[Announcement]

Good afternoon. I am Hee June Chung, IRO of SK Telecom. Today's conference call will consist of the presentation on the earnings results for Q1 of 2022 and the future management plans and strategic direction by Jin Won Kim, CFO and Head of Corporate Planning, followed by a Q&A session.

Today's conference call will provide consecutive interpretation, and we have with us executives from relevant business divisions to help deepen your understanding. Before we begin, we want to remind you that all forward-looking statements are subject to change depending on the macro-economic and market situations. Let me now present our CFO.

[Jin Won Kim, CFO of SK Telecom]

Good afternoon. This is Jin Won Kim, CFO of SK Telecom.

Last year, SK Telecom successfully completed a spin-off to maximize shareholder value and announced the launch of SKT 2.0 where we re-defined our business centered on five business groups. SK Telecom works to maximize total corporate value by developing and implementing strategies optimized for each business group to achieve growth of the respective businesses.

We ask investors and analysts for your continued interest and support for our efforts. Now, let me report on the consolidated financial results of Q1 2022.

Consolidated revenue reported KRW 4 trillion 277.2 billion. It decreased by 0.5% QoQ due to the base effect from seasonal sales in Q4 but on a YoY basis, it increased by 4.0%.

Operating income posted KRW 432.4 billion, up 15.5% YoY and 90.7% QoQ. Solid earnings growth was driven by multiple factors, including the expanded share of 5G, revenue growth supported by growing IPTV and broadband subscribers, impact of stable market competition, and base effect from seasonal costs recognized in Q4.

Net income recorded KRW 220.3 billion, posting a 61.5% decline YoY and a 30.0% decline QoQ, mainly due to the exclusion of equity method gains from SK Hynix and base effect where gains of the sale of SK Wyverns were recognized in Q1 2021.

On a non-consolidated basis, revenue grew 3.2% YoY and 0.1% QoQ to post KRW 3 trillion 77.4 billion. Operating income and net income reported KRW 356.9 billion and KRW 252.0 billion, respectively.

Having reported the financial highlights of Q1 2022, let me now move on to major achievements and strategic directions for each business group.

First, both revenue and profitability of Fixed and Mobile business group continue to improve on the back of 5G and IPTV competitiveness.

As of the end of Q1 2022, we have 10.88 million 5G subscribers, which represents an increase of 1 million from the previous quarter. Given the current trend, we expect the 5G subscriber base to exceed our target of 13 million by the end of the year. The 5G penetration rate is likely to surpass 50% of the total handset subscribers during this year. Against this backdrop, we will launch various price plans and services to meet the circumstance of 5G becoming mainstream and customer needs becoming diversified.

As this year marks the fourth year of 5G launch, market stability trend is expected to continue. SK Telecom aims to maintain efficient market operation while refraining from unhealthy marketing competition.

The number of pay tv subscribers of SK Broadband stands at 9.1 million as of the end of Q1. The pay tv subscriber base growth has been driven by sustained increase in IPTV subscriber net-adds. The large pay tv subscriber base leads to better bargaining power with business partners and improved profitability because of economies of scale.

Media and Enterprise businesses continue to enjoy top-line growth.

Established by SK Broadband as a multiple program provider (MPP) in January last year, Media S celebrated the first anniversary of regular broadcasting in April. On Channel S, 70% of the total programs are exclusive content through partnerships with Kakao Entertainment and SM C&C. Channel S is strengthening the value chain of Media business that includes content, channel, and platform.

As Korea's No. 1 T-commerce company in terms of revenue, SK Stoa reported sustained growth with Q1 revenue of KRW 89.5 billion. It will develop growth strategies in cooperation with SK ICT family companies to reinforce its market leadership.

Advertising business is centered on diverse fixed-line and wireless media with the combined traffic of 160 million daily views. We plan to apply our sophisticated AI-based targeting capability to the advertising business and diversify types of media including T phone app, MPP platform, and addressable TV to pursue an annual growth rate of 40% for the next four years.

Moving on to Enterprise business, new Data Centers in Gasan and Shiksa were open in July last year, and they have already secured customer contracts, thereby expecting sustained revenue growth. We are also preparing to open other Data Centers in areas such as the Seoul metropolitan area to meet the explosive growth in demand for Data Centers. Cloud business has also been growing thanks to traffic-linked revenue growth and increase in customer orders as the scope of cloud business continues to expand.

In addition, to promote AI robot-based logistics business, in March, SK Telecom signed a business cooperation agreement with CMES, an AI robot software company, which includes an equity investment in CMES. We will work with CMES to develop logistics AI robot business.

For AIVERSE business, we continue to make efforts to strengthen core capabilities necessary to produce tangible results.

Our subscription service T Universe has recently produced meaningful results with the number of users reaching one million and GMV exceeding KRW 130 billion in Q1. We will keep strengthening key benefits through expanding the number of items for overseas direct purchase on 11st, launch breakthrough subscription products through collaboration with popular brands, and offer personalized subscription products by utilizing AI targeting capability. These are part of our efforts to ensure that subscription services become a major source of income for SK Telecom.

Ifland, our metaverse platform, achieved a five-fold growth from July last year, the month of launch, with MAU reaching 1.35 million in March. At MWC in February, ifland was recognized as a successful 5G use case for a telecom company. Since then, we have been receiving inquiries from various global companies for partnership, and we plan to expand globally this year by offering our service in nearly 80 countries. In April, we made an equity investment in Morph Interactive Co., a metaverse platform developer in Korea, to secure core technologies and development capability for metaverse and beef up service competitiveness.

We also plan to launch an open beta service for AI agent, which is a character-based agent that shares daily life with customers. It is going to be a B2C AI service that uses deep learning technology to continue to become personalized based on customer usage. We will share more details with the market when the service is launched.

Finally, let me discuss our shareholder return policy.

SK Telecom currently pays dividend quarterly, and the total dividend size will be determined within 30-40% of EBITA minus CAPEX as was announced before. The Board determined the first quarter DPS to be KRW 830.

According to the National Customer Satisfaction Index (NCSI) released in April 2022, SK Telecom was ranked first for mobile phone service for 25 consecutive years. Since the launch of NCSI in 1998, SK Telecom is the only company that has been ranked first for 25 consecutive years across all business categories. SK Broadband has been ranked first for broadband Internet and IPTV service for 12 consecutive years. SK Telecom is making tireless efforts to create meaningful growth in new businesses based on unrivaled competitiveness of the Fixed and Mobile business.

Within the framework of SKT 2.0, we will improve financial performance and create meaningful results for new businesses to enhance corporate value with the goal of maximizing shareholder value. Once again, we ask for your continued support and interest. Thank you.

[Announcement]

We will now begin the Q&A session.

[Q&A]