(20) 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 5G, by terminating their service and opening a new subscriber account.

(21) We adopted IFRS 16, *Leases*, in the fiscal year beginning on January 1, 2019 using the modified retrospective method by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings as of such date. In the fiscal year beginning on January 1, 2020, we applied the agenda decision, *Lease Term and Useful Life of Leasehold Improvements (IFRS 16 Leases and IAS 16 Property, Plant and Equipment)—November 2019*, published by the International Financial Reporting Interpretations Committee ("IFRIC") on December 16, 2019, as a change in accounting policy, and have retrospectively applied such change and restated our consolidated financial statements as of and for the year ended December 31, 2019. The comparative information presented for 2018, 2017 and 2016 has not been restated. See "Item 5.A. Operating Results — Recently Adopted International Financial Reporting Standards – IFRS 16" and note 3 of the notes to our consolidated financial statements.

(22) We adopted IFRS 15, *Revenue from Contracts with Customers*, and IFRS 9, *Financial Instruments*, in the fiscal year beginning on January 1, 2018. We adopted IFRS 15 and IFRS 9 by recognizing the cumulative effect of initially applying IFRS 15 and IFRS 9 as adjustments to the opening balance of retained earnings as of January 1, 2018. The comparative information presented for 2017 and 2016 has not been restated.

Item 3.B. *Capitalization and Indebtedness*

Not applicable.

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

Not applicable.

Item 3.D. *Risk Factors*

Risks Relating to Our Business

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

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

Historically, there has been considerable consolidation in the telecommunications industry, resulting in the current competitive landscape comprising three mobile and fixed network operators in the Korean market, us, KT Corporation ("KT") and LG Uplus Corp. ("LG U+"). Each of our competitors has substantial financial, technical, marketing and other resources to respond to our business offerings. The collective market share of KT and LG U+ amounts to approximately 54.9%, in terms of number of wireless subscribers (including an aggregate of 9.8% attributable to MVNOs that lease KT's and LG U+'s respective networks), as of December 31, 2020.

Our competitors for subscriber activations include 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 wireless network services market. While new entries into such market have historically required obtaining requisite licenses from the MSIT, pursuant to an amendment to the Telecommunications Business Act that went into effect in June 2019, companies meeting certain regulatory criteria may become a network service provider by registering with the MSIT without a separate license requirement. Although such amendment has not yet resulted in any new entries into the Korean wireless network services market, it may have the effect of encouraging new entries in the future.

We believe that an increase in market share of MVNOs and the entrance of new mobile network operators, if any, 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, 2020, our market share of the fixed-line telephone and VoIP service market was 15.8% (including the services provided by SK Broadband Co., Ltd. (“SK Broadband”) and SK Telink Co., Ltd. (“SK Telink”)) in terms of number of subscribers compared to KT with 56.8% and LG U+ with 19.1%. In addition, our broadband Internet access, Internet protocol TV (“IPTV”) and cable TV services provided through SK Broadband compete with other providers of such services, including KT, LG U+ and cable companies. Furthermore, our IPTV and cable TV services are facing an increasing level of competition from global operators of online video streaming platforms, such as YouTube, Amazon Video and Netflix, and the video services offered by leading domestic online and mobile search and communications platforms including NAVER and Kakao, as such services continue to become increasingly popular to serve as a substitute to traditional television programming. As of December 31, 2020, our market share of the broadband Internet market was 29.0% in terms of number of subscribers compared to KT with 41.1% and LG U+ with 20.3%. As of December 31, 2020, our market share of the pay TV market (which includes IPTV, cable TV and satellite TV) was 24.4% compared to KT with 32.2% (including its IPTV and satellite TV services) and LG U+ with 25.0% (including its IPTV and cable TV services), and the collective market share of other pay TV providers was 18.4%.

Recently, the Korean fixed-line telecommunications industry has been going through significant consolidation involving major pay television service providers. In April 2020, we completed the merger of Tbroad Co., Ltd., a former leading cable television and other fixed-line telecommunication services provider in Korea, and two of its subsidiaries, Tbroad Dongdaemun Broadcasting Co., Ltd. and Korea Digital Cable Media Center Co. Ltd. (collectively, “Tbroad”), with and into SK Broadband. As a result of the merger and the issuance of SK Broadband’s shares to the former shareholders of Tbroad with an aggregate fair value of Won 862.1 billion as of April 30, 2020, we own approximately 74.3% of SK Broadband’s total outstanding shares as of December 31, 2020. In the same month, SK Telecom acquired a 55.0% equity interest in Broadband Nowon Co., Ltd. (formerly known as Tbroad Nowon Broadcasting Co., Ltd.), another subsidiary of Tbroad Co., Ltd., for a purchase price of Won 10.4 billion in cash. As a result of such transactions (the “Tbroad Merger”), we have become the third-largest pay TV provider in Korea in terms of number of subscribers as of December 31, 2020. In December 2019, LG U+ acquired a majority equity stake in CJ Hello Co., Ltd. and changed the acquired company’s name to LG HelloVision Co., Ltd. (“LG HelloVision”) to collectively become the second-largest pay TV provider in Korea in terms of number of subscribers as of December 31, 2020. Such transactions, as well as further consolidation in the fixed-line telecommunications industry, may result in increased competition, as the entities emerging from such consolidation and other remaining players in the industry may actively pursue expanding or protecting their respective market shares.

Furthermore, the Government has historically enforced regulations on cable TV and IPTV service providers that prohibited them from having a market share of more than one-third of the total number of subscribers in the relevant pay TV market on each of their respective platforms. In June 2015, the Government amended the regulation to impose the same limit on the market share of the entire pay TV market, including satellite TV service providers as well. Such amended regulation, however, expired in June 2018. There are bills currently pending in the National Assembly to abolish the previous market share regulations on cable TV and IPTV service providers. It is uncertain whether such bills will be passed.

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 2020, the monthly churn rate in our wireless telecommunications business ranged from 1.1% to 1.4%, with an average monthly churn rate of 1.2%, which remained unchanged from 2019. 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.

Our physical security business competes with other large physical security service providers, including S-1 Corporation (“S-1”) and KT Telecop Co., Ltd. (“KT Telecop”). As of December 31, 2020, our market share of the physical security services market was 34% in terms of the aggregate revenue of these three companies, compared to

S-1 with 55% and KT Telecop with 11%. Our information security services compete with other providers of similar products and services, such as Ahnlab, Inc., SECUi Corp. and Igloo Security, Inc.

With respect to the e-commerce business operated by Eleven Street Co., Ltd. ("Eleven Street"), 11st, our marketplace business, faces intense competition from various e-commerce providers, including online open marketplaces and social commerce operators such as Coupang, Gmarket, Auction and Interpark. We also face competition from leading online and mobile search and communication platform companies with e-commerce operations, including NAVER and Kakao, as well as 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. Our television shopping ("T-commerce") business, SK stoa, primarily competes with other home shopping providers such as those listed above, as well as with various e-commerce providers and traditional retailers. The industries in which 11st and SK stoa compete are evolving rapidly and are intensely competitive, and we face a broad array of competitors domestically and increasingly, internationally.

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

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 and 5G technologies. Our business could be harmed if we fail to implement, or adapt to, future technological advancements in the telecommunications sector in a timely manner, such as the continued implementation of 5G technology. We launched wireless service plans using the 5G network in April 2019 following the commencement of sales of the first 5G-compatible smartphones, and we are in the process of expanding our 5G network coverage, focusing on major commercial districts and other densely-populated areas in the Seoul metropolitan area and other cities. KT and LG U+ have also rolled out their respective 5G wireless service plans in April 2019. The more successful operation of a 5G network or development of improved 5G technology by a competitor, including better market acceptance of a competitor's 5G services, could materially and adversely affect our existing wireless telecommunications businesses as well as the returns on future investments we may make in our 5G network or our other businesses.

In addition to introducing new technologies and offerings, we must phase out outdated and unprofitable technologies and services. For example, as of January 2019, we discontinued our wireless broadband Internet access ("WiBro") services, and we also terminated our second generation CDMA wireless services in July 2020. If we are unable to do so on a cost-effective basis, our results of operations could be adversely affected.

Implementation of new wireless technology and enhancement of existing wireless technology have required, and may continue to require, significant capital and other expenditures, which we may not recoup.

We have made, and intend to continue to make, capital investments to develop, launch and enhance our wireless service. In 2020, 2019 and 2018, we spent Won 1,878.6 billion, 2,514.3 billion and Won 1,735.6 billion, respectively, in capital expenditures to build and enhance our wireless networks. Our continued implementation and expansion of 5G services, which use a higher frequency spectrum than our LTE services, will require additional cell sites and other infrastructure, which may result in an increase in our capital expenditures in the future. We also plan to make further capital investments related to our wireless services in the future, including services that can potentially leverage our 5G network. In addition, we plan to continue maintaining our LTE network, which we expect will continue to be used broadly by our subscriber base during the near future, as we and our competitors continue to build up 5G networks and services and wireless service users gradually migrate to the 5G network over time. Our wireless technology-related investment plans are subject to change, and will depend, in part, on market demand for 5G and LTE services, the competitive landscape for provision of such services and the development of competing technologies. There may not be sufficient demand for services based on our latest wireless technologies, as a result of competition or otherwise, to permit us to recoup or profit from our wireless technology-related capital investments.

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

Most of our businesses are subject to extensive governmental supervision and regulation.

Rate Regulation. The Government has periodically reviewed the rates charged by wireless telecommunications service providers and has, from time to time, released public policy guidelines or suggested rate reductions. Although these guidelines or suggestions were not binding, we have implemented some rate reductions in response to them. For example, 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 June 2017, the State Affairs Planning Advisory Committee of Korea announced that it would encourage wireless telecommunications service providers, including us, to increase the applicable discount rate offered to subscribers from 20% to 25%, which we adopted in September 2017, and to offer additional discounts to low income customers, including those on government welfare programs and senior citizen recipients of the basic pension, which we implemented in December 2017 and July 2018, respectively. See “Item 4.B. Business Overview — Law and Regulation — Rate Regulation” and “Item 5.A. Operating Results — Overview — Rate Regulations.” Such discounts have contributed to a decrease in the monthly revenue per subscriber of our wireless telecommunications services. See “Item 5.A. Operating Results — Overview — Decrease in Monthly Revenue per Subscriber.” The Government may suggest other rate reductions in the future, including more affordable subscription plans for 5G wireless services, and any further rate reductions we make in response to such suggestion may adversely affect our results of operations.

Technology Standards. The Government also plays an active role in setting the timetable and quality standards for the adoption and implementation of new technologies to be used by telecommunications operators in Korea. For example, the Government provided such guidance in connection with the introduction of LTE and 5G technologies in the past. The Government may provide similar guidance or recommendations in connection with the adoption and implementation of technologies to be used in future telecommunications services, and it is possible that adherence to such guidance or recommendations promoted by the Government in the future may not provide the best commercial returns for us.

Frequency Allocation. The Government sets the policies regarding the use of frequencies and allocates the spectrum of frequencies used for wireless telecommunications. See “Item 4.B. Business Overview — Law and Regulation — Frequency Allocation.” The reallocation of the spectrum to our existing competitors could increase competition among wireless telecommunications service providers, which may have an adverse effect on our business.

MVNOs. Pursuant to the Telecommunications Business Act, certain wireless telecommunications service providers designated by the MSIT, which included only us, were required to lease their networks or allow use of their networks (collectively, a “wholesale lease”) to other network service providers, such as an MVNO, that have requested such a wholesale lease in order to provide their own services using the leased networks until September 2022. Currently, 14 MVNOs provide wireless telecommunications services using the networks leased from us. We believe that leasing a portion of our bandwidth capacity to an MVNO impairs our ability to use our bandwidth in ways that would generate maximum revenues and strengthens our MVNO competitors by granting them access and lowering their costs to enter into and operate in our markets. Accordingly, our profitability has and may continue to be adversely affected.

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

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

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

The Government endeavors to promote competition in the Korean telecommunications markets through measures designed to prevent a dominant service provider from exercising its market power and deterring the emergence and development of viable competitors. We have been designated by the MSIT as the “dominant network service provider” in respect of our wireless telecommunications business. As such, we are subject to additional regulations to which certain of our competitors are not subject. For example, beginning in December 2020, the MSIT has fifteen days to object to any new rates and terms of service reported by us, compared to the prior regulations that required us to obtain prior approval from the MSIT to raise our existing rates or introduce new rates. See “Item 4.B. Business Overview — Law and Regulation — Rate Regulation.” The MSIT could also require us to charge higher usage rates than our competitors for future services or to take certain actions earlier than our competitors, as when the KCC required us to introduce number portability earlier than our competitors, KT and LG U+.

We also qualify as a “market-dominating business entity” under the Fair Trade Act, which subjects us to additional regulations and we are prohibited from engaging in any act of abusing our position as a market-dominating entity. See “Item 4.B. Business Overview — Law and Regulation — Competition Regulation.” The additional regulations to which we are subject has affected our competitiveness in the past and may materially hurt our profitability and impede our ability to compete effectively against our competitors in the future.

The ongoing global pandemic of a new strain of coronavirus (“COVID-19”) and any possible recurrence of other types of widespread infectious diseases may adversely affect our business, financial condition or results of operations.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2 that was first reported to have been transmitted to humans in late 2019 and has since spread globally, has materially and adversely affected the global economy and caused significant volatility in global financial markets to date as well as disrupted our business operations. The World Health Organization declared COVID-19 as a pandemic in March 2020. We have implemented remote work arrangements for most of our employees at our headquarters and certain other locations from time to time in light of the Government’s recommendation for social distancing. In addition, the travel restrictions imposed by governments in response to the COVID-19 pandemic has resulted in a decrease in revenue from roaming services, and the pandemic has also contributed to lower customer demand for new wireless devices, resulting in a decrease in our wireless device sales revenue. While we do not believe that the COVID 19 pandemic and the resulting temporary remote work arrangements or such decreases in revenue have had a material adverse impact on our business to date, a prolonged outbreak of COVID-19 may result in further disruption in the normal operations of our business, including implementation of further work arrangements requiring employees to work remotely and/or temporary closures of our facilities, which may, among others, lead to a reduction in labor productivity, as well as further decrease in revenue from roaming services or wireless device sales.

Other risks associated with a prolonged outbreak of COVID-19 or other types of widespread infectious diseases include:

- an increase in unemployment among, and/or a decrease in disposable income of, our customers, who may not be able to meet payment obligations or otherwise choose to decrease their spending levels, which in turn may decrease demand for some of our products and services or cause an increase in delinquent subscriber accounts;
- a slowdown in the rate of subscriber migration to our 5G service, which generally entails higher-priced subscription plans and wireless devices;
- disruptions in operations, and/or a decrease in the demand for products and services, of our corporate customers, which in turn may decrease such customers' demand for our services and products;
- service disruptions, outages and performance problems due to capacity constraints caused by an overwhelming number of people accessing our services simultaneously;
- disruptions in supply of mobile handsets or telecommunications equipment from our vendors as well as in the installation of our network infrastructure;
- unstable global and Korean financial markets, which may adversely affect our ability to meet capital funding needs on a timely and cost-effective basis;
- a decrease in the fair value of our investments in companies that may be adversely affected by the pandemic; and
- depreciation of the Won against major foreign currencies, which in turn may increase the cost of imported equipment necessary for expansion and enhancement of our telecommunications infrastructure.

It is not possible to predict the duration or full magnitude of harm from COVID-19. In the event that COVID-19 or other types of widespread infectious diseases cannot be effectively and timely contained, our business, financial condition and results of operations may be adversely affected.

Declines in the market value of our equity holdings in SK Hynix and the results of operations of SK Hynix could have a material adverse effect on the market price of our common shares and American Depositary Shares ("ADSs") as well as our results of operation.

As of December 31, 2020, we held a 20.1% equity interest in SK Hynix, which is listed on the KRX KOSPI Market of the Korea Exchange (the "KRX KOSPI Market") and is one of the world's largest memory-chip makers by revenue. As of December 31, 2020, the fair value of our holding in SK Hynix was Won 17,312.9 billion. We received dividend payments of Won 146.1 billion in 2020, Won 219.2 billion in 2019 and Won 146.1 billion in 2018 related to such shareholding.

From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged downturns, which often occur in connection with a deterioration of global economic conditions, and is subject to intense competition. For example, SK Hynix and its subsidiaries, on a consolidated basis, incurred net losses of Won 158.8 billion and Won 56.0 billion in 2012 and 2011, respectively, primarily due to increased supply and weak demand for semiconductor products. Although the memory semiconductor industry has recovered since then and SK Hynix has been reporting net profits since 2013, the industry is subject to cyclical fluctuations, and we expect that there may be future downturns in the industry. Uncertainty in the global economy has increased in recent years, especially with global financial and capital markets experiencing substantial volatility in light of the ongoing global COVID-19 pandemic. Accordingly, SK Hynix's operating results would be adversely affected if it fails to compete successfully or decrease manufacturing costs at an adequate level. Our share of any net losses incurred by SK Hynix would be reflected in our income statement as share of losses related to investments in associates.

Accordingly, declines in the market value of our equity holdings in SK Hynix and the results of operations of SK Hynix could have a material adverse effect on the market price of our common shares and ADSs as well as our results of operation.

We may fail to successfully complete, integrate or realize the anticipated benefits of our new acquisitions, joint ventures or other strategic alternatives or corporate reorganizations, and such transactions may negatively impact our business.

We continue to seek opportunities to develop new businesses that we believe are complementary to our existing product and service portfolio and expand our global business through selective acquisitions. We also continue to seek ways to optimize our corporate structure to maximize the value of our traditional businesses on the one hand and newly developed businesses on the other. Accordingly, we are often engaged in evaluating potential transactions and other strategic alternatives as well as corporate reorganizations, some of which may be significant in size.

For example, we completed the Tbroad Merger in April 2020 and became the third-largest pay TV provider in Korea in terms of number of subscribers as of December 31, 2020. In addition, in June 2019, we acquired a 34.6% interest in Incross Co., Ltd. (“Incross”), a digital advertising company, for an aggregate purchase price of Won 53.7 billion, in light of potential synergies with our media and commerce businesses. Furthermore, in order to strengthen our security business and explore potential synergies with our wireless and fixed-line business portfolio, we acquired a 55.0% interest in Life & Security Holdings Co., Ltd. (“LSH”), which owned 100% of ADT CAPS Co., Ltd. (“Former ADT CAPS”), a leading Korean physical security service company, and two sister companies, CAPSTEC Co., Ltd. and ADT SECURITY Co., Ltd. (which subsequently merged with and into Former ADT CAPS), for Won 696.7 billion in October 2018; a 100% interest in SK Infosec Co., Ltd. (“SK Infosec”), Korea’s leading information security company, in a share exchange transaction pursuant to which we issued 1,260,668 treasury shares with an aggregate book value of Won 281.2 billion in exchange for all of the outstanding common shares of SK Infosec in December 2018 from SK Inc. (which changed its English name from SK Holdings Co., Ltd. to SK Inc. as of March 29, 2021), our largest shareholder; and additional shares of id Quantique SA (“id Quantique”), a leading provider of quantum cryptography solutions for data security based in Switzerland, with Won 55.2 billion in cash and Won 5.7 billion in contribution-in-kind in 2018 and through our participation in its capital increases in 2019 and 2020, as a result of which our equity interest in id Quantique was 68.1% as of December 31, 2020. We have subsequently combined LSH, Former ADT CAPS and SK Infosec into a single entity through a series of mergers that were completed in March 2021, and the surviving entity, SK Infosec, changed its name to ADT CAPS Co., Ltd. (“ADT CAPS”) and has become the principal consolidated subsidiary that operates our security business.

We have also pursued other strategic alternatives, such as forming a strategic alliance in October 2019 with Kakao Corp. (“Kakao”), a Korean Internet company and the operator of Korea’s most popular mobile messaging application, to collaborate in the information and communication technologies (“ICT”) sector through the sale of 1,266,620 of our treasury shares to Kakao, representing a 1.6% interest, for approximately Won 300.0 billion and a concurrent issuance by Kakao of 2,177,401 of its shares, representing a 2.5% interest, to us for approximately Won 302.3 billion. In addition, in September 2019, in furtherance of our efforts to enhance the competitiveness of our media business and to promote its future growth, we acquired a minority equity stake in Content Wavve Co., Ltd. (formerly known as Content Alliance Platform Inc.) (“Content Wavve”), a joint venture established by the three major terrestrial broadcasters in Korea that operated the mobile over-the-top (“OTT”) service “POOQ,” by investing Won 90.9 billion in cash and transferring our former mobile OTT service business “oksusu” to Content Wavve. Content Wavve combined oksusu and POOQ to launch a new integrated mobile OTT service “wavve” in September 2019. As of December 31, 2020, we held 30.0% of the total outstanding shares of Content Wavve. In addition, Eleven Street is currently in discussions with Amazon.com, Inc. regarding a potential partnership. 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 Growth Businesses.”

Furthermore, in December 2020, we spun off our mobility business into a new wholly-owned subsidiary, T map Mobility Co., Ltd. (“T Map Mobility”), in order to enhance its competitiveness and promote its future growth, and we have also formed a strategic partnership with Uber Technologies, Inc. (“Uber”) pursuant to which Uber has invested approximately US$50 million in T Map Mobility and approximately US$100 million in UT LLC, a joint venture formed in April 2021 between T Map Mobility and Uber in which we hold a 49.0% interest. Through UT LLC, we will launch a taxi hailing service that integrates our affiliated taxi driver network and mapping and AI technologies with Uber’s ride hailing technology. See “Item 4.B. Business Overview — Other Businesses — Miscellaneous Businesses — Mobility Business.”

In order to pursue enhancement of shareholder value and acceleration of our growth, we are currently considering a potential corporate restructuring whereby we would split into a wireless and fixed-line telecommunications company (including our interest in, among others, SK Broadband) and a holding company that would hold interests in semiconductor and new ICT businesses (including our interest in, among others, SK Hynix, ADT CAPS, Eleven Street and T Map Mobility) (the “Spin-off Company”). Such restructuring would be implemented through a horizontal spin-off transaction (“*injeok bunhal*”) under Korean law, whereby the Spin-off Company would be newly incorporated and our existing shareholders would receive shares of the Spin-off Company on a pro rata basis. Further decisions regarding such potential spin-off, if any, are expected to be made in the first half of 2021.

While we are hoping to benefit from a range of synergies from our recent or future acquisitions and corporate reorganizations as well as develop new growth engines for our business, we may not be able to successfully complete or integrate such acquisitions, new businesses or reorganized entities and may fail to realize the expected benefits in the near term, or at all. For example, in June 2019, we disposed of our entire interest in our consolidated subsidiaries Shopkick Management Company, Inc. (“SMC”) and Shopkick, Inc. (“Shopkick”), a wholly-owned subsidiary of SMC which operates “shopkick,” a mobile reward points-based in-store shopping application, which we had acquired in October 2014, following a prolonged period of unprofitability of the shopkick business. Previously in 2018, we also recognized Won 153.4 billion and Won 52.4 billion of impairment losses for goodwill and intangible assets, respectively, in connection with Shopkick. In addition, when we enter into new businesses with partners through joint ventures or other strategic alliances, we and those partners may have disagreements with respect to strategic directions or other aspects of business, or may otherwise be unable to coordinate or cooperate with each other, any of which could materially and adversely affect our operations in such businesses. Our business may be negatively impacted if we fail to successfully integrate or realize the anticipated benefits of such transactions.

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

According to data published by the MSIT and the historical population data published by the Ministry of the Interior and Safety, the penetration rate for the Korean wireless telecommunications industry as of December 31, 2020 was approximately 134.2%, which is relatively high compared to many industrialized countries. Therefore, we expect that the penetration rate for wireless telecommunications service in Korea will remain relatively stable. As a result of the already high penetration rate in Korea for wireless telecommunications services coupled with our leading market share, we expect our subscriber growth rate to decrease. Slowed growth in the penetration rate without a commensurate increase in revenues through the introduction of new services and increased use of our services by existing subscribers would likely have a material adverse effect on our financial condition, results of operations and cash flows.

Our business and results of operations may be adversely affected if we fail to acquire adequate additional frequency usage rights 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 frequency spectrum available for use by the network. We have acquired a number of frequency usage rights to secure bandwidth capacity to provide our broad range of services, for which we typically make an initial payment as well as pay usage fees during the license period. We made frequency usage right fee payments of Won 136.6 billion in 2020, Won 133.1 billion in 2019 and Won 151.7 billion in 2018. For more information regarding the various bandwidths that we use and the usage right fees for such bandwidths, see “Item 4.B. Business Overview — Law and Regulation — Frequency Allocation,” “Item 5.B. Liquidity and Capital Resources — Capital Requirements — Capital Expenditures” and note 17 of the notes to our consolidated financial statements.

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 been a major factor for the high utilization of our bandwidth in recent years. Although such trend has been offset in part by the implementation of new technologies that enable more efficient usage of our bandwidth, we expect that the current trend of increased data transmission use by our subscribers will accelerate in the near future as more subscribers migrate to our 5G network and the volume and sophistication of the multimedia content we offer through our wireless data services continue to grow in the 5G environment. 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.

In November 2020, the MSIT announced plans to reallocate a total of 310 MHz of frequency bandwidths whose usage terms are due to expire in 2021 to KT, LG U+ and us, 95 MHz of which will be allocated to us. The final consideration to be paid by us for such reallocated bandwidths will depend on the number of 5G cell sites constructed by us until 2022, and the aggregate consideration to be paid by KT, LG U+ and us is expected to range between approximately Won 3.2 trillion and Won 3.8 trillion. We may be required to pay a substantial amount to acquire additional bandwidth capacity in the future in order to meet increasing bandwidth demand or renew the rights to use our existing bandwidth, and we may not be successful in acquiring the necessary bandwidth to meet such demand at commercially attractive terms or at all, which may adversely affect our financial condition and results of operations.

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

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

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

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

Certain of our debt instruments contain financial and other covenants with which we are required to comply on an annual and semi-annual basis. The financial covenants with respect to SK Telecom’s debt instruments include, but are not limited to, a maximum net debt-to-EBITDA ratio of 3.50 and a minimum EBITDA-to-total interest expense ratio of 4.00, each as determined on a separate financial statement basis. The debt arrangements also contain negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

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

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

We have had, and expect to continue to have, significant capital expenditure requirements as we continue to build out, maintain and upgrade our networks and invest in businesses that complement our wireless and fixed-line telecommunication businesses. We spent Won 3,557.8 billion for capital expenditures in 2020. We expect to spend a similar amount for capital expenditures in 2021 compared to 2020 for a range of projects, including investments to expand and improve our newly implemented 5G network, investments to maintain our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our IoT solutions and platform services business portfolio, including AI solutions, investments in data infrastructure, investments in research and development of 5G technology, investments in businesses that can potentially leverage our 5G network, and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth businesses, as well as initiatives related to our ongoing businesses in the ordinary course. In November 2020, the MSIT announced plans to reallocate a total of 310 MHz of frequency bandwidths whose usage terms are due to expire in 2021 to KT, LG U+ and us, 95 MHz of which will be allocated to us. The final consideration to be paid by us for such reallocated bandwidths will depend on the number of 5G cell sites constructed by us until 2022, and the aggregate consideration to be paid by KT, LG U+ and us is expected to range between approximately Won 3.2 trillion and Won 3.8 trillion. We would be required to spend additional amounts on capital expenditures in connection with building out our networks on such reallocated 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 — Capital Requirements — Capital Expenditures.”

As of December 31, 2020, we had Won 2,163.4 billion in contractual payment obligations due in 2021, which mostly involve repayment of debt obligations, payments related to lease liabilities and other short-term leases and leases of low-value assets and payments related to frequency licenses. See “Item 5.B. Liquidity and Capital Resources — Contractual Obligations and Commitments.”

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

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

We purchase wireless network equipment from a small number of suppliers. To date, we have purchased substantially all of the equipment for our networks from Samsung Electronics Co., Ltd. (“Samsung Electronics”), Ericsson-LG Co., Ltd. (“Ericsson-LG”) and Nokia Corporation (“Nokia”). We believe Samsung Electronics currently manufactures more than 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. In addition, inability to lease adequate lines at commercially reasonable rates may impact the quality of the services we offer and may also damage our reputation and our business.

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

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

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

Malicious and abusive Internet practices could impair our services and we may be subject to significant legal and financial exposure, damage to our reputation and a loss of confidence of our customers.

Our business involves the storage and transmission of large amounts of confidential information, and cybersecurity breaches expose us to a risk of loss of this information, which may lead to improper use or disclosure of such information, ensuing potential liability and litigation, any of which could harm our reputation and adversely affect our business.

Our cybersecurity measures may also be breached due to employee error, malfeasance or otherwise. Instituting appropriate access controls and safeguards across all our information technology infrastructure is challenging. Furthermore, outside parties may attempt to fraudulently induce employees to disclose sensitive information in order to gain access to our data or our customers’ data or accounts, or may otherwise obtain access to such data or accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our cybersecurity occurs or the market perception of the effectiveness of our cybersecurity measures is harmed, we may incur significant legal and financial exposure, including legal claims and regulatory fines and penalties, damage to our reputation and a loss of confidence of our customers, which could have an adverse effect on our business, financial condition and results of operations.

In addition, our wireless and fixed-line subscribers increasingly utilize our network to access the Internet and, as a consequence, we or they may become victim to common malicious and abusive Internet activities, such as unsolicited mass advertising (*i.e.*, “spam”), hacking of personal information and dissemination of viruses, worms and other destructive or disruptive software. These activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers and damage to our or our customers’ equipment and data. Significant incidents could lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to us to service our customers and protect our network. Any significant loss of our subscribers or revenue due to incidents of malicious and abusive Internet practices or significant increase in costs of serving those subscribers could adversely affect our business, financial condition and results of operations.

Labor disputes may disrupt our operations.

Although we have never experienced any significant labor disputes, there can be no assurance that we will not experience labor disputes in the future, including protests and strikes, which could disrupt our business operations and have an adverse effect on our financial condition and results of operation.

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

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

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

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

Our services are currently carried through our wireless and fixed-line networks, which could be vulnerable to damage or interruptions in operations due to fires, floods, earthquakes, power losses, telecommunication failures, network software flaws, unauthorized access, computer viruses and similar events, which may occur from time to time. The occurrence of any of these events could impact our ability to deliver services, we may be liable for damages to our customers caused by such interruptions, our reputation may be damaged and our customers may lose confidence in us, which could have a negative effect on our results of operations.

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

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

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

Fluctuations in the exchange rate between the Won and the Dollar will affect the Dollar equivalent of the Won price of the our common shares on the KRX KOSPI Market. 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.

If SK Inc. causes us to breach the foreign ownership limitations on our common shares by being deemed to be a foreign entity, 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 Inc., 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, 2020, SK Inc. owned 21,624,120 shares of our common stock, or 26.8%, of our issued shares. SK Inc. is currently not deemed to be a foreign entity. However, should SK Inc. be considered to be a foreign shareholder in the future, 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, 2020, which we believe was 33.4%) would exceed the 49.0% ceiling on foreign shareholding. As of December 31, 2020, the two largest foreign shareholders of SK Inc. each held a 3.5% stake therein.

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

Risks Relating to Korea

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

We are incorporated in Korea, and a substantial portion of our operations and assets are located 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 starting in 2020, the overall Korean economy and the economies of Korea’s major trading partners have shown signs of deterioration due to the debilitating effects of the COVID-19 pandemic. See “— The ongoing global pandemic of a new strain of coronavirus (“COVID-19”) and any possible recurrence of other types of widespread infectious diseases may adversely affect our business, financial condition or results of operations.” As a result, future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the increasing weakness of the global economy, in particular due to the COVID-19 pandemic, have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated significantly and, as a result of deteriorating global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies recently. 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 adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea’s economy include:

- adverse conditions or developments in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, including as a result of deteriorating economic and trade relations between the United States and China as well as increased uncertainties resulting from the United Kingdom’s exit from the European Union;

- increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, Euro or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- the occurrence of severe health epidemics in Korea and other parts of the world (such as the ongoing global COVID-19 pandemic);
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or small- and medium-sized enterprise borrowers in Korea;
- declines in consumer confidence and a slowdown in consumer spending, including as a result of the COVID-19 pandemic;
- deterioration in the financial condition or performance of small- and medium-sized enterprises and other companies in Korea due to the Government’s policies to increase minimum wages and limit working hours of employees;
- investigations of large Korean conglomerates and their senior management for possible misconduct;
- social and labor unrest;
- substantial changes in the market prices of Korean real estate;
- a substantial decrease in tax revenues or a substantial increase in the Government’s expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs, in particular in light of the Government’s ongoing efforts to provide emergency relief payments to households and emergency loans to corporations in need of funding in light of COVID-19, which, together, would likely lead to a national budget deficit as well as an increase in the Government’s debt;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean conglomerates;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- the economic impact of any pending or future free trade agreements or any changes to existing free trade agreements;
- geo-political uncertainty and the risk of further attacks by terrorist groups around the world;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the ongoing trade disputes with Japan);
- 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 (including a potential escalation of hostilities between the U.S. and Iran) and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;
- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and has conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.

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

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although bilateral summit meetings were held between Korea and North Korea in April, May and September 2018 and between the United States and North Korea in June 2018, February 2019 and June 2019, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea or the United States 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, annual reports, audit reports, semi-annual or quarterly reports and material fact reports and omission of material information in such documents, (2) insider trading, (3) market manipulation and (4) unfair trading. This law permits 50 or more shareholders who collectively hold 0.01% of the shares of a company to bring a class action suit against, among others, the issuer and its directors and officers. Because of the relatively recent enactment of the act, there is not enough judicial precedent to predict how the courts will apply the law. Litigation can be time-consuming and expensive to resolve, and can divert management time and attention from the operation of a business. We are not aware of any basis upon which such suit may be brought against us, nor are any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

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

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

Under the Korean Foreign Exchange Transactions Act, if the Government deems that certain emergency circumstances, including a significant disruption in the international balance of payments and international financial markets or extreme difficulty in carrying out currency, exchange rate or other macroeconomic policies due to the movement of capital between Korea and other countries, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Ministry of Economy and Finance (the “MOEF”) 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. See “Item 10.D. Exchange Controls — Korean Foreign Exchange Controls and Securities Regulations.”

Risks Relating to Securities

Sales of our shares by SK Inc. 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, 2020, SK Inc. owned 26.8% 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.

We believe that we may be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ending December 31, 2020 and that there is a significant risk that we will be classified as a PFIC in the current and future taxable years, which could subject U.S. investors in our common shares or ADSs to significant adverse U.S. federal income tax consequences.

As a result of changes in the composition and value of our assets as implied by the price of our ADSs, we believe that we may be classified as a “passive foreign investment company,” or “PFIC,” for U.S. federal income tax purposes for our taxable year ending December 31, 2020, and that there is a significant risk that we will be a PFIC for the current and future taxable years.

A non-U.S. corporation will be a PFIC if, in any particular taxable year, either (a) 75% or more of its gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income.

If we are classified as a PFIC in any taxable year, a U.S. holder (as defined in “Item 10.E. Additional Information — Taxation — United States Federal Income Tax Considerations”) may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of the common shares or ADSs and on the receipt of distributions on the common shares or ADSs to the extent such gain or distribution is treated as an “excess distribution” under the U.S. federal income tax rules, and such U.S. holder may be subject to burdensome reporting requirements. The amount of income tax on any excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period that the U.S. holder holds its common shares or ADSs. Further, if we are a PFIC for any year during which a U.S. holder holds our commons shares or ADSs, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds our common shares or ADSs unless we cease to be a PFIC and the U.S. holder makes a special election.

A U.S. holder may be able to avoid the unfavorable rules described above by electing to mark its ADSs to market, provided the ADSs are treated as "marketable stock." The ADSs generally will be treated as marketable stock if the ADSs are "regularly traded" on a "qualified exchange or other market" (which includes the New York Stock Exchange). Further, it should be noted that only the ADSs and not the common shares are listed on the New York Stock Exchange. Consequently, a U.S. holder that holds common shares that are not represented by ADSs may not be eligible to make a mark-to-market election in respect of those common shares.

U.S. holders are strongly urged to consult their own tax advisors regarding our potential classification as a PFIC and regarding the U.S. federal income tax consequences of acquiring, holding, and disposing of our common shares or ADSs if we are so classified, including the advisability of making a "mark-to-market" election, if available. See "Item 10.E. Additional Information — Taxation — United States Federal Income Tax Considerations — Passive Foreign Investment Company Rules" for more details.

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 6,600,692 shares as of March 31, 2021, exceeds a specified maximum, which was 24,321,893 shares as of March 31, 2021, 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 4.0% of our common shares. It is possible that we may not give the consent. Consequently, an investor who has surrendered his or her ADSs and withdrawn the underlying shares may not be allowed to deposit the shares again to obtain ADSs.

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

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

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

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

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

SK Inc., 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