription fees and interconnection revenue, which were partially offset by the reasons set forth above relating to the increase in billing ARPU in 2015. The increase in total ARPU in 2014 was primarily due to an increase in LTE subscribers who subscribe to data plans with higher monthly basic charges than our other wireless telecommunications services and greater data service usage attributable to increases in the number of smartphone users.

Acquisition of SK Hynix Shares. In February 2012, we acquired a 21.1% equity stake in SK Hynix, one of the world s largest memory chip makers by revenue, for an aggregate purchase price of approximately Won 3.4 trillion, and became its largest shareholder. As of December 31, 2015, we held a 20.1% equity stake in SK Hynix. SK Hynix s profit for the year was Won 4,323.6 billion in 2015, Won 4,195.2 billion in 2014 and Won 2,872.9 billion in 2013. Our investment in SK Hynix is accounted for using the equity method and the results of SK Hynix s performance is reflected in our operating results as gains (loss) related to investments in subsidiaries and associates.

Acquisition of SK Networks Retail Distribution Business. In April 2014, PS&Marketing acquired the retail distribution business of SK Networks. As a result of such acquisition, there were increases in wireless device sales in 2015, due to the reflection of the full year impact of the acquisition, compared to 2014, in which the acquisition only impacted results of operations for part of the year, and in 2014 compared to 2013, along with an increase in various related operating expenses, including cost of products that have been resold and labor costs.

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

In addition to preparing consolidated financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with K-IFRS as adopted by the KASB, which we are required to file with the FSC and the Korea Exchange under the FSCMA.

Beginning with our financial statements prepared in accordance with K-IFRS as of and for the year ended December 31, 2012, we are required to adopt certain amendments to K-IFRS No. 1001, Presentation of Financial Statements, as adopted by KASB in 2012. The amendments require operating income, which is calculated as operating revenue less operating expense, to be separately presented on the consolidated statement of income. Operating expense represents expenses incurred in our main operating activities and includes cost of products that have been resold and selling, general and administrative expenses. Accordingly, beginning with our consolidated statements of income prepared in accordance with K-IFRS for the year ended December 31, 2012, we present operating income in accordance with the amended K-IFRS No. 1001, Presentation of Financial Statements. Prior to the adoption of the amendments to K-IFRS No. 1001, Presentation of Financial Statements, the operating income we presented in our consolidated statements of income prepared in accordance with K-IFRS took into account certain other operating revenue and other operating expenses that are no longer included in the calculation of operating income pursuant to these amendments.

In our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report, such changes in presentation were not adopted. As a result, the presentation of operating income in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report differs from the presentation of operating income in the consolidated statements of income prepared in accordance with K-IFRS for the corresponding periods. The table below sets forth a reconciliation of our operating income as presented in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB for the years ended December 31, 2015, 2014 and 2013 to the operating income as presented in the consolidated statements of income prepared in accordance with K-IFRS after giving effect to the amendments to K-IFRS No. 1001, Presentation of Financial Statements, for each of the corresponding years.

	For the Year Ended December 31,		
	2015	2014	2013
		(In billions of Won)	
Operating income pursuant to IFRS by IASB	1,495.4	1,607.9	1,578.4
Differences:			
Other income pursuant to IFRS			
Fee revenues		(8.2)	(7.3)
Gain on disposal of property and equipment and intangible assets	(7.1)	(8.8)	(8.0)
Others	(23.8)	(39.5)	(59.7)
	(30.9)	(56.5)	(75.0)
Other operating expenses pursuant to IFRS that are classified as other non-operating expenses pursuant to K-IFRS			
Loss on impairment of property and equipment and intangible assets	35.8	47.5	13.8
Loss on disposal of property and equipment and intangible assets	21.4	33.0	267.5
Donations	72.5	67.8	82.1
Bad debt for accounts receivable other	15.3	17.9	22.2
Others	98.5	107.5	122.2
	243.5	273.8	507.7
Operating income pursuant to K-IFRS	1,708.0	1,825.1	2,011.1

However, there is no impact on profit for the year or earnings per share for the years ended December 31, 2015, 2014 and 2013.

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Accounting Standards Updates

We have adopted amendments to IAS 19, Employee Benefits, for the years ended December 31, 2015. See note 3 of the notes to our consolidated financial statements for a summary of IAS 19, Employee Benefits. The adoption of these amendments is not expected to have a significant impact on our consolidated results of operations or financial position.

Operating Results

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

	For the Year Ended December 31,					
	2015		2014		2013	
	(In billions of Won, except percentage data)					
Operating Revenue and Other Income	17,167.6	100.0%	17,220.3	100.0%	16,677.0	100.0%
Revenue	17,136.7	99.8	17,163.8	99.7	16,602.1	99.6
Other income	30.9	0.2	56.5	0.3	74.9	0.4
Operating Expense	15,672.2	91.3	15,612.4	90.7	15,098.6	90.5
Operating Income	1,495.4	8.7	1,607.8	9.3	1,578.4	9.5
Profit before Income Tax	2,035.4	11.9	2,253.8	13.1	1,827.1	11.0
Income Tax Expense from Continuing Operations	519.5	3.0	454.5	2.6	400.8	2.4
Profit from Continuing Operations	1,515.9	8.8	1,799.3	10.4	1,426.3	8.6
Profit from Discontinued Operation, Net of Income Taxes(1)					183.2	1.1
Profit (Loss) for the Year Attributable to:						
Owners of the Parent Company	1,518.6	8.8	1,801.2	10.5	1,638.9	9.8
Non-controlling Interests	(2.7)	(0.0)	(1.9)	(0.0)	(29.4)	(0.2)
Profit for the Year	1,515.9	8.8	1,799.3	10.4	1,609.5	9.6

(1) Relates to results of operations of Loen Entertainment, which ceased being our consolidated subsidiary in July 2013.

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

	Year Ended December 31,					
	2015		2014		2013	
	Amount	Percentage of Total Revenue	Amount	Percentage of Total Revenue	Amount	Percentage of Total Revenue
	(In billions of Won, except percentages)					
Cellular Services Revenue						
Wireless Service(1)	10,720.50	62.6%	11,010.6	64.2%	11,001.1	66.3%
Cellular Interconnection	710.0	4.1	817.0	4.8	845.0	5.1
Wireless Device Sales	963.4	5.6	761.6	4.4	645.9	3.9
Miscellaneous(2)	875.4	5.1	938.6	5.5	823.5	5.0
Total Cellular Services Revenue	13,269.3	77.4	13,527.9	78.8	13,315.5	80.2
Fixed-line Telecommunication Services Revenue						
Fixed-line Telephone Service	420.6	2.5%	467.3	2.7%	474.4	2.9%
Fixed-line Interconnection	57.1	0.3	57.4	0.3	78.7	0.5
Broadband Internet Service and Advanced Media Platform Service	1,308.8	7.6	1,152.7	6.7	1,023.2	6.2
International Calling Service	99.1	0.6	112.0	0.7	127.0	0.8
Miscellaneous(3)	608.9	3.6	660.5	3.8	621.1	3.7
Total Fixed-line Telecommunication Services Revenue	2,494.5	14.6	2,449.9	14.3	2,324.4	14.0
Other Revenue						
Commerce Service(4)	988.5	5.8%	911.5	5.3%	742.6	4.5%
Portal Service(5)	63.9	0.4	73.0	0.4	92.2	0.6
Miscellaneous(6)	320.5	1.9	201.6	1.2	127.4	0.8
Total Other Revenue	1,372.9	8.0	1,186.0	6.9	962.2	5.8
Total Revenue	17,136.7	100.0%	17,163.8	100.0%	16,602.1	100.0%
Total Revenue Growth	(0.2) %		3.4%		2.9	%
Segment Operating Expense(7)						
Cellular Services	11,591.0	67.6%	11,773.5	68.6%	11,329.4	68.2%
Fixed-line Telecommunication Services	2,386.2	13.9	2,369.5	13.8	2,268.8	13.7
Others	1,451.5	8.5	1,195.8	7.0	992.8	6.0
Total Segment Operating Expense	15,428.7	90.0%	15,338.7	89.4%	14,591.0	87.9%
Segment Operating Income						
Cellular Services	1,678.3	9.8%	1,754.4	10.6%	1,986.1	12.0%
Fixed-line Telecommunication Services	108.3	0.6	80.4	0.5	55.6	0.3
Others	(78.6)	(0.4)	(9.8)	(0.1)	(30.6)	(0.2)
Total Segment Operating Income	1,708.0	10.0%	1,825.1	10.6%	2,011.1	12.1%

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

wireless subscribers.

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

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

(4) Commerce service revenue includes revenues from 11st, our online open marketplace platform, and O2O commerce solutions.

(5) Portal service revenue includes revenues from Nate, our online portal service operated by SK Communications, and Cyworld, a social networking service formerly operated by SK Communications. In March 2014, the Cyworld business was spun-off into an unaffiliated company.

(6) Miscellaneous others revenue includes revenues from our hardware business, our security business operated by our subsidiary, Neosnetworks, and our online open marketplace for mobile applications, among other operations.

(7) Segment operating expense means operating expense for each reportable segment presented in accordance with K-IFRS and therefore, does not include certain expenses that are classified as other non-operating expenses under K-IFRS. For more information on the difference between our consolidated operating expense pursuant to K-IFRS and pursuant to IFRS as issued by the IASB, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

2015 Compared to 2014

Operating Revenue and Other Income. Our consolidated operating revenue and other income decreased by 0.3% to Won 17,167.6 billion from Won 17,220.3 billion in 2014, due to the following decreases in operating revenue and other income.

Our consolidated operating revenue decreased slightly to Won 17,136.7 billion in 2015 from Won 17,163.8 billion in 2014, primarily due to decreases in wireless service revenue and cellular interconnection revenue, partially offset by increases in wireless device sales and broadband Internet service and advanced media platform service revenue, each as further discussed below.

Our consolidated other income decreased by 45.2% to Won 30.9 billion in 2015 from Won 56.5 billion in 2014 primarily due to a decrease in value-added tax refunds to Won 2.1 billion in 2015 from Won 8.1 billion in 2014 and a decrease in gain on disposal of property and equipment and intangible assets to Won 7.1 billion in 2015 from Won 8.8 billion in 2014.

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

Cellular services: The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, wireless device sales and miscellaneous cellular services, decreased by 1.9% to Won 13,269.3 billion in 2015 from Won 13,527.9 billion in 2014. The decrease in our cellular services revenue was principally due to decreases in our wireless service revenue and cellular interconnection revenue partially offset by an increase in our wireless device sales.

Wireless service revenue decreased by 2.6% to Won 10,720.5 billion in 2015 from Won 11,010.6 billion in 2014, primarily due to the decrease in initial subscription fees which we ceased charging beginning November 2014 and the increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA due to the increase in the applicable discount rate to 20% in April 2015 from 12% in October 2014.

Cellular interconnection revenue decreased by 13.1% to Won 710.0 billion in 2015 from Won 817.0 billion in 2014. The decrease was primarily attributable to decreases in interconnection rates and land-to-mobile call volume in 2015.

Wireless device sales increased by 26.5% to Won 963.4 billion in 2015 from Won 761.6 billion in 2014. Such increase was due in part to the reflection of the full year impact of the acquisition by PS&Marketing in April 2014 of the retail distribution business of SK Networks in 2015 compared to 2014 in which the acquisition only impacted revenue for part of the year.

Fixed-line telecommunications services: The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service and advanced media platform service (including IPTV), fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 1.8% to Won 2,494.5 billion in 2015 from Won 2,449.9 billion in 2014, primarily due to an increase in revenue from our broadband Internet service and advanced media platform service (including IPTV), partially offset by decreases in fixed-line telephone service revenue, miscellaneous fixed-line telecommunication services revenue and international calling service revenue. Fixed-line interconnection revenue was stable between 2014 and 2015.

Revenue from our broadband Internet service and advanced media platform service (including IPTV) increased by 13.5% to Won 1,308.8 billion in 2015 from Won 1,152.7 billion in 2014, primarily due to an increase in the number of IPTV subscribers to 3.5 million subscribers as of December 31, 2015 from 2.8 million subscribers as of December 31, 2014 and an increase in the purchase of paid media content by IPTV subscribers.

Fixed-line telephone service revenue decreased by 10.0% to Won 420.6 billion in 2015 from Won 467.3 billion in 2014, primarily due to a decrease in residential calling volume. Miscellaneous fixed-line telecommunication services revenue decreased by 7.8% to Won 608.9 billion in 2015 from Won 660.5 billion in 2014, primarily due to a decline in new contracts for business communications services provided by SK Broadband. International calling service revenue decreased by 11.5% to Won 99.1 billion in 2015 from Won 112.0 billion in 2014, primarily due to a decrease in international calling volume.

Others: The revenue of our others segment, which is composed of revenues from our commerce service and portal service and miscellaneous other revenue, increased by 15.8% to Won 1,372.9 billion in 2015 from Won 1,186.0 billion in 2014, due to increases in commerce service revenue and miscellaneous other revenue.

Commerce service revenue increased by 8.4% to Won 988.5 billion in 2015 from Won 911.5 billion in 2014, primarily due to an increase in the annual gross merchandise volume of 11st through its mobile version. Miscellaneous other revenue increased by 59.0% to Won 320.5 billion in 2015 from Won 201.6 billion in 2014, primarily due to increases in revenue from our security business operated by Neosnetworks and revenue from SK Planet s advertising business.

Operating Expense. Our consolidated operating expense increased by 0.4% to Won 15,672.2 billion in 2015 from Won 15,612.4 billion in 2014, primarily due to a 16.4% increase in cost of products that have been resold to Won 1,955.9 billion in 2015 from Won 1,680.1 billion in 2014, a 14.1% increase in labor cost to Won 1,893.7 billion in 2015 from Won 1,659.8 billion in 2014 and a 4.8% increase in depreciation and amortization to Won 2,845.3 billion in 2015 from Won 2,714.7 billion in 2014. Such increase was partially offset by an 8.5% decrease in commissions paid to Won 5,207.0 billion in 2015 from Won 5,692.7 billion in 2014.

The increase in cost of products that have been resold was primarily due to the reflection of the full year impact of the acquisition by PS&Marketing in April 2014 of the retail distribution business of SK Networks in 2015 compared to 2014 in which the acquisition only impacted associated costs for part of the year and an increase in high-end wireless device sales.

The increase in labor cost was primarily due to one-time severance payments in connection with our early retirement program and the increase in the number of employees at SK Broadband to further expand our advanced media platform service business and in connection with several acquisitions in 2014, including the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014 and the acquisition by SK Planet of Shopkick in October 2014.

The increase in depreciation and amortization was primarily due to increased capital investments to upgrade our LTE network and broadband Internet fixed-line network and the increase in amortization of software.

The decrease in commissions paid was attributable mainly to the stabilized competitive environment due to the maturity of the LTE market and the implementation of the MDDIA as well as an increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA.

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

Cellular services: The segment operating expense for our cellular services segment decreased by 1.6% to Won 11,591.0 billion in 2015 from Won 11,773.5 billion in 2014, primarily due to a decrease in commissions paid, which was partially offset by increases in cost of products that have been resold, labor cost and depreciation and amortization, each for the reasons described above.

Fixed-line telecommunication services: The segment operating expense for our fixed-line telecommunication services segment slightly increased to Won 2,386.2 billion in 2015 from Won 2,369.5 billion in 2014, primarily due to an increase in marketing costs to gain more subscribers to our IPTV service and an increase in labor cost due to an increase in the number of employees related to the expansion of our advanced media platform service business.

Others: The segment operating expense for our others segment increased by 21.4% to Won 1,451.5 billion in 2015 from Won 1,195.8 billion in 2014, primarily due to an increase in marketing costs relating to various promotional events for 11st and our O2O commerce solutions and an increase in labor cost due to the increase in the number of employees pursuant to the acquisition by SK Planet of Shopkick in October 2014.

Operating Income. Our consolidated operating income decreased by 7.0% to Won 1,495.4 billion in 2015 from Won 1,607.8 billion in 2014, due to the decrease in operating revenue and other income and the increase in operating expense.

Our segment operating income with respect to each of our reportable segments is based on K-IFRS and the sum of segment operating income for all three reportable segments differs from our consolidated operating income presented in accordance with IFRS by IASB. For a reconciliation of operating income presented in accordance with IFRS by IASB and operating income presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating income of our cellular services segment decreased by 4.3% to Won 1,678.3 billion in 2015 from Won 1,754.4 billion in 2014, primarily due to the decrease in initial subscription fees which we ceased charging beginning November 2014. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating income divided by revenue from such segment, expressed as a percentage) of our cellular services segment decreased to 12.6% in 2015 from 13.0% in 2014.

Fixed-line telecommunication services: The segment operating income of our fixed-line telecommunication services segment increased by 34.7% to Won 108.3 billion in 2015 from Won 80.4 billion in 2014, primarily due to the increase in revenue from our IPTV service despite the increase in costs to expand our advanced media platform service business. As a result, the segment operating margin of our fixed-line telecommunication services segment increased to 4.3% in 2015 from 3.3% in 2014.

Others: The segment operating loss of our others segment increased to Won 78.6 billion in 2015 from Won 9.8 billion in 2014. As discussed above, while revenue from our commerce service and miscellaneous other revenue increased in 2015, marketing costs related to such services increased to a greater extent, leading to a greater operating loss of our others segment.

Finance Income and Finance Costs. Our finance income decreased by 17.8% to Won 103.9 billion in 2015 from Won 126.3 billion in 2014, primarily due to a 23.5% decrease in interest income to Won 45.9 billion in 2015 from Won 60.0 billion in 2014, which was mainly due to a general decrease in interest rates, and a 77.9% decrease in gain on valuation of derivatives to Won 1.9 billion in 2015 from Won 8.7 billion in 2014. Such decreases were partially offset by a gain on valuation of financial asset at fair value through profit or loss of Won 5.2 billion in 2015 relating to profit recognized from the early redemption of certain structured bonds compared to no such gain in

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2014, a 23.4% increase in dividend income to Won 16.1 billion in 2015 from Won 13.0 billion in 2014 and a 16.1% increase in gain on foreign currency transactions to Won 18.9 billion in 2015 from Won 16.3 billion in 2014.

Our finance costs decreased by 9.5% to Won 350.1 billion in 2015 from Won 386.7 billion in 2014 primarily due to an 8.1% decrease in interest expense to Won 297.7 billion in 2015 from Won 323.9 billion in 2014, which was mainly due to a general decrease in interest rates, and a 95.2% decrease in loss relating to financial liability at fair value through profit or loss to Won 0.5 billion in 2015 from Won 10.4 billion in 2014. In 2014, we recognized such loss relating to financial liability at fair value through profit or loss due to the increase in the fair value of debentures in connection with the general decrease in interest rates. Such decreases were partially offset by a significant increase in loss on settlement of derivatives to Won 4.8 billion in 2015 from Won 0.7 billion in 2014.

Gains (Losses) Related to Investments in Subsidiaries and Associates. Gains related to investments in subsidiaries and associates decreased 13.3% to Won 786.1 billion in 2015 from Won 906.3 billion in 2014, primarily due to an 8.1% decrease in share of profits of SK Hynix to Won 842.1 billion in 2015 from Won 916.5 billion in 2014. Such decrease was primarily due to the Won 88.7 billion gain recognized in connection with the dilution of equity interest in 2014 due to the conversion by noteholders of SK Hynix s convertible bonds to SK Hynix s common shares compared to no such gain recognized in 2015 despite the 3.1% increase in SK Hynix s profit for the year to Won 4,323.6 billion in 2015 from Won 4,195.2 billion.

Income Tax. Income tax expense from continuing operations increased by 14.3% to Won 519.5 billion in 2015 from Won 454.5 billion in 2014 notwithstanding a 9.7% decrease in profit before income tax to Won 2,035.4 billion in 2015 from Won 2,253.8 billion in 2014, primarily due to changes in unrealizable deferred taxes which led to an increase in income tax expense of Won 83.6 billion in 2015, mainly related to the dividend in kind made by SK Planet of SK Communication s common shares to SK Telecom, compared to such changes which led to a decrease in income tax expense of Won 43.8 billion in 2014. Our effective tax rate in 2015 increased by 5.3%p to 25.5% in 2015 from 20.2% in 2014, primarily for the reasons set forth above.

Profit for the Year. Principally as a result of the factors discussed above, our profit for the year decreased by 15.8% to Won 1,515.9 billion in 2015 from Won 1,799.3 billion in 2014. Profit for the year as a percentage of operating revenue and other income was 8.8% in 2015 compared to 10.4% in 2014.

2014 Compared to 2013

Operating Revenue and Other Income. Our consolidated operating revenue and other income increased by 3.3% to Won 17,220.3 billion in 2014 from Won 16,677.0 billion in 2013, due to the following increases in operating revenue and other income.

Our consolidated operating revenue increased by 3.4% to Won 17,163.8 billion in 2014 from Won 16,602.1 billion in 2013, primarily as a result of improved revenues from our consolidated subsidiaries, including an increase in wireless device sales principally due to the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014, strong growth of SK Planet s commerce service businesses such as 11th Street and increased revenue from SK Broadband s IPTV services, as well as growth in the number of new subscribers to our LTE service and increase in data usage.

Our consolidated other income decreased by 24.7% to Won 56.5 billion in 2014 from Won 74.9 billion in 2013 primarily due to a decrease in value-added tax refunds to Won 8.1 billion in 2014 from Won 10.3 billion in 2013 and other income recognized in 2013 but not in 2014 relating to one-off items such as the receipt of insurance coverage payments for typhoon damage of Won 4.6 billion and gain from sale of property and equipment of Won 4.5 billion.

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

Cellular services: The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, wireless device sales and miscellaneous cellular services, increased by 1.6% to Won 13,527.9 billion in 2014 from Won 13,315.5 billion in 2013.

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The increase in our cellular services revenue was principally due to increases in our wireless device sales and miscellaneous cellular services revenue, partially offset by a decrease in cellular interconnection revenue. There was no significant change in wireless service revenue between 2013 and 2014.

Wireless device sales increased by 17.9% to Won 761.6 billion in 2014 from Won 645.9 billion in 2013, primarily due to the acquisition by PS&Marketing of 190 retail stores as part of its acquisition of the retail distribution business of SK Networks in April 2014. Miscellaneous cellular services revenue increased by 14.0% to Won 938.6 billion in 2014 from Won 823.5 billion in 2013, primarily due to an increase in revenue from our Internet solutions business.

Cellular interconnection revenue decreased by 3.3% to Won 817.0 billion in 2014 from Won 845.0 billion in 2013. The decrease was primarily attributable to decreases in interconnection rates in 2014, which was partially offset by an increase in total call volume to mobile devices.

Wireless service revenue remained steady at Won 11,010.6 billion in 2014 compared to Won 11,001.1 billion in 2013. Factors that contributed to an increase in wireless service revenue in 2014 were an increase in the number of subscribers that subscribe to LTE plans, which have higher monthly rates than our other wireless service plans, as well as an increase in the number of LTE subscribers that subscribe to more expensive fixed-rate plans that feature a higher data transmission allowance (in connection with the increased availability of data-intensive wireless contents such as mobile video streaming). A factor that offset this increase and contributed to a decrease in wireless service revenue in 2014 was a decrease in initial subscription fees which we ceased charging beginning November 2014 after gradually decreasing the fee since August 2013.

Fixed-line telecommunication services: The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service and advanced media platform service, fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 14.3% to Won 2,449.9 billion in 2014 from Won 2,324.4 billion in 2013, primarily due to an increase in revenue from our broadband Internet service and advanced media platform service and miscellaneous fixed-line telecommunications services, partially offset by decreases in revenue from fixed-line interconnection, international calling service and fixed-line telephone service.

Revenue from our broadband Internet service and advanced media platform service increased by 12.7% to Won 1,152.7 billion in 2014 from Won 1,023.2 billion in 2013, primarily attributable to an increase in the number of IPTV subscribers to 2.8 million subscribers as of December 31, 2014 from 2.1 million subscribers as of December 31, 2013. Revenue from our miscellaneous fixed-line telecommunication services increased by 6.3% to Won 660.5 billion in 2014 from Won 621.1 billion in 2013, primarily due to an increase in subscribers of SK Telink s MVNO service.

Fixed-line interconnection revenue decreased by 27.1% to Won 57.4 billion in 2014 from Won 78.7 billion in 2013, primarily due to a decrease in residential calling volume. International calling service revenue decreased by 11.8% to Won 112.0 billion in 2014 from Won 127.0 billion in 2013, primarily due to a decrease in international calling volume. Fixed-line telephone service revenue decreased by 1.5% to Won 467.3 billion in 2014 from Won 474.4 billion in 2013, primarily due to a decrease in residential calling volume.

Others: The revenue of our others segment, which is composed of revenues from our commerce service and portal service and miscellaneous other revenue, increased by 3.4% to Won 1,186.0 billion in 2014 from Won 962.2 billion in 2013, due to increases in commerce service revenue and miscellaneous other revenue, partially offset by a decrease in portal service revenue.

Commerce service revenue increased by 22.7% to Won 911.5 billion in 2014 from Won 742.6 billion in 2013, primarily due to an increase in revenue generated by 11th Street. Miscellaneous other revenue increased by 58.2% to Won 201.6 billion in 2014 from Won 127.4 billion in 2013, primarily due to the revenue attributable to Neosnetworks and Iriver, which were acquired by SK Telecom in 2014.

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Portal service revenue decreased by 20.8% to Won 73.0 billion in 2014 from Won 92.2 billion in 2013, primarily due to a decrease in advertising revenues from the portal services operated by SK Communications.

Operating Expense. Our consolidated operating expense increased by 3.4% to Won 15,612.4 billion in 2014 from Won 15,098.6 billion in 2013, primarily due to a 29.2% increase in cost of products that have been resold to Won 1,680.1 billion in 2014 from Won 1,300.4 billion in 2013, which was attributable mainly to the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014; a 3.5% increase in commissions paid to Won 5,692.7 billion in 2014 from Won 5,498.7 billion in 2013, which was primarily attributable to an increase in marketing expenses to acquire new LTE subscribers in the first half of 2014 amidst intensified competition among us, KT and LG U+; and a 6.3% increase in labor costs to Won 1,659.8 billion in 2014 from Won 1,561.4 billion in 2013, which was primarily due to the significant increase in the number of employees in connection with several acquisitions in 2014, including the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014, the acquisitions by SK Telecom of Neosnetworks in April 2014 and Iriver in August 2014 and the acquisition by SK Planet of Shopkick in October 2014. Such increase was partially offset by an 8.8% decrease in other operating expenses to Won 1,592.6 billion in 2014 from Won 1,746.3 billion in 2013, which was attributable mainly to a decrease in loss on disposal of property and equipment and intangible assets to Won 33.0 billion in 2014 from Won 267.5 billion in 2013.

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

Cellular services: The segment operating expense for our cellular services segment increased by 3.9% to Won 11,773.5 billion in 2014 from Won 11,329.4 billion in 2013, primarily due to increases in commissions paid, cost of products that have been resold and labor costs, each for the reasons described above, and an increase in depreciation and amortization expenses, which was attributable mainly to an increase in our LTE wireless network equipment and amortization of our frequency licenses.

Fixed-line telecommunication services: The segment operating expense for our fixed-line telecommunication services segment increased by 4.4% to Won 2,369.5 billion in 2014 from Won 2,268.8 billion in 2013, primarily due to an increase in commissions paid related to IPTV contents.

Others: The segment operating expense for our others segment increased by 20.4% to Won 1,195.8 billion in 2014 from Won 992.8 billion in 2013, primarily due to an increase in marketing costs resulting from increased competition in the e-commerce market.

Operating Income. Our consolidated operating income increased by 1.9% to Won 1,607.8 billion in 2014 from Won 1,578.4 billion in 2013, as the increase in operating revenue and other income was slightly greater than the increase in operating expense.

Our segment operating income with respect to each of our reportable segments is based on K-IFRS and the sum of segment operating income for all three reportable segments differs from our consolidated operating income presented in accordance with IFRS by IASB. For a reconciliation of operating income presented in accordance with IFRS by IASB and operating income presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Cellular services: The segment operating income of our cellular services segment decreased by 11.7% to Won 1,754.4 billion in 2014 from Won 1,986.1 billion in 2013, primarily due to an increase in marketing expenses to acquire new LTE subscribers in the first half of 2014 amidst intensified competition among us, KT and LG U+. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating income divided by revenue from such segment, expressed as a percentage) of our cellular services segment decreased to 13.0% in 2014 from 14.9% in 2013.

Fixed-line telecommunication services: The segment operating income of our fixed-line telecommunication services segment increased by 44.6% to Won 80.4 billion in 2014 from Won 55.6 billion in 2013, due to an

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increase in revenue from our broadband Internet service and advanced media platform service, which is mainly attributable to the growth in our IPTV service. Driven by strong growth in our IPTV service, the segment operating margin of our fixed-line telecommunication services segment increased to 3.3% in 2014 from 2.4% in 2013.

Others: The segment operating loss of our others segment decreased to Won 9.8 billion in 2014 from Won 30.6 billion in 2013. As discussed above, while our commerce service revenue increased in 2014, intense competition in the commerce service industry led to increased marketing costs, and thus, the profitability of our commerce service business did not improve in 2014; however, while our portal service revenue decreased in 2014, our operating expenses related to this business decreased to a greater degree such that the profitability of our commerce service business improved in 2014 resulting in the aforementioned decrease in the segment operating loss of our others segment.

Finance Income and Finance Costs. Our finance income increased by 11.4% to Won 126.3 billion in 2014 from Won 113.4 billion in 2013, primarily due to gain on valuation of derivatives of Won 8.7 billion in 2014 compared to no such gain in 2013; a 47.6% increase in gain on foreign currency transactions to Won 16.3 billion in 2014 from Won 11.0 billion and a 50.5% increase in gain on disposal of long-term investment securities to Won 14.0 billion in 2014 from Won 9.3 billion in 2013 attributable primarily to the disposal of equity interests of iHQ, Inc. Such increases were partially offset by an 8.5% decrease in interest income to Won 60.0 billion in 2014 from Won 65.6 billion in 2013, which was mainly due to a general decrease in interest rates and no gain on valuation of financial asset at fair value through profit or loss in 2014 compared to Won 5.2 billion of such gain in 2013, related to the valuation of convertible bonds of NanoEnTek in 2013, which were subsequently converted into equity in 2014. Our finance costs decreased by 32.3% to Won 386.7 billion in 2014 from Won 571.2 billion in 2013 primarily due to a 92.3% decrease in loss relating to financial liability at fair value through profit or loss to Won 10.4 billion in 2014 from Won 134.2 billion in 2013 due to the valuation loss on our exchangeable bonds due to rising stock prices in 2013 and loss on redemption of debentures upon the exercise of exchange claims in 2013.

Gains (Losses) Related to Investments in Subsidiaries and Associates. Gains related to investments in subsidiaries and associates increased 28.3% to Won 906.3 billion in 2014 from Won 706.5 billion in 2013, primarily due to a Won 916.5 billion gain attributable to our investment in SK Hynix, in which we have a 20.1% interest. SK Hynix s profit for the year increased 46.0% to Won 4,195.2 billion in 2014 from 2,872.9 billion in 2013, primarily as a result of increases in unit sales of its dynamic random-access memory and NAND products.

Income Tax. Income tax expense from continuing operations increased by 13.4% to Won 454.5 billion in 2014 from Won 400.8 billion in 2013, primarily due to a 23.4% increase in profit before income tax to Won 2,253.8 billion in 2014 from Won 1,827.1 billion in 2013. Our effective tax rate in 2014 decreased by 1.7%p to 20.2% in 2014 from 21.9% in 2013, primarily due to an increase in unrecognized deferred tax liabilities in connection with our investments in SK Hynix and income tax refunds received as a result of our successful appeals to the relevant tax authorities.

Profit from Discontinued Operations. We did not recognize any profit or loss from discontinued operations in 2014. In 2013, we recognized profit from discontinued operations of Won 183.2 billion with respect to the disposition by SK Planet of its 52.6% equity stake in Loen Entertainment for an aggregate sale price of approximately Won 265.9 billion.

Profit for the Year. Principally as a result of the factors discussed above, our profit for the year increased by 11.8% to Won 1,799.3 billion in 2014 from Won 1,609.5 billion in 2013. Profit for the year as a percentage of operating revenue and other income was 10.4% in 2014 compared to 9.7% in 2013.

Inflation

We do not consider inflation in Korea to have had a material impact on our results of operations in recent years. According to data published by The Bank of Korea, annual inflation in Korea was 0.7% in 2015, 1.3% in 2014 and 1.3% in 2013.

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Item 5.B. ***Liquidity and Capital Resources***

Liquidity

We had a working capital deficit (current liabilities in excess of current assets) of Won 96.3 billion as of December 31, 2015 and Won 337.2 billion as of December 31, 2014. The working capital deficit as of December 31, 2015 was primarily due to working capital needs in the ordinary course of business. The working capital deficit as of December 31, 2014 was primarily due to cash expenditures in 2014 used to fund SK Planet s acquisition of Shopkick and SK Telecom s acquisitions of Neosnetworks and Iriver. We plan to fund our current liabilities with the cash flow generated by our operations, proceeds from the disposal of investment securities or property and equipment that are no longer deemed profitable and proceeds from additional borrowings, as necessary.

We had cash, cash equivalents, short-term financial instruments and short-term investment securities of Won 1,552.3 billion as of December 31, 2015 and Won 1,427.7 billion as of December 31, 2014. We had outstanding short-term borrowings of Won 260.0 billion as of December 31, 2015 and Won 366.6 billion as of December 31, 2014. As of December 31, 2015, we had credit lines with several local banks that provided for borrowing of up to Won 490.0 billion, Won 450.0 billion of which was available for borrowing.

Cash flows from operating activities and debt financing have been our principal sources of liquidity. We had cash and cash equivalents of Won 768.9 billion as of December 31, 2015 and Won 834.4 billion as of December 31, 2014. We believe that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt securities and bank borrowings.

	Year Ended December 31,			Change			
	2015	2014	2013	2015 to 2014		2014 to 2013	
	(In billions of Won, except percentages)						
Net Cash Provided by Operating Activities	3,778.1	3,677.4	3,558.6	100.7	2.7%	118.8	3.3%
Net Cash Used in Investing Activities	(2,880.5)	(3,683.2)	(2,506.5)	802.7	(21.8)	(1,176.7)	46.9
Net Cash Used in Financing Activities	(964.6)	(559.4)	(573.2)	(405.2)	72.4	13.8	(2.4)
Effect of Exchange Rate Changes on Cash and Cash Equivalents Held in Foreign Currencies	1.5	1.0	(0.4)	0.5	49.2	1.4	N/A
Net Increase (Decrease) in Cash and Cash Equivalents	(67.0)	(565.2)	478.9	498.2	(88.2)	(1,044.1)	N/A
Cash and Cash Equivalents at Beginning of Period	834.4	1,398.6	920.1	(564.2)	(40.3)	478.5	52.0
Cash and Cash Equivalents at End of Period	768.9	834.4	1,398.6	(65.5)	(7.9)%	(564.2)	(40.3)%

N/A = Not applicable.

Cash Flows from Operating Activities. Net cash provided by operating activities was Won 3,778.1 billion in 2015, Won 3,677.4 billion in 2014 and Won 3,558.6 billion in 2013. Profit for the year was Won 1,515.9 billion in 2015, Won 1,799.3 billion in 2014 and Won 1,609.5 billion in 2013. Net cash provided by operating activities in 2015 increased slightly by 2.7% from 2014. Net cash provided by operating activities in 2014 increased by 3.3% from 2013, primarily due to an 11.8% increase in profit for the year to Won 1,799.3 billion in 2014 from Won 1,609.5 billion in 2013.

Cash Flows from Investing Activities. Net cash used in investing activities was Won 2,880.5 billion in 2015, Won 3,683.2 billion in 2014 and Won 2,506.5 billion in 2013. Cash inflows from investing activities were Won 914.5 billion in 2015, Won 341.4 billion in 2014 and Won 1,251.8 billion in 2013. Cash inflows in 2015 were primarily attributable to collection of short-term loans of Won 398.3 billion and proceeds from disposals of investments in associates and joint ventures of Won 185.1 billion, mostly in connection with the disposal of 27,725,264 shares of KEBHana Card for Won 176.3 billion. Cash inflows in 2014 were primarily attributable to collection of short-term loans of Won 207.4 billion. Cash inflows in 2013 were primarily attributable to collection of short-term loans of Won 290.9 billion, proceeds from disposal of long-term investment securities of Won 287.8 billion, mostly in connection with the merger of SK Marketing & Co., Ltd. into SK Planet in February 2013, proceeds from disposal of a subsidiary of Won 215.9 billion, mostly attributable to the sale in July 2013 of shares of Loen Entertainment, net proceeds from the disposition of non-current assets held for sale of

Won 190.4 billion, relating to the sale of shares of SKY Property Management, and a decrease in short-term financial instruments, net of Won 186.4 billion, the proceeds of which were used to repay our outstanding debt.

Cash outflows for investing activities were Won 3,795.0 billion in 2015, Won 4,024.6 billion in 2014 and Won 3,758.3 billion in 2013. Cash outflows in 2015, 2014 and 2013 were primarily attributable to expenditures related to the acquisition of property and equipment of Won 2,478.8 billion, Won 3,008.0 billion and Won 2,879.1 billion, respectively, primarily in connection with the acquisition of LTE equipment and the expansion of our LTE network. In 2015, the decrease in cash outflows for the acquisition of property, plant and equipment was partially offset by an increase in cash outflows for the acquisition of long-term investment securities to Won 312.3 billion in 2015 compared to Won 41.3 billion in 2014 and Won 22.1 billion in 2013, primarily due to the acquisition of a 2.06% equity interest in Hana Financial Group Inc.

Cash Flows from Financing Activities. Net cash used in financing activities was Won 964.6 billion in 2015, Won 559.4 billion in 2014 and Won 573.2 billion in 2013. Cash inflows from financing activities were Won 1,375.2 billion in 2015, Won 1,421.0 billion in 2014 and Won 1,852.2 billion in 2013. Such inflows were primarily driven by the issuance of debentures, which provided cash of Won 1,375.0 billion in 2015, Won 1,255.5 billion in 2014 and Won 1,328.7 billion in 2013, proceeds from long-term borrowings, which provided cash of Won 62.6 billion in 2014 and Won 105.1 billion in 2013, and the issuance of hybrid bonds in 2013, which provided cash of Won 398.5 billion. In 2014, we had cash inflows of Won 102.9 billion due to proceeds from short-term borrowings.

Cash outflows for financing activities were Won 2,339.8 billion in 2015, Won 1,980.5 billion in 2014 and Won 2,425.4 billion in 2013. Cash outflows for financing activities included payment of dividends, repayments of current portion of long-term debt, repayment of long-term borrowings, repayment of debentures, acquisition of treasury stock and repayment of short-term borrowings, among other items. Payment of dividends were Won 668.5 billion in 2015, Won 666.8 billion in 2014 and Won 655.9 billion in 2013. Repayments of other long-term account payables were Won 191.4 billion in 2015, Won 207.8 billion in 2014 and Won 161.6 billion in 2013. Repayment of long-term borrowings were Won 21.9 billion in 2015, Won 23.3 billion in 2014 and Won 467.2 billion in 2013. Repayment of debentures were Won 620.0 billion in 2015, Won 1,039.9 billion in 2014 and Won 772.0 billion in 2013. Decrease in short-term borrowings, net accounted for Won 106.6 billion and Won 340.2 billion of cash outflows for financing activities in 2015 and 2013, respectively. In 2015, we had cash outflows of Won 490.2 billion due to acquisition of treasury stock and cash outflows of Won 220.4 billion related to equity interest transactions, principally in connection with the Share Exchange.

As of December 31, 2015, we had total long-term debt (excluding current portion) outstanding of Won 6,560.7 billion, which included debentures in the amount of Won 6,439.1 billion and bank and institutional borrowings in the amount of Won 121.6 billion. As of December 31, 2014, we had total long-term debt (excluding current portion) outstanding of Won 5,798.9 billion, which included debentures in the amount of Won 5,649.2 billion and bank and institutional borrowings in the amount of Won 149.7 billion. The increase in our long-term debt as of December 31, 2015 was primarily due to an increase in debentures issued during 2015 to acquire treasury stock. For a description of our long-term debt, see note 18 of the notes to our consolidated financial statements.

As of December 31, 2015, we had Won 4,535.7 billion aggregate principal amount of Korean Won-denominated debentures outstanding, of which SK Telecom issued Won 3,385.7 billion, SK Broadband issued Won 1,120.0 billion and PS&Marketing issued Won 30.0 billion, and Won 2,603.9 billion aggregate principal amount of debentures outstanding denominated in foreign currencies, including U.S. dollars, Swiss Francs and Australian Dollars. The interest rates of our debentures range from 1.75% to 6.63% depending on the offering size, maturity, interest rate environment at the time of the offering and currency, among other factors. We have a diversified maturity profile with respect to our debentures. See Contractual Obligations and Commitments for more details.

As of December 31, 2015, a substantial portion of our foreign currency-denominated long-term borrowings, which amounted to approximately 28.5% of our total outstanding long-term debt, including current portion and present value discount as of such date, was denominated in Dollars. However, substantially all of our revenue and operating expenses are denominated in Won. We generally pay for imported capital equipment in Dollars.

Appreciation of the Won against the Dollar will result in net foreign currency transaction and translation gains, while depreciation of the Won against the Dollar will result in net foreign currency transaction and translation losses. Changes in foreign currency exchange rates will also affect our liquidity because of the effect of such changes on the amount of funds required for us to make interest and principal payments on our foreign currency-denominated debt. For a description of swap or derivative transactions we have entered into, among other transactions, to mitigate the effects of such losses, see Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Capital Requirements

Historically, capital expenditures, repayment of outstanding debt and research and development expenditures have represented our most significant use of funds. In recent years, we have also increasingly dedicated capital resources to develop and invest in new growth engines, including our three next-generation growth platforms, IoT solutions, lifestyle enhancement and advanced media. In addition, we have used funds for the acquisition of treasury shares, financing of our subscribers handset purchases on installment payment plans and payment of retirement and severance benefits.

To fund our scheduled debt repayment and planned capital expenditures over the next several years, we intend to rely primarily on cash flows from operating activities, as well as bank and institutional borrowings, and offerings of debt or equity in the domestic or international markets. We believe that these sources will be sufficient to fund our planned capital expenditures for 2016. Our ability to rely on these alternatives could be affected by the liquidity of the Korean financial markets or by Government policies regarding Won and foreign currency borrowings and the issuance of equity and debt. Our failure to make needed expenditures would adversely affect our ability to sustain subscriber growth and provide quality services and, consequently, our results of operations.

Capital Expenditures. The following table sets forth our actual capital expenditures for 2015, 2014 and 2013:

	Year Ended December 31,		
	2015	2014	2013
		(In billions of Won)	
LTE Network	1,022.7	1,357.2	1,439.4
WCDMA Network	90.0	92.3	124.2
Fixed-line Network	393.1	399.0	403.5
Other Network(1)	332.4	283.2	338.5
Others(2)	640.6	876.3	573.5
Total	2,478.8	3,008.0	2,879.1

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

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

We set our capital expenditure budget for each upcoming year on an annual basis. Our actual capital expenditures in 2015, 2014 and 2013 were Won 2,478.8 billion, Won 3,008.0 billion and Won 2,879.1 billion, respectively. Of such amounts, we spent approximately 41.3%, 45.1%, 50.0% in 2015, 2014, 2013, respectively, on capital expenditures related to expanding and enhancing the quality of our LTE network. Our other non-network related capital expenditures in 2015, 2014 and 2013 primarily related to developing new products and maintenance and upgrades to our information technology systems.

We were required to pay the cost of our WCDMA license for 2 x 10 MHz of spectrum in the 2.1 GHz band that we acquired in May 2010 in annual installments of Won 17.5 billion each year from 2012 through 2014 after the initial payment of Won 52.6 billion in 2010. We are also required to pay license fees for the additional frequency licenses in the 800 MHz and 1.8 GHz spectrums that we acquired in 2011. The license fee for the 30 MHz bandwidth in the 800 MHz spectrum was Won 416.5 billion, of which Won 208.3 billion was paid in 2011 with the remainder paid in annual installments from 2013 through 2015. The license fee for the 20 MHz of bandwidth in the 1.8 GHz spectrum was Won 995.0 billion, of which Won 74.6 billion, Won 74.6 billion and

Won 248.8 billion was paid in 2013, 2012 and 2011, respectively, and the remainder has been waived in connection with our return of the right to use the 20 MHz bandwidth. The license fee for the 35 MHz of bandwidth in the 1.8 GHz spectrum was Won 1.08 trillion, of which Won 115.2 billion was paid in 2013, and the remainder is payable in annual installments through the end of the license period in 2021. In addition, we were reallocated 27 MHz of spectrum in the 2.3 GHz band for our WiBro service in March 2012. The license fee for such spectrum is Won 17.3 billion, of which Won 8.7 billion was paid in 2012, and the remainder is payable in annual installments from 2014 through 2016. For more information, see note 17 of the notes to our consolidated financial statements.

In addition, we have been making capital expenditures to build more advanced networks based on LTE technology. We commenced commercial LTE services in July 2011 and expanded our LTE network nationwide and launched our LTE multi-carrier technology in 2012. We launched our LTE-A service in June 2013, our wideband LTE-A service in September 2013 and our tri-band LTE-A service in December 2014. For a more detailed description of our LTE network, see Item 4.B. Business Overview Digital Wireless Network LTE Network. We plan to continue to make capital investments in 2016 to further improve and expand our LTE network and develop related technologies.

We expect that our capital expenditure amount in 2016 will be similar to that of 2015. Our expenditures will be for a range of projects, including investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our platform business portfolio and funding for mid-to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth engines, as well as initiatives related to our ongoing businesses in the ordinary course. However, our overall expenditure levels and our allocation among projects remain subject to many uncertainties. We may increase, reduce or suspend our planned capital expenditures for 2016 or change the timing and area of our capital expenditure spending from the estimates described above in response to market conditions or for other reasons. We may also make additional capital expenditure investments as opportunities arise, including in connection with building out our networks on any new bandwidths we may acquire in the frequency bandwidth auctions to be held by the MSIP in 2016. Accordingly, we periodically review the amount of our capital expenditures and may make adjustments based on the current progress of capital expenditure projects and market conditions. No assurance can be given that we will be able to meet any such increased expenditure requirements or obtain adequate financing for such requirements, on terms acceptable to us, or at all.

Repayment of Outstanding Debt. As of December 31, 2015, our principal repayment obligations with respect to long-term borrowings, bonds and obligations under capital leases outstanding were as follows for the periods indicated:

Year Ending December 31,	**Total (In billions of Won)**
2016	964.1
2017	867.5
2018	1,606.7
2019 and thereafter	4,118.8

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

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

In April 2014, we acquired a controlling interest in Neosnetworks, a provider of residential and small business electronic security and other related alarm monitoring services, for an aggregate purchase price of approximately Won 24.0 billion. We acquired additional interests in Neosnetworks in April 2015 for Won 40.0 billion, resulting in an increase in our ownership of Neosnetworks to 83.9%. In August 2014, we acquired a 39.3% equity interest of Iriver, a manufacturer of digital audio players and other portable media devices, which we increased to 49.0% in December 2014, for an aggregate purchase price of approximately Won 54.5 billion. We also acquired Won 5.0 billion of convertible bonds issued by Iriver, which may be converted into additional equity interests of Iriver when certain conditions are met. In October 2014, SK Planet acquired a 100.0% ownership interest through

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its less than wholly-owned subsidiary of Shopkick, a developer of a shopping app for mobile devices that provides benefits to customers for visiting stores, in order to penetrate the commerce business in the United States for an aggregate purchase price of Won 230.9 billion and the assumption of Won 18.7 billion in current liabilities.

In addition, upon the completion of the acquisition of a 30.0% interest in CJ HelloVision described in Item 4. Information on the Company Item 4.A. History and Development of the Company Recent Developments, we will be required to pay the share purchase price of Won 500.0 billion and may need to make additional capital expenditures in connection with the subsequent merger and integration of CJ HelloVision s business with ours.

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

Severance Payments. The defined benefit obligation, which is the total accrued and unpaid retirement and severance benefits for our employees, as of December 31, 2015 was Won 98.9 billion. This amount was reflected in our consolidated financial statements as a liability, which is net of deposits with insurance companies totaling Won 426.4 billion to fund a portion of the employees severance indemnities.

Also see Item 6.D. Employees Employee Benefits and note 22 of the notes to our consolidated financial statements.

Dividends. Total cash outflows for payments of dividends amounted to Won 668.5 billion in 2015, Won 666.8 billion in 2014 and Won 655.9 billion in 2013.

In April 2016, we distributed annual dividends at Won 9,000 per share to our shareholders for an aggregate payout amount of Won 635.5 billion.

Contractual Obligations and Commitments

The following summarizes our contractual cash obligations at December 31, 2015, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

	Payments Due by Period(1)				
	Total	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
			(In billions of Won)		
Bonds					
Principal	7,139.7	670.0	2,410.4	1,534.8	2,524.5
Interest	1,374.3	227.9	317.5	254.2	574.7
Long-term borrowings					
Principal	417.4	294.1	63.8	39.3	20.2
Interest	10.7	4.0	5.1	1.1	0.5
Capital lease obligations					
Principal	0	0			
Interest					
Operating leases					
Facility deposits	5.5	0.4			5.1
Derivatives	92.5	4.9	87.6		
Other long-term payables(2)					
Principal	709.9	120.7	235.7	235.7	117.8
Interest	69.1	19.8	29.6	16.4	3.3
Short-term borrowings	260.0	260.0			
Total contractual cash obligations	10,079.1	1,601.8	3,149.7	2,081.5	3,246.1

(1) We are contractually obligated to make severance payments to eligible employees we have employed for more than one year, upon termination of their employment, regardless of whether such termination is voluntary or involuntary. Accruals for severance indemnities are recorded based on the amount we would be required to pay in the event the employment of all our employees were to terminate at the balance date. However, we have not yet estimated cash flows for future periods. Accordingly, payments due in connection with severance indemnities have been excluded from this table.

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(2) Related to acquisition of frequency licenses. See note 17 of the notes to our consolidated financial statements.
See note 37 of the notes to our consolidated financial statements for details related to our other commitments and contingencies.

Critical Accounting Policies, Estimates And Judgments

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

Allowances for Doubtful Accounts

An allowance for doubtful accounts is provided based on a review of the status of individual receivable accounts at the end of the year. We maintain allowances for doubtful accounts for estimated losses that result from the inability of our customers to make required payments. We base our allowances on the likelihood of recoverability of accounts receivable based on the aging of accounts receivables at the end of the period, past customer default experience and their credit status, and economic and industrial factors. Allowance for doubtful accounts amounted to Won 344.0 billion in 2015 and Won 328.2 billion in 2014. As there was no significant change in our assumptions and judgments including on the aging of accounts receivables, past customer default experience and credit status, and economic and industrial factors, there was no significant change in the percentage of allowance for doubtful accounts as of December 31, 2015 compared to the prior year. If economic or specific industry trends worsen beyond our estimates, the allowances for doubtful accounts we have recorded may be materially adjusted in the future.

Fair Value Measurement of Financial Instruments

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

Estimated Useful Lives of Long-lived Assets

We estimate the useful lives of long-lived assets in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are estimated at the time a long-lived asset is acquired and are based on historical experience with similar assets as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods. See note 4 of the notes to our consolidated financial statements.

Impairment of Long-lived Assets Including the Frequency Usage Rights

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

Our intangible assets include our frequency usage rights, which have contractual lives of 6.3 to 13.1 years and are amortized from the date commercial service is initiated through the end of their contractual lives. Because the use of frequency usage rights presents risks and challenges to our business, any or all of which, if realized or not properly addressed, may have a material adverse effect on our financial condition, results of operations and cash flows, we review the frequency usage rights for impairment on an annual basis. In connection with our review, we utilize the estimated long-term revenue and cash flow forecasts. The use of different assumptions within our cash flow model could result in different recoverable amounts for our frequency usage rights. The results of our review using the testing method described above resulted in no impairment of our frequency usage rights in 2015. See note 17 of the notes to our consolidated financial statements.

Impairment of Goodwill

Goodwill is measured as the excess of the sum of: (1) the consideration transferred, (2) the amount of any non-controlling interests in the acquiree and (3) the fair value of the acquirer s previously held equity interest in the acquiree (if any), over the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not depreciated, but tested for impairment at the end of each annual reporting period or whenever there is an indication that the asset may be impaired. Goodwill is carried at cost less accumulated impairment losses and the impairment losses are not reversed. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires our management to estimate the future cash flows expected related to the respective cash-generating unit and the determination of an appropriate discount rate in order to calculate present value. See note 16 of the notes to our consolidated financial statements.

Provisions for Handset Subsidy and Restoration

We provide handset subsidies to subscribers who purchase handsets on an installment basis. When the subscribers agree to use our services for a predetermined service period and purchase handsets on an installment basis, the subsidies are paid every month over the installment period and we estimate a provision for handset subsidies to be paid, which is recognized as commissions paid in operating expenses at the time telecommunication service contracts are made. Our provision for handset subsidies was Won 5.7 billion as of December 31, 2015 and Won 26.8 billion as of December 31, 2014. Our provision for handset subsidies has decreased as we gradually reduced the amount of handset subsidies provided to subscribers.

We estimate restoration costs required to restore leased premises on which our cell sites and switching equipment are located after termination of the leases. These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management s best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the relevant liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements. See note 20 of the notes to our consolidated financial statements.

Retirement Benefit Plans

We have defined retirement benefit plans. The costs of providing benefits under the plans are determined using actuarial valuation methods that require management assumptions on discount rates, expected rates of salary increases and expected rates of returns on plan assets. These assumptions involve critical uncertainties due to the long-term nature of the retirement benefit plans. Due to changing market and economic conditions, the underlying

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key assumptions may differ from actual developments and may lead to significant changes in our defined retirement benefit plans. We immediately recognize all actuarial gains and losses arising from defined retirement benefit plans in retained earnings. If the estimated average discount rates by actuarial assumptions used in these valuations were increased by 0.5%, then the estimated defined benefit obligations would have decreased by Won 20.7 billion, or 3.9% in total. If the expected rates of salary increase were increased by 0.5%, then the estimated defined benefit obligations would have increased by Won 22.6 billion, or 4.3% in total. Defined benefit liabilities were Won 98.9 billion in 2015 and Won 91.6 billion in 2014. Defined benefit liabilities in 2015 increased by Won 7.8 billion compared to 2014 due to a decrease by 0.55%p of the estimated average discount rate despite a decrease by 0.18%p of the average expected rates of salary increase. See note 22 of the notes to our consolidated financial statements.

Income Taxes

We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns. This process requires management to make assessments regarding the timing and probability of the tax impact. Actual income taxes could vary from these estimates due to future changes in income tax law or unpredicted results from the final determination of each year s liability by taxing authorities.

We believe that the accounting estimate related to assessment of deferred tax assets for recoverability is