

SK TELECOM CO LTD  
Form 20-F  
April 30, 2014  
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As filed with the Securities and Exchange Commission on April 30, 2014

**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**

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

**For the fiscal year ended December 31, 2013**

**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.**

| <b>Title of Each Class</b>   | <b>Name of Each Exchange on Which Registered</b> |
|--|--|
| 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

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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.

**70,936,336 shares of common stock, par value 500 per share (not including 9,809,375 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**  **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**

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**  **No**

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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**  **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**  **Other**

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

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**

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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 KHz contained in this annual report shall mean kilohertz, a unit of frequency denoting one thousand cycles per second, used to measure band and bandwidth. All references to MHz 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 Kbps shall mean one thousand binary digits, or bits, of information per second. All references to Mbps shall mean one million bits of information per second. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

In this annual report, we refer to the latest generation technologies as 3G technology, 3.5G technology and 4G technology. Second generation, or 2G, technology was designed primarily with voice communications in mind. On the other hand, 3G and 3.5G technologies are designed to transfer both voice data and non-voice, or multimedia, data, generally at faster transmission speeds than was previously possible. 4G technology is designed to transfer both voice data and non-voice data at faster transmission speeds than 3G or 3.5G technology.

All references to Won, (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 SGD or SG\$ are to the currency of Singapore, 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 are to the currency of the European Union, all references to £ are to the currency of the United Kingdom, all references to Renminbi are to the currency of the People's Republic of China 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.

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, 2013 and 2012, and for the years ended December 31, 2013, 2012 and 2011 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.

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**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, 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 results may, might, should or 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 wireless telecommunications industry, including new services that may be introduced, changes in consumer preferences, economic conditions and discount pricing strategies by competitors;

our implementation of high-speed downlink packet access ( HSDPA ) technology, high-speed uplink packet access ( HSUPA ) technology, evolved high-speed uplink packet access ( HSPA+ ) technology, wireless broadband Internet ( WiBro ) technology, long-term evolution ( LTE ) technology and long-term evolution advanced ( LTE-A ) technology;

our plans for capital expenditures in 2014 for a range of projects, including investments to improve our LTE network and deploy our LTE-A products, investments to maintain our wide-band code division multiple access ( WCDMA ) network-based products and services, investments in our wireless Internet-related and convergence businesses and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of our new businesses such as our business-to-business ( B2B ) solutions and healthcare businesses, 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 and providing wireless data, multimedia, mobile commerce and Internet services;

our ability to comply with governmental rules and regulations, including the regulations of the Government related to telecommunications providers, 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 manage effectively our bandwidth and to implement timely and efficiently new bandwidth-efficient technologies;

our expectations and estimates related to interconnection fees, tariffs 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 in other telecommunications service providers;

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;



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our ability to successfully manage our investments in various overseas businesses;

our ability to successfully enter new business areas, including the B2B solutions and healthcare businesses;

our ability to successfully attract and retain subscribers under the Government's guideline on marketing expenses of the telecommunication service providers; and

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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, call volumes 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 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 December 31, 2013 and 2012, and for the years ended December 31, 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 from continuing operations 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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Pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRS for the year ended December 31, 2011, financial data as of and for the year ended December 31, 2009 derived from our consolidated financial statements prepared in accordance with Korean GAAP have not been included below.

|  | Year Ended December 31, |             |                |                |
|--|-------------------------|-------------|----------------|----------------|
|  | 2013                    | 2012        | 2011           | 2010           |
| (In billions of Won, except per share and number of shares data) |                         |             |                |                |
| <b>STATEMENT OF INCOME DATA</b>                                  |                         |             |                |                |
| Operating Revenue and Other Income                               | 16,677.0                | 16,343.3(2) | 15,852.8(1)(2) | 15,473.4(1)(2) |
| Revenue  | 16,602.1                | 16,141.4(2) | 15,803.2(1)(2) | 15,392.7(1)(2) |
| Other income   | 74.9                    | 201.9       | 49.6           | 80.7           |
| Operating Expense  | 15,098.6                | 14,605.6(2) | 13,690.1(1)(2) | 13,139.3(1)(2) |
| Operating Income from Continuing Operations                      | 1,578.4                 | 1,737.6(2)  | 2,162.7(1)(2)  | 2,334.1(1)(2)  |
| Profit before Income Tax   | 1,827.1                 | 1,519.4(2)  | 2,212.3(1)(2)  | 2,363.5(1)(2)  |
| Profit from Continuing Operations                                | 1,426.3                 | 1,231.2(2)  | 1,610.3(1)(2)  | 1,813.8(1)(2)  |
| Profit (Loss) from Discontinued Operation, net of income taxes   | 183.2                   | (115.5)     | (28.3)         | (36.1)         |
| Profit for the Year  | 1,609.5                 | 1,115.7     | 1,582.1        | 1,766.8        |
| Basic Earnings per Share(3)                                      | 23,211                  | 16,525      | 22,848         | 25,598         |
| Diluted Earnings per Share(4)                                    | 23,211                  | 16,141      | 22,223         | 24,942         |
| Basic Earnings per Share from Continuing Operations(3)           | 20,708                  | 18,015      | 23,339         | 24,843         |
| Diluted Earnings per Share from Continuing Operations(4)         | 20,708                  | 17,583      | 22,699         | 24,208         |
| Dividends Declared per Share (Won)                               | 9,400                   | 9,400       | 9,400          | 9,400          |
| Dividends Declared per Share (US\$)(5)                           | 8.9                     | 8.8         | 8.1            | 8.3            |
| Weighted Average Number of Shares                                | 70,247,592              | 69,694,999  | 70,591,937     | 71,942,387     |

|   | As of December 31, |          |          |          |
|---|--------------------|----------|----------|----------|
|   | 2013               | 2012     | 2011     | 2010     |
| (In billions of Won)                        |                    |          |          |          |
| <b>STATEMENT OF FINANCIAL POSITION DATA</b> |                    |          |          |          |
| Working Capital (Deficit)(6)                | (945.8)            | (880.5)  | (556.1)  | 451.8    |
| Property and Equipment, Net                 | 10,196.6           | 9,712.7  | 9,031.0  | 8,153.4  |
| Total Assets                                | 26,576.5           | 25,595.6 | 24,366.0 | 23,132.4 |
| Non-current Liabilities(7)                  | 6,340.7            | 6,565.9  | 4,959.7  | 4,522.2  |
| Share Capital                               | 44.6               | 44.6     | 44.6     | 44.6     |
| Total Equity                                | 14,166.6           | 12,854.8 | 12,732.7 | 12,408.0 |

|   | Year Ended December 31, |           |           |           |
|---|-------------------------|-----------|-----------|-----------|
|   | 2013                    | 2012      | 2011      | 2010      |
| (In billions of Won, except percentage data)        |                         |           |           |           |
| <b>OTHER FINANCIAL DATA</b>                         |                         |           |           |           |
| Capital Expenditures(8)                             | 2,879.1                 | 3,394.3   | 2,960.6   | 2,142.3   |
| R&D Expense   | 352.4                   | 308.6     | 291.4     | 355.9     |
| Internal R&D(9)                                     | 352.4                   | 304.6     | 271.4     | 274.3     |
| External R&D(10)                                    | 0.0                     | 4.0       | 20.0      | 81.6      |
| Depreciation and Amortization Expense               | 2,661.6                 | 2,421.1   | 2,286.6   | 2,118.4   |
| Net Cash Provided by Operating Activities           | 3,558.6                 | 3,999.7   | 6,306.4   | 4,343.4   |
| Net Cash Used in Investing Activities               | (2,506.5)               | (5,309.6) | (4,239.1) | (2,339.0) |
| Net Cash Provided by (Used in) Financing Activities | (573.2)                 | 585.3     | (1,079.3) | (2,246.1) |
| Margins (% of total sales):                         |                         |           |           |           |
| Operating Margin(11)                                | 9.5%                    | 10.6%     | 13.6%     | 15.0%     |

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|                |      |      |      |       |
|----------------|------|------|------|-------|
| Net Margin(11) | 9.7% | 6.8% | 9.9% | 11.3% |
|----------------|------|------|------|-------|

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|   | As of or for the Year Ended December 31, |            |            |            |            |
|---|--|------------|------------|------------|------------|
|   | 2013                                     | 2012       | 2011       | 2010       | 2009       |
| <b>SELECTED OPERATING DATA</b>                            |  |            |            |            |            |
| Population of Korea (in millions)(12)                     | 51.1                                     | 50.9       | 50.7       | 50.5       | 49.8       |
| Our Wireless Penetration(13)                              | 53.5%                                    | 52.9%      | 52.3%      | 50.9%      | 48.8%      |
| Number of Employees(14)                                   | 23,789                                   | 22,148     | 20,955     | 20,143     | 10,714     |
| Wireless Subscribers(15)                                  | 27,352,482                               | 26,961,045 | 26,552,716 | 25,705,049 | 24,269,553 |
| Average Monthly Outgoing Voice Minutes per Subscriber(16) | 181                                      | 179        | 192        | 199        | 197        |
| Average Monthly Churn Rate(17)                            | 2.3%                                     | 2.6%       | 2.7%       | 2.7%       | 2.7%       |
| Cell Sites  | 44,764                                   | 35,584     | 21,999     | 17,483     | 15,979     |

- (1) As a result of the cessation of the satellite Digital Multimedia Broadcasting ( DMB ) services operated by SK Telink Co., Ltd. ( SK Telink ), SK Telink's DMB business has been classified as discontinued operations. We applied the accounting effects retrospectively, and accordingly operating revenue and other income, revenue, operating expense, operating income from continuing operations, profit before income tax and profit from continuing operations have been re-presented to exclude results of operations of SK Telink's DMB business for the year ended December 31, 2011 and 2010, respectively.
- (2) As a result of the disposition of shares of Loen Entertainment by SK Planet Co., Ltd. ( SK Planet ), Loen Entertainment ceased to be our consolidated subsidiary and has been classified as discontinued operations. We applied the accounting effects retrospectively, and accordingly operating revenue and other income, revenue, operating expense, operating income from continuing operations, profit before income tax and profit from continuing operations have been re-presented to exclude results of operations of Loen Entertainment for the year ended December 31, 2012, 2011 and 2010, respectively.
- (3) 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.
- (4) 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.
- (5) The Dollar amounts shown for the years ended December 31, 2013, 2012, 2011 and 2010 were translated at the rate of Won 1,055.3 to US\$1.00, Won 1,063.2 to US\$1.00, Won 1,158.5 to US\$1.00 and Won 1,130.6 to US\$1.00, respectively, the noon buying rates in effect at the end of the respective years.
- (6) Working capital means current assets minus current liabilities.
- (7) 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 3(21) of the notes to our consolidated financial statements.
- (8) Consists of cash outflows for the acquisition of property and equipment.

- (9) Consists of research and development costs that are expensed as incurred and costs that are amortized during the respective period.
- (10) Includes donations to Korean research institutes and educational organizations. See Item 4.B. Business Overview Law and Regulation Mandatory Contributions and Obligations and Item 5.C. Research and Development, Patents and Licenses, etc.
- (11) Operating revenue and other income and operating income from continuing operations used in the calculation of these ratios exclude the operating revenue and other income and operating income from discontinued operations.



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- (12) Population numbers reflect the number of registered residents as published by the Ministry of Security and Public Administration of Korea.
- (13) Wireless penetration is determined by dividing our subscribers by total estimated population, as of the end of the period.
- (14) Includes regular employees and temporary employees. The number of employees as of December 31, 2013, 2012 and 2011 includes employees of Service Ace Co., Ltd., Service Top Co., Ltd., and Network O&S Co., Ltd., our wholly-owned subsidiaries established in 2010, who were previously employed by third-party outsourcing companies. See Item 6.D. Employees.
- (15) 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, 2013, 2012 and 2011 include 1,066,848 subscribers, 406,018 subscribers and 55,449 subscribers, respectively, of MVNOs that lease our wireless networks.
- (16) The average monthly outgoing voice minutes per subscriber is derived by dividing the total minutes of outgoing voice usage for the period by the monthly average number of subscribers for the period, then dividing that number by the number of months in the period. The monthly average number of subscribers is derived by dividing (i) the sum of the average number of SK Telecom subscribers for each month in the period, calculated as the average of the number of SK Telecom subscribers on the first and last days of the relevant month, by (ii) the number of months in the period.
- (17) 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<br>Period | Average<br>Rate(1) | High    | Low     |
| (Won per US\$1.00)      |              |                    |         |         |
| 2009                    | 1,163.7      | 1,274.6            | 1,570.1 | 1,149.0 |
| 2010                    | 1,130.6      | 1,155.7            | 1,253.2 | 1,104.0 |
| 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 |
| Past Six Months         |              |                    |         |         |
| High Low                |              |                    |         |         |
| (Won per US\$1.00)      |              |                    |         |         |
| October 2013            |              |                    | 1,075.5 | 1,057.5 |
| November 2013           |              |                    | 1,072.7 | 1,054.8 |
| December 2013           |              |                    | 1,061.4 | 1,050.1 |

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|                               |         |         |
|-------------------------------|---------|---------|
| January 2014                  | 1,083.7 | 1,050.3 |
| February 2014                 | 1,084.3 | 1,062.1 |
| March 2014                    | 1,079.6 | 1,064.1 |
| April 2014 (through April 25) | 1,058.3 | 1,035.4 |

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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 25, 2014, the noon buying rate was Won 1,041.0 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.

**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 continuing consolidation of market leaders and the development of new technologies, products and services. We expect that such trends will continue to put downward pressure on the prevailing tariffs we can charge our subscribers.

Prior to April 1996, we were the only wireless telecommunications service provider in Korea. Since then, several new providers have entered the market, offering wireless voice and data services that compete directly with our business. The collective market share of these other providers amounts to approximately 50.0%, in terms of numbers of wireless service subscribers, as of December 31, 2013. Since 2000, there has also been considerable consolidation in the wireless telecommunications industry, resulting in the emergence of stronger competitors, including the merger of KT Freetel Co., Ltd. ( KTF ), one of our principal wireless competitors before the merger, into KT Corporation ( KT ), Korea's principal fixed-line operator, in June 2009 and the merger in January 2010 of LG DACOM Corporation and LG Powercomm Co., Ltd. into LG Telecom Co., Ltd. ( LG Telecom ), which subsequently changed its name to LG Uplus Corp. ( LG U+ ). Such consolidation has created large, well-capitalized competitors with substantial financial, technical, marketing and other resources to respond to our business offerings. In addition, our broadband Internet access service provided through SK Broadband Co., Ltd. ( SK Broadband ) (formerly, Hanarotelecom Incorporated) competes with other providers of Internet access services, including KT, LG U+ and cable companies, and our fixed-line telephone service provided through SK Broadband competes with KT, as well as providers of voice over Internet protocol ( VoIP ) services. Future business combinations and alliances in the telecommunications industry may also create significant new competitors or enhance the abilities of our current competitors to offer more competitive services and could harm our business and results of operations.

Continued competition from the 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 2013, the churn rate in our wireless business ranged from 1.9% to 2.9%, with an average churn rate of 2.3%, which was a decrease from 2.6% in 2012. Intensification of competition in the future may cause our churn rates to increase. The increased competition may cause us to increase our marketing expenses as a percentage of sales to attract and retain subscribers.

However, on May 13, 2010, the KCC announced a guideline recommending that telecommunication service providers limit their marketing expenses to 22.0% of their annual sales, which was lowered to 20.0% of annual sales with respect to fiscal years 2013, 2012 and 2011. This guideline remains effective. Such marketing expenses include initial commissions, monthly commissions and retention commissions paid to our

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authorized dealers and subscribers, including handset subsidies, but do not include advertising expenses. While the guideline is not binding, we, as well as our competitors, nonetheless try to adhere to this guideline when feasible, which may have a material adverse effect on our businesses and results of operations.

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In addition, in March 2008, the KCC fully lifted its prohibition on the practice of telecommunications services providers to offer handsets at below retail prices to attract new subscribers. As a result of the Government's decision to allow handset subsidies, we have faced increased competition from other mobile service providers and increased our marketing expenses. However, in order to comply with the KCC's guideline on marketing expenses, we may not be able to spend sufficient funds on marketing to effectively compete with our competitors, and any material decrease in our marketing expenses may have a material adverse effect on our results of operations.

In 2007, the KCC introduced certain regulations to allow telecommunication service providers to bundle their services as well as allow our competitors to employ services provided by us so that they can offer similar discounted package services. Competition intensified as licensed transmission service providers were permitted 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, beginning in September 2010, we are required to lease our networks to a mobile virtual network operator ( MVNO ), at such MVNO's request, at a rate mutually agreed upon that complies with the standards set by the KCC, which remain effective. To date, nine MVNOs have commenced providing wireless telecommunications services using the networks leased from us. Furthermore, CJ HelloVision Co., Ltd. commenced providing wireless voice and data services as an MVNO using the networks leased from KT in January 2012. In addition, Korea Mobile Internet ( KMI ) and Internet Space Time Co., Ltd. ( IST ) applied in 2011 for a license to provide wireless Internet and mobile VoIP services based on WiBro technologies. The KCC rejected KMI's and IST's applications in December 2011 and again in February 2013 based on their insufficient technological and financial capabilities, among other factors. KMI reapplied for a license in November 2013 and passed the MSIP's qualification assessment in January 2014 but had to withdraw its application in February 2014 due to an error in the preparation of its application. KMI and IST may reapply in the future. We believe the introduction of bundled services and the entrance of MVNOs or another wireless service provider into 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.

Increasingly, our wireless and fixed-line voice and text message services also face competition from companies that provide voice and text message services over the fixed-line or mobile Internet, such as Skype, Kakao Talk and Line, some without charging a fee for such services. This trend could negatively impact customer demand for our voice and text message services and may have a material adverse effect on our results of operations, financial position and cash flows.

We expect competition to intensify as a result of continued consolidation of our competitors, regulatory changes and the rapid development of new technologies, products and services. Our ability to compete successfully will depend on our ability to anticipate and respond to various competitive factors affecting the industry, 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 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 WCDMA, which is the 3G technology implemented by us, and to LTE technology, which is generally referred to as a 4G technology. Our WCDMA network currently supports more advanced HSUPA technology, as well as HSPA+ 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. The more successful operation of an LTE network by a competitor, including better market acceptance of a competitor's LTE services, could materially and adversely affect our existing wireless businesses as well as the returns on future investments we may make in our LTE network or our other businesses.

In March 2005, we obtained a license from the MIC to provide WiBro services. WiBro enables us to offer high-speed and large-packet data services, including wireless broadband Internet access to portable computers and

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other portable devices. We commercially launched WiBro service in June 2006, initially to 24 hot zone areas, which are neighborhoods and districts that we have determined to be high-data traffic areas, in seven cities in Korea. By the end of 2013, we had extended WiBro service to hot zone areas in 93 cities throughout Korea. We currently use our WiBro network as a backhaul for our mobile Wi-Fi network. We cannot assure you that there will continue to be sufficient demand for our WiBro services. Our WiBro services may not be commercially successful if market conditions are unfavorable or service demand is weak.

For a more detailed description of our backbone networks, see Item 4.B. Business Overview 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. 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 2013 and 2012, we spent Won 1,439.4 billion and Won 1,767.1 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 LTE-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 our LTE or LTE-A services, as a result of competition or otherwise, to permit us to recoup or profit from our LTE-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. For example, in February 2012, we acquired a 21.05% 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.

We also continue to seek other opportunities to expand our business abroad, as such opportunities present themselves. These global businesses may require further investment from us. For a more detailed description of our investments in our global business, see Item 4.B. Business Overview Global Business.

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. For example, in November 2010, we invested approximately \$60 million in LightSquared Inc. ( LightSquared ), which planned to build a wholesale wireless broadband network in the United States. However, LightSquared is currently in bankruptcy proceedings in the United States pursuant to Chapter 11 of the U.S. Bankruptcy Code. 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 integrate our new acquisitions and joint ventures and may fail to realize the anticipated benefits.***

We have pursued convergence growth opportunities. For example, in 2008 and 2009, we acquired an additional equity stake in SK Broadband, Korea's second-largest fixed-line operator, for an aggregate purchase price of approximately Won 1.45 trillion and currently hold a 50.6% equity stake in the company. In February 2010, we acquired a 49.0% equity stake in Hana SK Card Co., Ltd. ( Hana SK Card ) for the purchase price of

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Won 400.0 billion in order to provide cross-over services between telecommunication and finance. In September 2009, we also acquired the leased-line business and related ancillary businesses of SK Networks Co., Ltd. ( SK Networks ) for Won 892.8 billion and assumed Won 611.4 billion of debt as part of the transaction. While we are hoping to benefit from a range of synergies from the acquisitions, including by offering our customers bundled fixed-line and mobile telecommunications services, we may not be able to integrate our new businesses and may fail to realize the expected benefits in the near term, or at all.

In particular, we may experience difficulties in operating SK Broadband's fixed-line telecommunications and broadband Internet services with our existing products and services, and we may be unsuccessful in retaining SK Broadband's existing customers. Since April 2008, customers of SK Broadband have filed lawsuits against SK Broadband in the Seoul Central District Court, alleging that SK Broadband had violated customers' privacy, and an investigation against SK Broadband was initiated by the Seoul Central Prosecutor's Office, the KCC and the Korea Trade Commission. In connection with its investigation, the KCC suspended SK Broadband from soliciting new subscribers for its broadband Internet services for a period of 40 days from July 1, 2008 and, in addition, imposed an administrative fine of Won 178 million. In the second half of 2011, the Seoul Central District Court rendered judgments that accepted the plaintiffs' claims in part, ordering a payment which amounted to an aggregate of approximately Won 5.5 billion. Both SK Broadband and the plaintiffs filed appeals at the Seoul High Court, which affirmed the judgments of the Seoul District Court with respect to a few of these lawsuits. SK Broadband subsequently settled with all of the remaining plaintiffs and there are no outstanding claims against SK Broadband related to these lawsuits. For more information regarding these lawsuits, see Item 8.A. Consolidated Statements and Other Financial Information - Legal Proceedings - SK Broadband Litigation.

In February 2012, we acquired a 21.05% equity stake in SK Hynix and became its largest shareholder. Our business and financial condition may be adversely affected if we fail to manage our investment in SK Hynix successfully. Since the memory semiconductor industry in which SK Hynix operates is subject to cyclical fluctuations, our financial condition and results of operations may be adversely affected by a downturn in the memory semiconductor industry. 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. For example, SK Hynix and its subsidiaries, on a consolidated basis, incurred net losses of Won 332.6 billion and Won 4,744.7 billion in 2009 and 2008, respectively, due to a severe downturn in the memory semiconductor industry. In addition, the memory semiconductor industry is experiencing intense competition and the average selling prices of semiconductor products have generally declined in recent years and are expected to continue to decline with time irrespective of industry-wide cyclicity and fluctuations as a result of, among other factors, technological advancements and cost reductions. 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. 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 SK Hynix's net losses will 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.

***Due to the existing high penetration rate of wireless 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 Security and Public Administration, the penetration rate for the Korean wireless telecommunications service industry as of December 31, 2013 was approximately 106.9%, which is relatively high compared to many industrialized countries. Therefore, the penetration rate for wireless telecommunications service in Korea will not grow significantly. As a result of the already high penetration rate in Korea for wireless 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.

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***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 system. According to the KCC's final plan announced in February 2010, the amount of spectrum in the 800 MHz band allocated to us was reduced to 2 x 15 MHz of spectrum beginning in July 2011 from the previous 2 x 22.5 MHz. Instead, we have been allocated an additional 2 x 10 MHz of spectrum in the 2.1 GHz band for our use until December 2016, which we have been using for our 3G services since October 2010. In August 2011, the KCC auctioned the right to use 20 MHz of bandwidth in the 1.8 GHz spectrum, 20 MHz of bandwidth in the 2.1 GHz spectrum and 10 MHz of bandwidth in the 800 MHz spectrum. We acquired the right to use the 20 MHz of bandwidth in the 1.8 GHz spectrum at a price of Won 995.0 billion. We were initially obligated to pay the license fee in installments during the license period of 10 years. KT acquired the right to use the 10 MHz of bandwidth in the 800 MHz spectrum for Won 261.0 billion and LG U+ acquired the right to use the 20 MHz of bandwidth in the 2.1 GHz spectrum for Won 445.5 billion. In August 2013, the MSIP auctioned the right to use 15 MHz and 35 MHz of bandwidth in the 1.8 GHz spectrum and 80 MHz of bandwidth in the 2.6 GHz spectrum. We acquired the right to use the 35 MHz of bandwidth in the 1.8 GHz spectrum at a price of Won 1.08 trillion. In connection with this acquisition, we returned the right to use the previously acquired 20 MHz of bandwidth in the 1.8 GHz spectrum, and the remaining installments of license fees for the 20 MHz spectrum totaling Won 614.5 billion were waived. Of the license fee for the bandwidth newly acquired in 2013, we paid Won 115.2 billion in 2013 and the remainder is payable in annual installments through the end of the license period in 2021. KT acquired the right to use the 15 MHz of bandwidth in the 1.8GHz spectrum for Won 900.0 billion and LG U+ acquired the right to use the 40 MHz of bandwidth in the 2.6 GHz spectrum for Won 479.0 billion. We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our 2G services, 60 MHz of bandwidth in the 2.1 GHz spectrum for our 3G services and 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.

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 the CDMA 1xEV-DO upgrades to our CDMA network and the completion of our HSDPA-capable WCDMA network and LTE network, which enables more efficient usage of our bandwidth than was possible on our basic CDMA 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 services. Growth of our wireless 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 business. Furthermore, we may be required to pay a substantial amount to acquire bandwidth capacity in order to meet increasing bandwidth 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.



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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 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 2,879.1 billion for capital expenditures in 2013. We expect to spend less for capital expenditures in 2014 compared to 2013 for a range of projects, including investments to improve our LTE network, investments to maintain our WCDMA network-based products and services, investments in our wireless Internet-related and convergence businesses and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of our new businesses such as our B2B solutions and healthcare businesses, as well as initiatives related to our ongoing businesses in the ordinary course.

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, 2013, we had approximately Won 1,802.8 billion in contractual payment obligations due in 2014, 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

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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 CDMA network from Samsung Electronics Co., Ltd. ( Samsung Electronics ) and substantially all of the equipment for our WCDMA network, including the software and firmware used to upgrade our WCDMA network, from Samsung Electronics and Ericsson-LG Co., Ltd. (formerly known as LG-Ericsson Co., Ltd.) ( Ericsson-LG ). In addition, to date, we have purchased substantially all of the equipment for our WiBro network from Samsung Electronics. To date, we have purchased substantially all of the equipment for our LTE network from Samsung Electronics, 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 as well as technologies provided by third parties, and our business will suffer if we are unable to protect our proprietary rights, obtain new licensing agreements or renew existing licensing agreements with third parties.***

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. We also license a number of patented processes and trademarks under cross-licensing, technical assistance and other agreements. In addition to active internal and external research and development efforts, our success depends in part on our ability to obtain patents, licenses 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. If we are unable to renew our technology licensing arrangements on acceptable terms, we may lose the legal protection to use certain of the technologies we employ to provide services and be prohibited from using those technologies which may prevent us from providing our services. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms than we do. We also cannot provide assurance that we will be able to obtain additional licenses for new or existing technologies on acceptable terms or at all.

***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

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example, in July 2011, there was a leak of personal information of subscribers of the NATE and Cyworld websites operated by SK Communications Co., Ltd. ( SK Communications ), our consolidated subsidiary. As of December 31, 2013, 22 lawsuits were filed against SK Communications, alleging that the leak was caused by its poor management of subscribers' personal information and seeking damages of approximately Won 5.5 billion in aggregate. With respect to a few of the lawsuits, the relevant district courts have rendered judgments for the relevant plaintiffs' claims in part and SK Communications has appealed such judgments to the applicable high courts. With respect to one of these lawsuits, the relevant high court has rendered judgment for the relevant plaintiff's claims in part. Other cases remain pending at various high courts and district courts in Korea. Similarly, since April 2008, certain customers of SK Broadband, our consolidated subsidiary, filed lawsuits against SK Broadband in the Seoul Central District Court, alleging that SK Broadband had violated customers' privacy, and an investigation against SK Broadband was initiated by the Seoul Central Prosecutor's Office, the KCC and the Fair Trade Commission of Korea (the FTC ). In connection with its investigation, the KCC suspended SK Broadband from soliciting new subscribers for our broadband Internet access services for a period of 40 days from July 1, 2008 and, in addition, imposed an administrative fine of Won 178 million. In the second half of 2011, the Seoul Central District Court rendered judgments that accepted the plaintiffs' claims in part, ordering a payment which amounted to an aggregate of approximately Won 5.5 billion. Both SK Broadband and the plaintiffs filed appeals at the Seoul High Court and the Seoul High Court affirmed the judgments of the Seoul Central District Court with respect to a few of these lawsuits and SK Broadband subsequently settled with all of the remaining plaintiffs and there are no outstanding claims against SK Broadband related to these lawsuits. 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 not 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.

***We may be exposed to potential claims for unpaid wages and become subject to additional labor costs arising from the Supreme Court of Korea's interpretation of ordinary wages.***

Under the Labor Standards Act, an employee is legally entitled to ordinary wages, a key legal construct used to calculate many statutory benefits and entitlements in Korea. Under the guidelines previously issued by the Ministry of Employment and Labor (formerly the Ministry of Labor), ordinary wages include base salary and certain fixed monthly allowances for overtime work performed during night shifts and holidays. Prior to the Supreme Court of Korea's decision described below, we and other companies in Korea had interpreted these guidelines as excluding from the scope of ordinary wages, fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or biannual basis.

On December 18, 2013, the Supreme Court of Korea ruled that regular bonuses (including those that are paid other than on a monthly basis) shall be deemed ordinary wages if these bonuses are paid regularly and uniformly on a fixed basis notwithstanding differential amounts based on seniority. Under this decision, any collective bargaining agreement or labor-management agreement which attempts to exclude such regular bonuses from ordinary wage will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court of Korea further ruled that an employee's claim for underpayments under the expanded scope of ordinary wages for the past three years within the statute of limitations may be denied based on principles of good faith if (i) there is an agreement between the employer and employees that the regular bonus shall be excluded from ordinary wage in determining the total amount of wage, (ii) such claim results in further wage payments that far exceed the level of total amount of wage agreed between the employer and employees and (iii) such claim would

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cause an unexpected financial burden to the employer leading to material managerial difficulty or a threat to the employer's existence. The principles of good faith, however, do not apply to an agreement on wages entered into between the employer and employees after December 18, 2013, the date of the above decision of the Supreme Court of Korea.

We anticipate that this decision will result in additional labor costs to us in the form of additional payments under the expanded scope of ordinary wages incurred in the past three years as well as to be incurred in the future. Any such additional payments may have an adverse effect on our financial condition and results of operation.

***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. Under the previous Government, the KCC periodically reviewed the tariffs charged by wireless operators and, from time to time, suggested tariff reductions. Although these suggestions were not binding, we implemented some tariff reductions in response to the KCC's recommendations. After discussions with the KCC, in November 2009, we adopted various tariff reduction measures, including a reduction of the initial subscription fee by 27.0% and an increase in discounts for long-term subscribers. In March 2010, we also began to charge voice calls on a per-second basis, which has the effect of reducing the usage charges compared with the previous system of charging per ten seconds. After discussions with the KCC, in June 2011, we announced further tariff reduction measures, including a reduction of the monthly fee by Won 1,000 for every subscriber, an exemption of usage charges for short text message service (SMS) up to 50 messages per month and the introduction of customized fixed-rate plans for smartphone users, which were implemented in the second half of 2011. The MSIP, which has taken over the KCC's tariff regulation function as of March 23, 2013, is planning to gradually reduce and abolish initial subscription fees by 2015 and may also suggest other tariff reductions. Any further tariff reductions we make in response to such suggestion may adversely affect our results of operations.

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 3G 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. In February 2010, the KCC announced its final plan to reallocate the spectrum of frequencies among us, KT and LG U+. In addition, in August 2011 the KCC auctioned the right to use 20 MHz of bandwidth in the 1.8 GHz spectrum, 20 MHz of bandwidth in the 2.1 GHz spectrum and 10 MHz of bandwidth in the 800 MHz spectrum. In the auction, we acquired the right to use the 20 MHz of bandwidth in the 1.8 GHz spectrum at a price of Won 995.0 billion. We were initially obligated to pay the license fee in installments during the license period of 10 years. KT acquired the right to use the 10 MHz of bandwidth in the 800 MHz spectrum for Won 261.0 billion and LG U+ acquired the right to use the 20 MHz of bandwidth in the 2.1 GHz spectrum for Won 445.5 billion. In August 2013, the MSIP auctioned the right to use 15 MHz and 35 MHz of bandwidth in the 1.8 GHz spectrum and 80 MHz of bandwidth in the 2.6 GHz spectrum. We acquired the right to use the 35 MHz of bandwidth in the 1.8 GHz spectrum at a price of Won 1.08 trillion. In connection with this acquisition, we returned the right to use the previously acquired 20 MHz of bandwidth in the 1.8GHz spectrum and the remaining installments of license fees for the 20 MHz spectrum totaling Won 614.5 billion were waived. Of the license fee for the bandwidth newly acquired in 2013, we paid Won 115.2 billion in 2013 and the remainder is payable in annual installments through the end of the license period in 2021. See Item 4.B. Business Overview Law and Regulation Competition Regulation. The reallocation of the spectrum to our existing competitors could increase competition among wireless service providers, which may have an adverse effect on our business.

Pursuant to recent amendments to the Telecommunications Business Act, which became effective as of September 23, 2010, certain mobile network operators designated by the KCC, 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

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services using the leased networks. To date, nine 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 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 service operators while retaining the same mobile phone number. In addition, the MIC has also required all new subscribers to be given numbers with the 010 prefix starting January 2004, and it has been gradually retracting the mobile service identification numbers which had been unique to each wireless telecommunications service provider, including 011 for our cellular services. The MSIP, which is pursuing the integration process, required all 3G and LTE service users to change their mobile telephone number prefix to 010 by December 31, 2013 as the next step in the 010 integration process. As a result, all 3G and LTE service users' mobile telephone numbers start with the 010 prefix 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. Historically, 011 has had high brand recognition in Korea as the prefix for premium wireless telecommunications service. The Government's adoption of the number portability system and the consolidation of the prefix numbers have resulted in and may continue to result in weakened customer loyalty, increased competition among wireless service providers and higher costs of marketing, increased subscriber deactivations and increased churn rate, all of which had, and may continue to have, an adverse effect on our results of operations. See Item 5. Operating and Financial Review and Prospects and Item 4.B. Business Overview Subscribers Number Portability.

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 example, in December 2012, the KCC imposed a suspension on each of us, KT and LG U+ from acquiring new subscribers during the first quarter of 2013, each for a period of more than 20 days, and imposed fines pursuant to its determination that we, KT and LG U+ provided handset subsidies to new subscribers which were not universally available. In March 2013, the KCC imposed additional fines on each of us, KT and LG U+ for the same reason after further investigations. In July 2013, the KCC again imposed additional fines on each of us, KT and LG U+ for the same reason. In December 2013, the KCC imposed additional fines on each of us, KT and LG U+, which amounted to a combined amount of approximately Won 106 billion, which is the largest fine ever imposed by the KCC for providing handset subsidies to subscribers. In March 2014, the MSIP imposed a suspension on each of us, KT and LG U+ from acquiring new subscribers for a period of 45 days, which is the longest suspension period imposed on us by the Government for providing subsidies to subscribers which were not universally available. In addition, the MSIP announced that it plans to bring criminal charges with monetary fines of up to Won 150 million and up to three-years imprisonment against any carrier and responsible personnel that fails to adhere to the suspension or continues to offer illegal subsidies after the suspension is completed. The KCC also imposed an additional suspension of business on us for a period of seven days and on LG U+ for a period of 14 days and imposed a fine on each of us, KT and LG U+ for the same reason. The revocation of our cellular licenses, suspension of our 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, including our WCDMA, LTE and WiBro licenses.

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President Park Geun-hye, who took office on February 25, 2013 as the 18th President of Korea, announced that the new Government will work toward reducing telecommunications service charges and promoting transparency in the decision making of telecommunications service providers. Accordingly, the new Government has set detailed policy objectives to (1) gradually reduce and abolish initial subscription fees by 2015, (2) expand MVNO and mobile VoIP ( m-VoIP ) service, (3) intensify regulations on handset subsidies and (4) construct a data-based tariff 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. As a result of the discussions, we, KT and LG U+ reduced the initial subscription fee by 40% in December 2013. On January 1, 2014, the MSIP announced its plans to further reduce initial subscription fees in the second half of 2014 so that such fees would be reduced to 50% of the current fee levels. As the new Government implements its new telecommunications policy, it will increase competition among wireless service providers and our business and our profitability may be adversely affected.

***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 market dominant 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. For instance, during our acquisition of Shinsegi Telecom, Inc. ( Shinsegi ), which closed in 2002, the FTC approved the acquisition on the condition that, among other things, our and Shinsegi's combined market share in the wireless telecommunications market, based on numbers of subscribers, be less than 50.0% as of June 30, 2001. In order to satisfy this condition, we reduced the level of our subscriber activations and adopted more stringent involuntary subscriber deactivation policies beginning in 2000 and ceased accepting new subscribers from April 1, 2001 through June 30, 2001. While we are no longer subject to any market share limitations, the Government may impose restrictions on our market share in the future. If we become subject to market share limitations, our ability to compete effectively will be impeded.

The additional regulation 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.

***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.

**Table of Contents*****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. The legislators and financial regulators in the United States and other jurisdictions, including Korea, have implemented a number of policy measures designed to add stability to financial markets. The overall impact of these legislative and regulatory efforts on the global financial markets continues to be uncertain, and they may not have the intended stabilizing effects. While the rate of deterioration of the global economy has slowed since the second half of 2009, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in 2014 and beyond remain uncertain. For example, commencing in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the downgrading by Standard & Poor's Rating Services of the long-term sovereign credit rating of the United States to AA+ from AAA in August 2011 and the financial difficulties affecting many other governments worldwide, in particular in Greece, Cyprus, Spain, Italy and Portugal and the slowdown of economic growth in major emerging market economies, as well as concerns regarding the potential economic impact of the recently commenced scale-down by the U.S. Federal Reserve Board of its quantitative easing stimulus program. In addition, continuing negotiations regarding Iran's nuclear program and sanctions adopted by the international community in response, as well as political instability in various countries in the Middle East and Northern Africa, including in Syria, Egypt and Lybia, have resulted in volatility and uncertainty in the global energy markets. Furthermore, in response to China's slowing gross domestic product growth rates that began in 2011, the Chinese government has implemented stimulus measures but the overall impact of such measures remains uncertain. In light of the high level of interdependence of the global economy, these or other developments could potentially trigger another financial and economic crisis.

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.

***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

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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 U.S. and 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 continuing volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index ( KOSPI ) declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. While the KOSPI has recovered since 2008, closing at 1,971.7 on April 25, 2014, there is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in 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:

difficulties in the financial sectors in Europe and elsewhere and increased sovereign default risks in selected 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 or the Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates, inflation rates or stock markets;

increasing levels of household debt;



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;

any adverse economic impact from the recently commenced scale-down by the U.S. Federal Reserve Board of its quantitative easing stimulus program;

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further decreases in the market prices of Korean real estate;

increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;

declines in consumer confidence and a slowdown in consumer spending;

difficulties in the financial sector in Korea, including the savings bank sector;

the continued emergence 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);

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 disasters that have a significant adverse economic or other impact on Korea or its major trading partners;

the occurrence of severe health epidemics in Korea and other parts of the world;

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;

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

changes in financial regulations in Korea.

***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.

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:

In April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the U.S. deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space.

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In March 2013, North Korea stated that it had entered a state of war with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.

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 response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

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. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

There can be no assurance that the level of tension on 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.

**Table of Contents****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, 2013, 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, 2013, which we believe was 48.02%) would exceed the 49.0% ceiling on foreign shareholding. As of December 31, 2013, a foreign investment fund and its related parties collectively held a 1.1% stake in SK Holdings. We could breach the foreign ownership limitations if the number of common shares or ADSs owned by other foreign persons significantly increases.

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 investment fund and its related parties who own in the aggregate 15.0% or more of SK Holdings. Furthermore, if SK Holdings is considered a foreign shareholder, it may not exercise 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 may refuse to grant 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, 2013, 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 depository's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the ADR depository and receive our common shares. However, under the terms of the deposit agreement, as amended, the depository 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 13,485,736 shares as of March 31, 2014, exceeds a specified maximum, subject to adjustment under certain circumstances. In addition, the depository 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 Incorporation Description of American Depository 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.

*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

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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 also continue to look outside Korea for investment and growth opportunities. 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.

We provide our wireless telecommunications services principally through backbone networks using CDMA, WCDMA and LTE technologies. Collectively, these networks can access approximately 99.0% of the Korean population. In addition, we also provide wireless broadband Internet access through our WiBro service. For a more detailed description of our backbone network infrastructure, see "Digital Wireless Network" below. Our advanced and extensive wireless telecommunications infrastructure has enabled us to offer high-quality cellular voice transmission services at competitive prices, as well as to develop and deploy an increasingly sophisticated range of wireless data and multimedia products and services, including wireless Internet services, in step with technological advancements and growing consumer demand. We believe our network infrastructure also provides us with a competitive advantage in pioneering new business opportunities created by digital convergence.

As of December 31, 2013, we had approximately 27.4 million wireless subscribers throughout Korea, including the number of MVNO subscribers leasing our networks, of which 25.7 million owned Internet-enabled handsets capable of accessing our wireless Internet services. As of December 31, 2013, our share of the Korean wireless market was approximately 50.0%, based on number of subscribers, according to the KCC. MVNOs leasing our networks had a total of 1.1 million subscribers, representing a market share of approximately 2.0%.

In March 2008, we completed the acquisition of an additional 38.7% equity stake in SK Broadband for approximately Won 1.1 trillion, increasing our total equity interest in SK Broadband to 43.4%. In September 2009, we acquired additional shares of SK Broadband's common stock, increasing our equity stake to 50.6%. Through SK Broadband, we currently provide broadband Internet access service and other Internet-related services, including video-on-demand and Internet protocol TV (IPTV) services, as well as fixed-line telephone services. As of December 31, 2013, we had approximately 4.6 million broadband Internet access subscribers and 4.8 million fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink).

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In September 2009, we completed the acquisition of the leased-line business and related ancillary businesses of 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 21.05% 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, 2014, we had a market capitalization of approximately Won 17.4 trillion (US\$16.3 billion, as translated at the noon buying rate of March 31, 2014) or approximately 1.47% of the total market capitalization on the KRX KOSPI Market, making us the 12th 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 100-999, Korea and our telephone number is 82-2-6100-2114.

### **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, KTF, LG Telecom and Hansol PCS, began providing wireless 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 operators merged. See Item 4.B. Business Overview Competition.

There are currently three providers of wireless voice telecommunications services in Korea: our company, KT (into which KTF merged) and LG U+ (formerly, LG Telecom). According to the KCC, as of December 31, 2013, the market share of the Korean wireless telecommunications market in terms of number of subscribers of KT and LG U+ was approximately 30.1% and 19.9%, respectively (compared to our market share of 50.0%). MVNOs had a combined market share of 4.5%.

A one-way mobile number portability (MNP) system was first implemented in the beginning of January 2004 when our subscribers were allowed to transfer to KTF and LG Telecom. From July 2004, a two-way MNP system was implemented so that KTF subscribers could transfer to us and LG Telecom. A three-way MNP system has been in effect since January 2005 so that subscribers from each of the wireless service providers may transfer to any other wireless service provider. During 2013, 2012 and 2010, approximately 4.2 million, 4.5 million and 4.0 million, respectively, of our subscribers migrated to our competitors. Approximately 1.3 million, 1.7 million and 1.4 million of LG U+'s subscribers in 2013, 2012 and 2011, respectively, and approximately 2.2 million, 2.7 million and 2.5 million of KT's subscribers in 2013, 2012 and 2011, respectively, migrated to our service.

In January 2005, the Government granted each of us and KT a license to offer WiBro service.



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Telecommunications industry growth in Korea has been among the most rapid in the world, with fixed-line penetration increasing from under five lines per 100 population in 1978 to 34.5 lines per 100 population as of December 31, 2013, and wireless penetration increasing from 7.0 subscribers per 100 population in 1996 to 106.9 subscribers per 100 population as of December 31, 2013. The table below sets forth certain subscription and penetration information regarding the Korean telecommunications industry as of the dates indicated:

|   | As of December 31,                                |        |        |        |        |
|---|---|--------|--------|--------|--------|
|   | 2013  | 2012   | 2011   | 2010   | 2009   |
|   | (In thousands, except for per population amounts) |        |        |        |        |
| Population of Korea(1)                  | 51,141  | 50,948 | 50,734 | 50,516 | 49,773 |
| Wireless Subscribers(2)                 | 54,681  | 53,624 | 52,507 | 50,767 | 47,944 |
| Wireless Subscribers per 100 Population | 106.9   | 105.3  | 103.5  | 100.5  | 96.3   |
| Telephone Lines in Service(2)           | 17,620  | 18,261 | 18,633 | 19,273 | 20,090 |
| Telephone Lines per 100 Population      | 34.5  | 35.8   | 36.7   | 38.2   | 40.4   |

(1) Source: The Ministry of Security and Public Administration.

(2) Source: MSIP.

The Korean telecommunications industry is one of the most developed in the world in terms of wireless penetration and in terms of the growth of wireless data services, including wireless Internet services. The wireless penetration rate, which is calculated by dividing the number of wireless subscribers by the population, was 106.9% as of December 31, 2013 and the number of wireless subscribers has increased from approximately 3.2 million in 1996 to approximately 54.7 million as of December 31, 2013.

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. All of the Korean wireless operators have developed extensive wireless Internet service portals.

As of December 31, 2013, approximately 50.9 million Korean wireless subscribers owned Internet-enabled handsets capable of accessing wireless Internet services. The table below sets forth certain penetration information regarding the number of Internet-enabled handsets and wireless subscribers in Korea as of the dates indicated:

|   | As of December 31,                         |        |        |        |        |
|---|--|--------|--------|--------|--------|
|   | 2013                                       | 2012   | 2011   | 2010   | 2009   |
|   | (In thousands, except for percentage data) |        |        |        |        |
| Number of Wireless Internet-Enabled Handsets      | 50,858                                     | 50,420 | 49,297 | 48,085 | 46,301 |
| Total Number of Wireless Subscribers              | 54,681                                     | 53,624 | 52,507 | 50,767 | 47,944 |
| Penetration of Wireless Internet-Enabled Handsets | 93.0%                                      | 94.0%  | 93.9%  | 94.7%  | 96.6%  |

Source: MSIP.

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 ( KISA ), the number of Internet users in Korea increased from approximately 3.1 million in 1998 to approximately 40.1 million as of July 2013, representing a 18.6% compound annual growth rate. From the end of 2005 to the end of 2013, the number of broadband Internet access subscribers increased from approximately 12.2 million to approximately 18.7 million, representing a 5.5% compound annual growth rate. The table below sets forth certain information regarding Internet users and broadband Internet access subscribers as of the dates indicated:

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|   | 2013      | 2012      | As of December 31,<br>2011<br>(In thousands) | 2010      | 2009      |
|---|-----------|-----------|--|-----------|-----------|
| Number of Internet Users(1)                           | 40,080(2) | 38,120(2) | 37,180(2)                                    | 37,010(3) | 36,580(3) |
| Number of Broadband Internet Access<br>Subscribers(4) | 18,738    | 18,253    | 17,860                                       | 17,224    | 16,349    |

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(1) Source: KISA.

(2) As of July 2013, 2012 and 2011, respectively.

(3) As of May 2010 and 2009, respectively.

(4) Source: MSIP. 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.

**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 technologies. We provide the following core services:

*Cellular voice services.* We provide wireless voice transmission services to our subscribers through our backbone wireless networks and also offer wireless global roaming services through service agreements with various foreign wireless telecommunications service providers. (Accordingly, while cellular voice services principally refer to our core wireless voice transmission services, they also comprise our wireless voice and data global roaming services.)

*Wireless data services.* We also provide wireless data transmission services, including wireless Internet access services, which allow subscribers to access a wide range of online digital contents and services, as well as to send and receive text and multimedia messages, using their mobile phones.

*Broadband Internet and fixed-line telephone services.* Through our consolidated subsidiary, SK Broadband, we provide broadband Internet access service and other Internet-related services, including video-on-demand and IP TV services. Through SK Broadband, we also provide local, domestic long-distance and international long-distance fixed-line telephone services to residential and commercial subscribers. We currently own a 50.6% equity interest in SK Broadband following our acquisition of a 7.2% equity stake in it in September 2009.

*Digital convergence and new businesses.* We have pioneered new services that reflect the growing convergence within the telecommunications sector, as well as between the telecommunications sector and other industries, including 11th Street, an online shopping mall, and T Store, an online open marketplace for mobile applications, as well as a telematics service, which makes use of global positioning system (GPS) technology. We also engage in the B2B solutions business that provides customized business solutions and applications to corporate customers. In October 2011, in order to develop a management system and corporate culture that is more suitable for the platform business and facilitate the expeditious execution of business strategies for such business, we spun off our platform business, including 11th Street and T Store, to a new wholly-owned subsidiary, SK Planet. In February 2013, SK Marketing & Company Co., Ltd., which managed our OK Cashbag loyalty points system and advertising operations, was merged into SK Planet, enlarging SK Planet's scope of operations. In addition, we recently began pursuing new growth opportunities in the healthcare business by making equity investments in medical device manufacturers in 2011 and 2013 and establishing a joint venture with the Seoul National University Hospital (SNUH) in 2012.

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We provide our wireless services through our proprietary backbone networks based on CDMA, WCDMA and LTE technologies. We also offer wireless data transmission and wireless Internet access services through our WiBro network. For more information on our backbone networks, see Digital Wireless Network.

### **Our Business Strategy**

We believe that trends in the Korean telecommunications industry during the next decade will mirror those in the global market and will be characterized by rapid technological change, reduced regulatory barriers and increased

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competition. Against the backdrop of these industry trends, we aim to enhance shareholder value by maintaining and consolidating our leading position in the Korean market for wireless services, including wireless voice and data transmission services, as well as by leveraging our competitive strengths to exploit new opportunities arising from increasing digital convergence and the globalization of the telecommunications market.

Our principal strategies are to:

*Enhance the technical capabilities of our wireless networks to improve data transmission speed and service quality and to offer an increased range of services, including in connection with our development of new and advanced wireless technologies.* We believe we have the most extensive and advanced wireless telecommunications network in Korea, and we are committed to ensuring that our delivery platforms keep pace with the latest technological advancements. In March 2007, we completed the nationwide build-out of our HSDPA-capable WCDMA network. In 2011, we further upgraded our WCDMA network to support HSUPA and HSPA+ technology and expanded the coverage area of our WiBro service. We commenced commercial LTE services in July 2011 and LTE smartphone services in September 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 (which allows mobile devices to seamlessly wander between our LTE frequency spectrums) in the 1.8 GHz spectrum in July 2012 and expanded the coverage area of our LTE multi-carrier service to metropolitan Seoul and the downtown areas of other major cities in Korea. We launched our LTE-A services in June 2013, applying carrier aggregation technology which combines spectrum frequencies to improve data transmission speed and capacity, and currently provide LTE-A services in 84 cities nationwide. In September 2013, we commenced wideband LTE services in Seoul utilizing 20MHz of bandwidth in the 1.8 GHz spectrum and plan to expand coverage nationwide in 2014. We also plan to continue upgrading and expanding our backbone network infrastructure in line with new developments in wireless telecommunications technology. We believe that ensuring the quality and technical sophistication of our wireless networks will, among other things, allow us to provide our subscribers with top-quality service, to introduce the latest wireless telecommunications products and services more quickly and to efficiently implement new wireless technologies as market opportunities arise.

*Drive the growth of wireless Internet in Korea.* In recent years, the Korean telecommunications industry has experienced significant growth in wireless Internet services as the number of smartphone users has increased rapidly. We plan to establish and maintain our leadership among smartphone users by securing a competitive smartphone line-up and streamlining the subscription process and pricing structures to enable subscribers to easily access their mobile content from multiple devices. We also intend to focus on developing differentiated services and various platforms in order to achieve our goal of leading the Korean smartphone market.

*Offer a broad range of new and innovative wireless data contents and services.* We plan to improve the service quality and expand the range of our wireless data contents and services with a view to increasing revenues from these services to complement our core cellular revenues. In particular, we believe demand for wireless access to entertainment-related digital contents and services, wireless access to community and social networking platforms and wireless access to financial-related contents and services, or m-commerce services, will continue to grow. We continue to actively seek partnerships with, as well as strategic investments in, digital media content providers, financial services providers and wireless application developers to improve the breadth and quality of the wireless data contents and services we offer to our subscribers. We also intend to expand the operation of T Store by constructing an environment where outstanding developers can be nurtured and high-quality content can be produced.

*Leverage our extensive network infrastructure, technical know-how and leading market position to exploit opportunities that arise from an increasingly convergent era in telecommunications and to pioneer new businesses.* We believe that increasing convergence among communications technologies, as well as between the telecommunications sector and other industries, creates growth opportunities for incumbent telecommunications service providers, like us, whose existing infrastructure, know-how and extensive subscriber base provide a competitive advantage. We further believe that digital convergence will support demand for increasingly integrated products and services. We hope to create greater convergence opportunities across our various network platforms through various acquisitions, such as the acquisition of

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an equity stake in SK Broadband, Korea's second largest fixed-line operator, or the acquisition of the leased-line business from SK Networks. We also plan to continue to improve our new convergence services, such as 11th Street and T Store, and pursue new business opportunities in the healthcare business area.

*Pursue our platform business and our B2B solutions business.* We plan to grow our platform business by sharing our telecommunication infrastructure with other service providers and application developers. To better respond to the increased demand in the platform industry to connect content providers with smartphone and tablet users, we spun off our platform business into a new wholly-owned subsidiary, SK Planet, in October 2011. SK Planet operates our platform business in the marketplace for digital content, T Store, and in the open marketplace for online shopping and m-commerce, 11th Street. We also plan to enhance our enterprise value by expanding into media platforms and advertising platforms. In addition, we plan to grow our B2B solutions business to generate greater value and growth for both us and our customers and partners around the globe. For example, in April 2014, we acquired a controlling interest in Neo S Networks Co., Ltd., a provider of residential and small business electronic security and other related alarm monitoring services. Through our B2B solutions business, we endeavor to provide customized value-added services such as applications and solutions to clients in different businesses based on existing network infrastructure. Building on existing infrastructures, we anticipate that value-added services to business clients will generate greater revenues compared to the current B2B business model. Once we establish prototypes categorized by the type and size of the business, we intend to expand and apply such business models to other businesses in the same field. We are in the process of working with various clients in finance, education, health, shopping and other areas.

*Pursue diversification and growth through our investment in the semiconductor business.* In February 2012, we acquired a 21.05% equity stake in SK Hynix, one of the world's largest memory-chip makers by revenue, and became its largest shareholder. By investing in the export-driven semiconductor business, we plan to achieve a more diversified business portfolio, as well as seek global growth opportunities utilizing SK Hynix's overseas network.

*Continue global expansion by seeking opportunities in overseas markets.* We continue to seek opportunities to expand our global business. In light of the highly penetrated Korean wireless market, we believe that strategic expansion into overseas markets offers important opportunities for future growth.

### **Digital Wireless Network**

We offer wireless voice and data telecommunications services throughout Korea using digital wireless networks, including a CDMA network, a WCDMA network, an LTE network, a WiBro network and a Wi-Fi network. We commenced commercial LTE services in Seoul on July 1, 2011 and expanded the coverage area of our LTE services to 28 cities as of January 1, 2012. We further expanded the coverage area of our LTE services to nationwide by the end of April 2012. As of December 31, 2013, we had 13.5 million LTE subscribers.

#### ***CDMA Network***

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. Our CDMA-based network infrastructure has been the core platform for our wireless telecommunications business. CDMA technology is currently in commercial operation in several countries including Korea, Hong Kong and the United States.

In October 2000, we began offering wireless voice and data services on our CDMA2000 1X network. CDMA2000 1X is an advanced CDMA-based technology that allows transmission of data at speeds of up to 153.6 Kbps (compared to a maximum of 64 Kbps for our basic CDMA network). In the first half of 2002, we launched an upgrade of our CDMA2000 1X network to a more advanced technology called CDMA 1xEV-DO. CDMA 1xEV-DO is a CDMA-based technology, similar to CDMA2000 1X, but enables data to be transmitted at speeds of up to 2.4 Mbps. This higher transmission speed permits interactive transmission of data required for videophone services, a high-speed wireless Internet connection, as well as a multitude of multimedia services. In 2004, we completed the full upgrade of our CDMA2000 1X network to CDMA 1xEV-DO technology.

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WCDMA is a 3G, high capacity wireless communication system that enables us to offer an even wider range of telecommunications services, including cellular voice communications, video telephony, data communications, multimedia services, wireless Internet connection, and automatic roaming. We commenced provision of our 3G services using our HSDPA-upgraded WCDMA network on a limited basis in Seoul at the end of 2003. In March 2005, we developed and launched dual band/dual mode handsets, to offer seamless nationwide 3G service, an important factor for nationwide deployment of WCDMA services.

In 2005, we completed commercial development of HSDPA technology and integrated this technology in the subsequent build-out of our WCDMA network. HSDPA, which represents an evolution of the WCDMA standard, is a more advanced 3G technology than the initial WCDMA technology we implemented and is sometimes referred to as 3.5G technology. In March 2007, we completed the nationwide expansion of our HSDPA-capable WCDMA network, which currently reaches approximately 99.0% of the Korean population. Our WCDMA network enables significantly faster and higher-quality voice and data transmission and supports more sophisticated wireless data transmission services, including video telephony and other multimedia communications, than is possible through our 2G networks. In May 2010, we commenced commercial HSUPA services in 59 cities nationwide, including Seoul, and in October 2010, we commenced HSPA+ services in Seoul and have since expanded the services area for HSPA+ services to the metropolitan Seoul area. HSUPA technology represents the next stage in the evolution of the WCDMA standard. In particular, while HSDPA enables significantly improved downlink data transmission speeds, HSUPA permits faster uplink speeds. Our implementation of HSDPA, HSUPA and HSPA+ technology allows us to offer significantly improved, and a wider range of, wireless data transmission services, including more sophisticated multimedia digital contents and products. For more information about our capital expenditures relating to our WCDMA-based network, see Item 5.B. Liquidity and Capital Resources.

***WiBro Network***

We received a license from the MIC in 2005 to provide WiBro services which we believe will complement our existing networks and technologies. WiBro is a data-only transmission technology that enables high-speed wireless broadband access to portable computers, mobile phones and other portable devices. We conducted initial pilot testing of WiBro service in limited areas of metropolitan Seoul in May 2006 and currently service hot zone areas in 93 cities. We currently use our WiBro network as a backhaul for our mobile Wi-Fi 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 at a speed faster than our WCDMA or WiBro networks, although the service range of each Wi-Fi hot zone is smaller than that of our WCDMA or WiBro networks. We started to build Wi-Fi hot zones in 2010 and, as of December 31, 2013, we had more than 106,000 Wi-Fi hot zones 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 hot zone typically has a radius of approximately 20-30 meters, some of our Wi-Fi hot zones, including those installed at public transportation facilities and amusement parks, have much wider service areas. We plan to increase the number of Wi-Fi hot zones to approximately 115,000 by the end of 2014.

***LTE Network***

We commenced commercial wireless services based on LTE technology, which is generally referred to as a 4G 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 and expanded the coverage area of our multi-carrier service to metropolitan Seoul and the downtown areas of six major cities, namely, Busan, Daegu, Daejeon, Incheon, Ulsan and Gwangju, in Korea. We launched our LTE-A services in June 2013, applying carrier aggregation technology which combines spectrum frequencies to improve data transmission speed and capacity, and currently provide LTE-A services in 84 cities nationwide. In September 2013, we commenced wideband LTE services in Seoul utilizing 20MHz of bandwidth in the 1.8 GHz spectrum and plan to expand coverage nationwide in 2014. Several wireless carriers in the United States, Europe and Asia commenced LTE

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services in 2010 and 2011 and LTE technology has become widely accepted globally as the standard 4G technology. LTE technology enables data to be transmitted at a speed faster than our WCDMA or WiBro networks, up to 75 Mbps for downloading and up to 37.5 Mbps for uploading. LTE-A technology enables data to be transmitted at up to 150 Mbps for downloading and up to 75 Mbps for uploading. 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.

***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, 2013, our CDMA, WCDMA, LTE and WiBro networks had an aggregate of 44,764 cell sites.

We have purchased substantially all of the equipment for our CDMA network from Samsung Electronics and have purchased substantially all of the equipment for our WCDMA network, including the software and firmware used to upgrade our WCDMA network, from Samsung Electronics and Ericsson LG. We have purchased substantially all of the equipment for our WiBro network from Samsung Electronics. We have purchased substantially all of the equipment for our LTE network 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 SK Networks, KT and, to a lesser extent, SK Broadband and LG U+. In September 2009, we acquired the leased-line business and related ancillary businesses of SK Networks for Won 892.8 billion and assumed Won 611.4 billion of debt as part of the transaction. 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.

***Our Services***

We offer wireless digital voice and data transmission services via networks that collectively can access approximately 99.0% of the Korean population. 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.



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For a discussion of our backbone networks, see [Digital Wireless Network](#) above.

***Cellular Voice Services***

Our cellular voice services, which comprise basic wireless voice transmission services and related value-added services, as well as global roaming services, remain our core business area. We derive revenues from our cellular voice services principally through monthly plan-based fees, usage charges for outgoing voice calls, roaming charges and value-added service fees. For a more complete description of the fees we charge, see [Revenues and Rates](#) below.

To complement our basic voice transmission services, in recent years, we have offered increasingly sophisticated and differentiated subscriber-oriented value-added services made possible due to rapid advancements in network technology. Our most popular value-added voice-related services in 2013 included services that provide a record of missed calls in the event a subscriber's mobile phone is engaged or switched off, known as our [Call Keeper](#) service; services that play a ring back melody in lieu of a conventional dial tone when callers dial a subscriber's mobile phone, known as [COLORing](#) service, as well as [COLORing](#) services that periodically change the default ring-back melody according to the subscriber's music category selection, known as [Auto COLORing](#) service; and services that alert subscribers when a dialed number that was engaged when first dialed is no longer engaged. We also launched a voice-over-LTE service, known as our [HD Voice](#) service, in August 2012. 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 launched our [T phone](#) service in February 2014. 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.

We also offer cellular global roaming services, branded as our [T-Roaming](#) service, through service agreements with various foreign wireless telecommunications service providers. Global roaming services allow subscribers traveling abroad to make and receive calls, often using their regular mobile phone numbers. Subscribers using EV-DO-, WCDMA- and LTE-capable handsets are able to make and receive calls using their regular mobile phone number without changing their handsets. 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 service provider.

Our global roaming service is offered in four technologies, in part depending on which mobile phone standards are available in a particular region: CDMA, Global System for Mobile (GSM) Communication standard for wireless telecommunications, WCDMA and LTE roaming. We currently offer CDMA voice roaming services in 14 countries, GSM voice roaming services in 200 countries and WCDMA voice roaming services in 105 countries. We currently do not provide any LTE voice roaming services. In addition, we offer CDMA data roaming services in 7 countries, GSM data roaming services in 147 countries, WCDMA data roaming services in 104 countries and LTE data roaming services in ten countries. In 2013, approximately 10.5 million subscribers utilized our global roaming services.

SK Telink launched its pre-paid MVNO service in June 2012 and its post-pay MVNO service in January 2013. An MVNO leases the networks of a mobile network operator and provides wireless telecommunication services under its own brand and fee structure, without owning telecommunication networks or frequencies.

In addition, we provide interconnection service to connect our networks to domestic and international fixed-line and other wireless networks. See [Interconnection](#) below.

***Wireless Data Services (including Wireless Internet Services)***

Our wireless data transmission services represent a key and growing business area. We currently offer our subscribers wireless data communications services, as well as wireless access to a wide variety of digital content and services, including Internet-based content and services. 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.

We plan to take advantage of the efficiency of our wireless network in order to enable our clients to easily access the Internet. We are in the process of upgrading our main 3G network and our LTE network. We commenced

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commercial LTE services in July 2011, which are capable of supporting data transmission at a speed substantially faster than that of our 3G services, and expanded the coverage area of our LTE services to nationwide by the end of April 2012. We also continue to invest in our Wi-Fi network by, among other things, utilizing WiBro as a backhaul. We plan to increase the number of Wi-Fi hot zones to approximately 115,000 by the end of 2014.

*Wireless Data, SMS and MMS Services.* We provide wireless data communication services, including our basic SMS, which allows subscribers to send and receive short text messages to and from their mobile phones and other devices. SMS, which is also known as our phone mail service, continues to be one of our most popular data transmission services. In addition to text-only SMS, we also offer a multimedia message service (MMS). MMS allows subscribers to send and receive multimedia messages containing graphic, audio and video clips to and from their mobile phones. While MMS is possible through our CDMA network, the implementation of WCDMA and LTE technologies has significantly increased the quality, speed and range of our MMS. In December 2012, we also launched a new all-IP service called joyn.T, an integrated mobile and SMS messaging service with additional features such as photo, video and location sharing that is available over various networks and mobile devices.

*Wireless Internet Services.* In addition to our wireless data communications services, we also offer our feature phone subscribers wireless access to the Internet through our NATE portal, which is our integrated wired and wireless Internet platform that utilizes wireless application protocol, or WAP, technology, to provide a gateway between our wireless network and the Internet. Through our NATE portal, our feature phone subscribers can access a wide variety of multimedia contents and interactive services, as well as send and receive email and instant text and multimedia messages, using their mobile phones and other wireless devices. We also provide our smartphone subscribers with direct access to the Internet using mobile Internet technology. As of December 31, 2013, approximately 25.7 million, or 94.0%, of our subscribers owned Internet-enabled handsets capable of accessing our wireless Internet services.

*Wireless Entertainment Services:* We offer our subscribers a wide range of wireless entertainment-related contents and services, primarily through content-specific and community portal sites that we operate, including:

*Hoppin*, a network-based personalized media platform through which we provide various video contents that can be viewed from multiple devices, including smartphones, tablets and personal computers. We provide more than 50,000 titles of movies, television programs and music videos through Hoppin;

*B tv Mobile*, a mobile IP TV service operated by SK Broadband, which currently provides subscribers access to approximately 70 TV channels and 30,000 titles of movies and other video contents that can be downloaded to wireless devices;

*Gaming Services*, which are provided by SK Planet to our subscribers through T Store. For example, we offer a variety of multi-player, interactive mobile games, as well as animation-based mobile games. In addition, we also offer 3D mobile games that subscribers can download to mobile phones and other wireless devices equipped with a mobile gaming-specific chip. We continue to enhance our competitiveness in mobile gaming services by pursuing partnerships with global game companies so that T Store is the platform on which their games are initially published and provided before they become available on other platforms. We also plan to enhance the value of our mobile gaming services by upgrading our game center and expanding it globally.

*Wireless Financial and Commercial Services:* We also offer our subscribers a range of wireless finance-related contents and m-commerce services. Our wireless financial and commercial businesses include:

*11th Street*, an online shopping mall operated by SK Planet that links wired and wireless shopping services. As of December 31, 2013, 11th Street continues to be one of the three biggest enterprises in its field. In 2014, we intend to continue to expand and reinforce our mobile version of 11th Street and to consider opportunities in overseas markets to capitalize on developing m-commerce markets;

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*T Store*, an online open marketplace for mobile applications operated by SK Planet. T Store is open to, and operates with, other open markets such as the Android market and manufacturers' open markets. We plan to construct an environment where outstanding developers of mobile applications can be nurtured and high-quality content can be produced;

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*Gifticon*, a service that allows users to pay for and give gifts using their mobile phone. Payments are settled wirelessly and recipients are notified of their gifts by instant messaging or via our NATE data service;

*Smart Wallet*, a service that allows users to conveniently manage membership card points and payment methods such as coupons, Gifticon, credit cards and gift vouchers on their mobile devices for both online and offline purchases;

*T Stock*, an integrated electronic stock trading service based on an application which provides access to stock market information as well as certain electronic stock trading services operated by participating securities companies and, accordingly, enables subscribers to perform certain stock trading transactions and view stock-related information through their mobile devices; and

*OK Cashbag*, a points-based loyalty program that allows users to accumulate points according to purchase amounts and use accumulated points to acquire goods and services from affiliated vendors, therefore enhancing benefits for our customers and supporting the marketing efforts of affiliated vendors.

***Broadband Internet and Fixed-line Telephone Services***

In March 2008, we completed the acquisition of an additional 38.7% equity stake in SK Broadband for approximately Won 1.1 trillion, increasing our total equity interest in SK Broadband to 43.4%. In 2009, we purchased additional shares of SK Broadband's common stock, further increasing our equity interest to 50.6%. Through SK Broadband, we currently provide broadband Internet access service and other Internet-related services, including video-on-demand and IP TV services, as well as fixed-line telephone services and corporate data services.

SK Broadband is the second largest provider of broadband Internet access services in Korea in terms of both revenue and subscribers, and its network covers 89.6% of households in Korea as of December 31, 2013. Its 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. SK Broadband has offered video-on-demand services since 2006 and has rolled out real-time IP TV services since January 2009. For the year ended December 31, 2013, SK Broadband had revenues of Won 2,539.4 billion and net profit of Won 12.3 billion, compared to revenues of Won 2,492.2 billion and net profit of Won 22.5 billion in 2012.

As of December 31, 2013, SK Broadband had approximately 4.6 million broadband Internet access subscribers. According to the KCC, its market share of Korean broadband Internet access subscribers was approximately 24.4%. Broadband Internet access services (including revenues from video-on-demand services) accounted for 49.4% of SK Broadband's revenues for the year ended December 31, 2013.

As of December 31, 2013, SK Broadband had approximately 4.6 million fixed-line telephone subscribers (including subscribers to VoIP services). Since the nationwide implementation of fixed line number portability on August 1, 2004, SK Broadband has been expanding the coverage and subscriber base with its integrated services of long distance and international telephony as well as VoIP services. Fixed-line telephone services accounted for 23.0% of SK Broadband's revenues for the year ended December 31, 2013.

In addition, through our 83.5% owned subsidiary, SK Telink, we provide international telecommunications services, including direct-dial as well as pre- and post-paid card calling services, bundled services for corporate customers, voice services using Internet protocol, Web-to-phone services, and data services. SK Telink provides affordable international call services under the brand name 00700 and has been offering commercial long-distance telephone service since February 2005. SK Telink also operates certain value-added residential telephone services, including a 080 service that allows companies to establish toll-free customer service telephone hotlines, for which all call charges are paid by the company, as well as a general corporate number service that automatically routes calls made to a company's general telephone number to the caller's nearest local branch. SK Telink also offers VoIP services with telephone numbers that have the 070 prefix and provides low-priced residential telephone services with additional value-added services, including SMS, remote office, caller ID display and video call services as well as various commercial telephone services. As of December 31, 2013, SK Telink had 232,837 subscribers to its VoIP services.

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### ***Digital Convergence and New Businesses***

We believe that digital convergence is the new paradigm in telecommunications. While we acknowledge as a potential threat the increasing equivocation of conventional industry boundaries and the entrance of non-traditional players into the mobile communications space, we also view convergence as a significant growth opportunity. We believe that incumbent telecommunications service providers, like us, with existing advanced infrastructure, technical know-how and a large subscriber base, are especially well positioned to pioneer new convergent businesses. In recent years, we have focused on developing cross-over services that provide synergies with our existing business.

One of our recent efforts to pursue new opportunities in the convergence business area is our acquisition of an equity stake in SK Broadband, as described above. In order to solidify our presence in the fixed-mobile convergence marketplace, in September 2009, we also acquired the leased line business of SK Networks. We are hoping to continue to benefit from a range of synergies from these acquisitions, including by offering our customers bundled fixed-line, mobile telecommunications, broadband Internet and IP TV, including mobile IP TV, services. We also believe the acquisitions create opportunities to aggregate and broadcast digital content across various media platforms.

In February 2010, we purchased shares newly issued by Hana SK Card, a credit card and related services provider, for a total purchase price of Won 400.0 billion. As a result, we currently hold 49.0% of the total outstanding shares of Hana SK Card. We expect that this acquisition of shares will enable us to provide cross-over services between telecommunications and finance.

We also 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., a biotechnology and nanotechnology company manufacturing, among others, point-of-care diagnostics devices. In January 2012, we established a joint venture, Healthconnect Co., Ltd. ( Healthconnect ), with SNUH to develop a health management service model for mobile device users utilizing ICT and currently hold a 49.5% equity interest in Healthconnect. In March 2012, we established a new internal organization, the Health Group, dedicated to developing our healthcare business and related research and development efforts. 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 Service and Technology Co., Ltd. ( Tianlong ), a Chinese medical device manufacturer.

In April 2014, we acquired a controlling interest in Neo S Networks Co., Ltd., a provider of residential and small business electronic security and other related alarm monitoring services. We expect that this acquisition will enable us to create synergies and provide cross-over services between our network services and home security and monitoring services.

Our other convergence and new businesses include:

*Platform Business.* Our platform business provides business platforms and technological support systems for third-party content developers and merchants. These platforms include T Store and 11th Street, among others. We plan to grow our platform business by sharing our telecommunication infrastructure with other service providers and application developers. In addition, we plan to grow our B2B solutions business to generate greater value and growth for both us and our customers and partners around the globe. For a discussion of our B2B solutions business, see Our Business Strategy.

In October 2011, in order to develop a management system and corporate culture that is more suitable for the platform business and facilitate the expeditious execution of business strategies, we spun off our platform business into a new wholly-owned subsidiary, SK Planet. SK Planet operates T Store and 11th Street. It also plans to enhance its enterprise value by expanding its business into media and advertising platforms.

*Telematics Service.* In February 2002, we introduced a telematics service called T-Map Navigation, which is currently operated by our consolidated subsidiary, SK Planet. T-Map Navigation is an interactive navigation service that uses GPS technology to transmit driving directions, real-time traffic updates and emergency rescue assistance to wireless devices, including vehicle-mounted devices and portable handsets.

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We believe that telematics also creates opportunities for synergy between mobile telecommunications and other industries. Under an agreement entered into in October 2010 with Renault Samsung Motors Co., Ltd. ( Renault Samsung ) and Samsung Electronics, we have co-developed a customized telematics system to provide T-Map Navigation service in Renault Samsung vehicles and T-Map Navigation is now available on all models of Renault Samsung vehicles manufactured since September 2012. We have also agreed with Fine Digital Inc., the second largest producer of navigation devices in Korea, to provide T-Map Navigation services through navigation devices manufactured by it. The implementation of more advanced 3G and 4G transmission technologies has also facilitated the increased integration of our wireless platforms customized for vehicular use.

*Advertising Service.* In July 2011, we launched our mobile in-app advertising service called T Ad, which uses various smartphone applications as advertising media. T Ad can provide more efficient advertising service by specifically targeting a desired audience based on the user information we have. We plan to develop our T Ad service into a growing business model by collaborating with application developers and advertisers.

*Social Networking Service.* In the first quarter of 2012, SK Planet acquired Mad Smart Co., Ltd., which provides tic-toc service, in order to expand its business to mobile communication and social networking services. Mobile social networking service, still in its early stage of development, presents ample opportunities for new businesses and is expected to grow rapidly in the future. SK Planet has focused on providing tic-toc in global markets and launched this service in Southeast Asia and the United States in October 2012 and Turkey in November 2013, expecting to secure its subscriber base by offering a wide range of services, including m-VoIP, multimedia contents sharing and connection with other mobile social networking services. SK Planet plans to continue to create synergies from the acquisition by combining its know-how in platform service and the strengths of tic-toc in social networking services in global markets. SK Planet developed Frankly, a mobile messenger service that built upon and customized tic-toc to local market condition and launched this service in the United States in September 2013 and Korea in October 2013. While tic-toc and Frankly are also offered in Korea, we do not believe this service will have any material adverse effect on the level of SMS usage by our subscribers because free text messaging services were already popular before its launch.

*Portal Services.*

*Fixed-line NATE portal service.* Our subsidiary, SK Communications, offers a fixed-line portal service under our NATE brand name and at the website [www.NATE.com](http://www.NATE.com). NATE.com offers a wide variety of content and services, including an Internet search engine, as well as access to free e-mail accounts. SK Communications also operates NATE-ON, an instant messaging service available to NATE users. NATE-ON allows users to chat online using a variety of wireless, as well as wired, devices, such as mobile phones, personal digital assistants and portable computers.

In November 2007, SK Communications merged with Empas Corp., an Internet search engine and portal site. We believe the merger created valuable convergence synergies among our service offerings. In March 2014, the Cyworld business was spun-off by SK Communications into a newly formed employee-owned company, Cyworld Co., Ltd., and has subsequently been operated independently from us and our Nate service.

## **Global Business**

We participate in various overseas markets and continue to seek opportunities to expand our global business.

*United States.* In November 2010, we acquired a 3.3% equity interest in LightSquared for approximately \$60 million. LightSquared planned to build a wholesale wireless broadband network in the United States. However, LightSquared is currently in bankruptcy proceedings in the United States pursuant to Chapter 11 of the U.S. Bankruptcy Code.

*China.* In February 2008, through our wholly-owned Chinese subsidiary, SK Telecom China Holding Company, we invested US\$15.6 million to acquire a 65.5% equity interest in Shenzhen E-eye High Tech Co., Ltd. ( Shenzhen E-eye High Tech ), a GPS service company in China. In 2009, Shenzhen E-eye High Tech and SK Marketing & Company Co., Ltd. (which was subsequently merged into SK Planet in February 2013) established a joint venture to provide telematics services in Beijing, Shanghai and Shenzhen. We believe the acquisition of Shenzhen E-eye High Tech allows us to leverage opportunities created by the rapidly growing telematics market in China.

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In March 2008, we acquired a 42.2% equity interest in TR Music Co., Ltd., a major record label in China, for US\$10.7 million. In addition, in May 2008 we invested US\$7.8 million to acquire a 30.0% equity interest in Magic Tech Network Co., Ltd., a Hong Kong company that develops and publishes online games in China.

In August 2010, we set up a joint venture with China Railway No. 2 Engineering Group to build and run a smart city system at Jinma Smart City Project in Chengdu, China. The joint venture was funded with Won 2.8 billion of capital, with 60.0% and 40.0% of its shares owned by us and China Railway No. 2 Engineering Group, respectively.

In the first quarter of 2013, we acquired a 49.0% equity interest in Tianlong, a Chinese medical device manufacturer, to enter the healthcare market in China.

*Malaysia.* In July 2010, we acquired a 27.2% equity interest in Packet One Networks ( P1 ), a Malaysian 4G 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 is expected to become P1's largest shareholder by the third quarter of 2014. As data communication usage continues to increase in Malaysia, we expect to see potential LTE-related business opportunities as the second largest shareholder in P1.

*Indonesia.* In May 2010, we agreed with PT. Telekomunikasi Indonesia Tbk ( TELKOM ), the largest telecommunication company in Indonesia, to establish a joint venture to launch and operate a digital content exchange hub ( DCEH ) in Indonesia. DCEH is a new type of content distribution system to distribute digital content like music, games and video clips for access not only by consumers but also by online music stores and telephone operators. We will provide management expertise in building the DCEH business platform and digital content, while TELKOM will provide its knowledge of the Indonesian market utilizing its position as a key player in the Indonesian telecommunication industry. In July 2013, SK Planet and PT. XL Axiata Tbk, an Indonesian mobile telecommunications provider, established an equally-held joint venture, XL Planet, to launch and operate m-commerce business, and in March 2014, launched an online shopping mall Elevelia.

*Turkey.* In June 2012, SK Planet and Dogus Group, a Turkish conglomerate engaged in various businesses, established an equally-held joint venture, Dogus Planet, to launch and operate m-commerce businesses based on the commerce platform of 11th Street, in Turkey. In March 2013, Dogus Planet launched n11.com, an online marketplace for the Turkish market.

*Regional and International Strategic Alliances.* We have also entered into various strategic alliances with leading companies in the Asian and European wireless telecommunications markets. For instance, we are a member of the Bridge Alliance, the largest pan-Asian alliance of its kind, which includes eleven of the region's leading wireless service providers. In June 2007, we also signed a memorandum of understanding with FreeMove, an alliance of leading European wireless service providers, including Orange SA of France, Telecom Italia Mobile S.p.A. of Italy, T-Mobile International AG & Co. AG of Germany and TeliaSonera Mobile Networks AB of Sweden, for the development of expanded WCDMA-based roaming service in Europe. We plan to continue to improve customer service as well as service quality, by developing co-marketing programs and other joint projects with our regional and global partners and by further fostering our regional and international alliances.

*Provision of Wireless Internet Platforms and Wireless Network Solutions to Foreign Wireless Network Operators.* We have also sought to expand our global business through sales of our wireless Internet platforms and wireless network solutions, as well as provision of consulting services in the field of mobile communications. In addition, we have also been successful in exporting to other Asian countries and the United States the technological solutions underlying certain value-added and other wireless services, such as our color mail solution, which is a messaging service that allows subscribers to send messages containing multimedia files including graphic, audio and video clips.

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Our cellular services revenues are generated from initial subscription fees, usage charges (which include monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services, roaming charges and value-added-service fees), interconnection revenue, revenue from sales of digital handsets and miscellaneous cellular services revenue. The following table sets forth information regarding our cellular services revenues (net of taxes) and facility deposits for the periods indicated:

|  | Year Ended December 31, |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | 2013                    | 2012            | 2011            |
|  | (In billions of Won)    |                 |                 |
| Initial Subscription Fees                  | 379.8                   | 360.9           | 369.4           |
| Usage Charges(1)                           | 10,621.3                | 10,230.6        | 10,078.2        |
| Interconnection Revenue                    | 845.0                   | 860.3           | 1,090.9         |
| Revenue from Sales of Digital Handsets     | 645.9                   | 1,131.7         | 787.2           |
| Miscellaneous Cellular Services Revenue(2) | 823.5                   | 635.5           | 750.6           |
| <b>Total</b>                               | <b>13,315.5</b>         | <b>13,218.9</b> | <b>13,076.3</b> |

(1) Usage charges principally include revenues from monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services, value-added-service fees, as well as roaming charges and interest on overdue subscriber accounts (net of telephone tax).

(2) Miscellaneous cellular services revenue includes revenue from the resale of fixed-line telecommunication services, leased lines, Internet solutions business and other miscellaneous cellular services provided by SK Telecom. For the period from January 1, 2011 to September 30, 2011, miscellaneous cellular services revenue also includes revenue from the sale and licensing of Internet platform solutions, which business was spun-off into SK Planet in October 2011 and subsequently included in revenues for our other businesses.

We charge our new customers an initial subscription fee for initial connection and service activation. In addition to the initial subscription fee, we require our customers to pay monthly plan-based fees, usage charges for outgoing voice calls and usage charges for wireless data services. 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 [Interconnection](#). Monthly plan-based fees for some plans include free airtime and/or discounts for designated calling numbers. We bill subscribers on a monthly basis and subscribers may make payments at a bank, post office or at any of our authorized dealers.

We offer a variety of differentiated standard rate plans that are designed to meet a wide range of subscriber needs and interests. The basic monthly fee for our standard rate plans ranges from Won 10,000 to Won 110,000. We also offer fixed-rate plans to smartphone users with flat rates ranging from Won 34,000 to Won 100,000 per month. Our most popular plans are our fixed-rate plans offering unlimited free voice calls between our subscribers and fixed-rate plans offered to subscribers to our 3G and LTE services.

In addition, we offer optional add-on service plans, which may supplement the basic service plan a subscriber has chosen, including:

*Data plans*, which target subscribers with high usage patterns for wireless data transmission and wireless Internet services. We offer various data plans that provide wireless data services for monthly fees ranging from Won 1,000 to Won 19,000.



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*International roaming plans*, for subscribers to our 3G and LTE services. The basic monthly fee for our international roaming plans ranges between Won 5,000 and Won 99,000.

Under the previous Government, the KCC periodically reviewed the tariffs charged by wireless operators and has, from time to time, suggested tariff reductions. Although these suggestions were not binding, we implemented some tariff reductions in response to KCC recommendations. We began to provide Caller ID service to customers free of charge commencing January 1, 2006. In January 2007, we reduced our usage fees for wireless Internet

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services by 30.0% and in October 2007 we began providing a 50.0% discount on usage fees between our subscribers for a fixed payment of Won 2,500 per month. In addition, in January 2008 we reduced our SMS usage charges from Won 30 per message to Won 20 per message. In March 2008, we reduced usage charges for voice calls between family members by 50.0%. In November 2009, we also adopted various tariff reduction measures, including a reduction of the initial subscription fee from Won 50,000 to Won 36,000 and an increase in discounts for long-term subscribers. In March 2010, we began to charge voice calls on a per-second basis, rather than per ten seconds as previously charged, and effectively reduced the usage charges. In September 2011, we implemented further tariff reduction measures, including a reduction of the monthly fee by Won 1,000 for every subscriber, an exemption of SMS usage charges up to 50 messages per month and the introduction of flexible service plans for smartphone users. The MSIP, which has taken over the KCC's tariff regulation function as of March 23, 2013, is planning to gradually reduce and abolish initial subscription fees by 2015 and may also suggest other tariff reductions. Any further tariff reductions we make in response to such suggestion may adversely affect our results of operations. See Item 5.A. Operating Results Overview.

For all calls made from our subscribers' handsets in Korea to any destination in Korea, we charge usage fees based on a subscriber's cellular rate plan. The fees are the same whether the call is local or long distance. With respect to international calls placed by a subscriber, 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 Interconnection.

We offer a variety of value-added services, including COLORing, Auto COLORing, Call Keeper and Perfect Call services. Depending on the rate plan selected by the subscriber, the monthly fee may or may not include these value-added services, except Caller ID and call waiting services, which are offered free of charge to all subscribers.

We offer wireless Internet access services to our feature phone subscribers through NATE or, in the case of smartphone subscribers, directly using mobile Internet technology. Our subscribers may elect to pay a monthly fee, which includes a fixed amount of airtime or data packets or unlimited amount of data for certain monthly plans with higher monthly fees, or may elect to pay on a variable, usage basis. The data transmitted is measured in packets of 512 bytes. We charge Won 4.55 per text packet, Won 0.9 per multimedia packet for large volume data transfers, and Won 1.75 per multimedia packet for smaller volume data transfers. In addition, we charge subscribers for purchases of certain digital contents and for certain wireless services, such as m-commerce transaction services.

Because we have been designated by the MSIP as a market dominant service provider, any modification to our fees, charges or the terms and condition of our service, including promotional rates, requires prior approval by the MSIP. Such pre-approval of the MSIP is not required if we are planning to reduce the rates for each type of services that we provide under the MSIP-approved contractual terms; however, we still have a duty to report the rate reduction to the MSIP.

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.

### **Subscribers**

We had 27.4 million wireless subscribers, including the number of MVNO subscribers leasing our networks, as of December 31, 2013, representing a market share of 50.0%, the largest market share among Korean wireless service providers. We believe that, historically, our subscriber growth has been affected by many factors, including:

our expansion and technical enhancement of our networks, including with high-speed data capabilities;

increasing consumer awareness of the benefits of wireless telecommunications;

an effective marketing strategy;

our focus on customer service;

the introduction of new, value-added services, such as COLORing, wireless Internet services and various mobile applications; and  
  
the negative impact from highly saturated and competitive wireless market conditions.

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The following table sets forth selected historical information about our subscriber base for the periods indicated:

|   | As of or for the Year Ended December 31, |            |            |
|---|--|------------|------------|
|   | 2013                                     | 2012       | 2011       |
| <b>Wireless:</b>                              |  |            |            |
| Subscribers(1)                                | 27,352,482                               | 26,961,045 | 26,552,716 |
| Subscriber Growth Rate                        | 1.5%                                     | 1.8%       | 3.1%       |
| Activations                                   | 7,755,292                                | 8,643,852  | 9,466,938  |
| Deactivations                                 | 7,363,858                                | 8,235,523  | 8,619,271  |
| Average Monthly Churn Rate(2)                 | 2.3%                                     | 2.6%       | 2.7%       |
| <b>Broadband Internet:</b>                    |  |            |            |
| Subscribers                                   | 4,569,105                                | 4,394,123  | 4,191,892  |
| Subscriber Growth Rate                        | 4.0%                                     | 4.8%       | 4.7%       |
| <b>Fixed-line Telephone (including VoIP):</b> |  |            |            |
| Subscribers                                   | 4,801,047                                | 4,757,152  | 4,422,808  |
| Subscriber Growth Rate                        | 0.9%                                     | 7.6%       | 8.4%       |

(1) The number of subscribers as of December 31, 2013, 2012 and 2011 include 1,066,848 subscribers, 406,018 subscribers and 55,449 subscribers, respectively, of MVNOs that lease our wireless networks.

(2) Average monthly churn rate for a period is the number calculated by dividing the sum of deactivations during the period by the simple average of the number of subscribers at the beginning and end of the period and dividing the quotient 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.

We had 27.4 million wireless subscribers as of December 31, 2013, including the number of MVNO subscribers leasing our networks. For the year ended December 31, 2013, we had 7.8 million activations and 7.4 million deactivations, representing an average monthly churn rate of 2.3% during the same period. Our subscribers include those subscribers who are temporarily deactivated, including (1) subscribers who voluntarily deactivate temporarily for a period of up to three months no more than twice a year and (2) 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.

**Number Portability**

Prior to January 2003, Korea's wireless telecommunications system was based on a network-specific prefix system, in which a unique prefix was assigned to all the phone numbers of a specific network operator. We were assigned the 011 prefix, and all of our subscribers' mobile phone numbers began with 011 (former Shinsegi subscribers use the 017 prefix) and our subscribers could not change their wireless phone service to another wireless operator and keep their existing numbers. In January 2003, the MIC announced its plan to implement number portability with respect to wireless telecommunications services in Korea, allowing wireless subscribers to switch wireless service operators while retaining the same mobile phone number. As mandated by the MIC, we were the first wireless telecommunications provider to introduce number portability in January 1, 2004, allowing our customers to transfer their numbers to our competitors. Our competitors' customers were not able to transfer their number to our service, however, until KT and LG Telecom introduced number portability beginning July 1, 2004 and January 1, 2005, respectively. Subscribers who choose to transfer to a different wireless operator have the right to return to their original service provider without paying any penalties within 14 days of their initial transfer.

In 2013, 2012 and 2011, respectively, approximately 4.2 million, 4.5 million and 4.0 million subscribers switched their wireless telecommunications service provider from us to KT or LG U+, and approximately 3.8 million, 4.4 million and 3.9 million subscribers switched from KT or LG U+ to us.

In 2013, 2012 and 2011, respectively, we gained approximately 0.4 million, 0.4 million and 0.8 million new subscribers, which represented approximately 37.1%, 36.6% and 59.3% of the aggregate number of new wireless subscribers gained by us, KT and LG U+ in each year.



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In addition, in order to manage the availability of phone numbers efficiently and to secure phone number resources for wireless telecommunications services, the Government has been integrating mobile telephone identification numbers into a common prefix identification number 010 since January 1, 2004, as further described in Law and Regulation Competition Regulation Number Portability.

For 2013, our churn rate ranged from 1.9% to 2.9%, with an average churn rate of 2.3% for 2013, which decreased by 0.3%p from 2012. For details regarding certain fines imposed on us by the MIC in connection with our marketing efforts related to the number portability system, see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings MIC, KCC and MSIP Proceedings.

### **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, LG U+ and Onse Telecom Corporation, 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.

For 2013, our total interconnection revenues were Won 923.7 billion and our total interconnection expenses were Won 1,043.7 billion. For 2012, our total interconnection revenues were Won 958.7 billion, and our total interconnection expenses were Won 1,057.1 billion. For 2011, our total interconnection revenues were Won 1,174.7 billion, and our total interconnection expenses were Won 1,264.1 billion.

Our interconnection revenue decreased in 2013 by Won 35.0 billion and our interconnection expenses decreased in 2013 by Won 13.4 billion, primarily due to decreases in interconnection rates and a decrease in land-to-mobile and mobile-to-mobile call volume.

### ***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. The MSIP determines interconnection rates applicable to each carrier based on the increase or decrease in costs caused by changes in long-term traffic volume, taking into account other factors such as research results 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 16.57 per minute, Won 16.58 per minute and Won 18.57 per minute for 2013, 2012 and 2011, 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 service 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 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 will continue to apply varied interconnection rates for the year 2013 considering the cost difference among wireless network service providers and our position as a market dominant service provider. These regulations remain effective, as the MSIP has not yet announced any plan to amend these regulations.

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| Applicable Year | Rate per Minute |       |       |
|-----------------|-----------------|-------|-------|
|                 | SK Telecom      | KT    | LG U+ |
| 2009            | 32.93           | 37.96 | 38.53 |
| 2010            | 31.41           | 33.35 | 33.64 |
| 2011            | 30.50           | 31.75 | 31.93 |
| 2012            | 27.05           | 28.03 | 28.15 |
| 2013            | 26.27           | 26.98 | 27.04 |

*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 641.2 billion in 2013, Won 601.5 billion in 2012 and Won 715.0 billion in 2011. Our expenses from these charges were 615.6 billion in 2013, Won 639.8 billion in 2012 and Won 766.5 billion in 2011. The charges above were agreed among the parties involved and confirmed by the KCC.

***International Calls***

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.

***International Roaming Arrangements***

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 [Our Services Cellular Voice Services](#) above.

**Marketing and Service Distribution*****Marketing, Sales and Service Network***

We market our services and provide after-sales service support to customers through more than 20 marketing teams, more than 30 branch offices and a network of approximately 3,300 authorized exclusive dealers located throughout Korea. Our dealers are connected via computer to our database and are capable of assisting customers with account information. In addition, approximately 18,000 independent retailers assist new subscribers to complete activation formalities, including processing subscription applications.

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 and usage charges from domestic calls 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, 2013, we had an aggregate of Won 95.5 billion in loans to authorized dealers outstanding.

In April 2009, we established a wholly-owned subsidiary to diversify our sales activities. The new subsidiary, PS&Marketing Co., Ltd. ( PS&Marketing ), was established with an investment of Won 150.0 billion and began operating 13 stores in May 2009. As of December 31, 2013, PS&Marketing had 223 stores in 84 cities in Korea with 1,907 employees. In addition, we established two wholly-owned subsidiaries, Service Ace Co., Ltd. and Service Top Co., Ltd., in June 2010, in order to provide customer service directly through our subsidiaries to enhance the quality of services compared to outsourcing.

In April 2010, our authorized dealers for wireless services started to market SK Broadband's broadband Internet and fixed-line telephone services, which we believe has contributed to the increase in the number of broadband Internet and fixed-line telephone subscribers.

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Over the last several years, competition in the wireless telecommunications business has caused us to significantly increase our marketing and advertising expenses. However, we expect such expenses to stabilize due to the KCC's guideline on marketing expenses recommending that telecommunication service providers limit their marketing expenses to 22.0% of their annual telecommunication service revenue, which was lowered to 20.0% of annual telecommunication service revenue with respect to fiscal years 2013, 2012 and 2011. While the guideline is not binding, we, as well as our competitors, nonetheless try to adhere to this guideline when feasible. Such marketing expenses include initial commissions, monthly commissions and retention commissions paid to our authorized dealers and subscribers, including handset subsidies, but do not include advertising expenses. In 2013, 2012 and 2011, on a separate basis, such marketing expenses amounted to 24.8%, 26.6% and 23.7% of SK Telecom's revenues, respectively, and advertising expenses amounted to 1.8%, 1.7% and 1.9% of SK Telecom's revenues, respectively. For a more detailed discussion of this guideline, see Law and Regulation Competition Regulation Rate Regulation.

### ***Marketing Strategies and Marketing Information Management***

*Information technology improvements.* We have implemented certain information technology improvements in connection with 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 service 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](http://www.tworld.co.kr).

*T-brand Marketing Strategy.* To increase brand awareness and promote our corporate image, in August 2006, we launched our T-brand marketing campaign. 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 are marketing all our products and services under the T brand.

### **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:

#### ***Wireless Content Providers and Application Providers***

As part of our strategy to develop additional applications and content for our wireless data services, we invest in companies which develop wireless applications and provide Internet content, including content accessible by users of our wireless networks.

*Digital Content Providers.* We hold investments in companies that develop content for use in our fixed-line and wireless Internet businesses, particularly in the entertainment sector, to better capture growth opportunities arising from the provision of varied, high-quality digital contents. As wireless data transmission services have become increasingly important in the growth of our business, we are seeking to secure valuable mobile data and digital contents by making equity investments in various content providers.

We currently hold a 15.0% stake in Loen Entertainment (formerly, Seoul Records Inc.), Korea's largest music recording company in terms of records released and revenues. Through our investments in companies such as Loen Entertainment, we are able to offer customers of our MelOn music, movie and gaming services access to an expanded range of music- and entertainment-related digital contents and mobile games, respectively.

In 2005 and in 2008, we and certain co-investors invested an aggregate Won 74.7 billion to establish five movie-production funds to strengthen our ability to obtain movie content. We had invested Won 22.5 billion in the funds as of December 31, 2013. In addition, in 2008 and 2010, we and certain co-investors invested an aggregate



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Won 148.1 billion to establish six additional funds to invest in the production of various cultural contents, including movies and television dramas. As of December 31, 2013, our contribution to these funds amounted to Won 98.0 billion. Such investments reflect our business strategy of diversification into new areas, such as media and entertainment.

*Wireless Application Developers.* We hold investments in companies that help enable us to further develop and improve our wireless applications and multimedia platforms. In particular, we have invested in developers of wireless financial, or m-commerce, services, including companies that provide wireless billing solutions, developers of wireless modem devices and developers of Internet search applications.

### ***SK Hynix***

In February 2012, we acquired a 21.05% 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. Approximately Won 1.0 trillion of the purchase price was paid to selling shareholders, who are Korean financial institutions that acquired SK Hynix's shares as result of debt to equity swaps in 2005. The remainder of the purchase price was paid to SK Hynix for issuance of new shares and is expected to be used primarily for capital expenditures. By investing in the export-driven semiconductor business, we plan 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 2013 and 2012, SK Hynix and its subsidiaries, on a consolidated basis, had revenues of Won 14,165.1 billion and Won 10,162.2 billion, respectively, profit before income tax of Won 3,074.9 billion and loss before income benefit of Won 199.3 billion, respectively, and profit for the year of Won 2,872.9 billion and loss for the year of Won 158.8 billion, respectively. As of December 31, 2013 and 2012, SK Hynix and its subsidiaries, on a consolidated basis, had total assets of Won 20,797.3 billion and Won 18,648.7 billion, respectively, and total equity of Won 13,066.9 billion and Won 9,739.4 billion, respectively.

### ***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, 2013 of Won 405.1 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, 2013 of Won 238.3 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. For more information regarding our investment securities, see note 8 of the notes to our consolidated financial statements.

### **Competition**

We were the only wireless telecommunications services provider in Korea prior to April 1996, when Shinsegi began offering its CDMA service. In 1996, the Government issued three additional licenses to KTF, LG Telecom and Hansol PCS to operate CDMA services. Each of KTF, LG Telecom and Hansol PCS commenced operation of its CDMA service in October 1997. Furthermore, in 2001, the Government awarded three companies the licenses to provide 3G wireless telecommunications services. In Korea, this 3G license is also known as the IMT-2000 license. IMT-2000 is the global standard for 3G wireless communications, as defined by the International Telecommunication Union, an organization established to standardize and regulate international radio and telecommunications. One of these licenses was awarded to our former subsidiary, SK IMT Co., Ltd., which was merged into us on May 1, 2003. The other two licenses were awarded to LG Telecom, and to consortia led by or associated with KT. In addition, our wireless voice businesses compete with Korea's fixed-line operators, and our wireless Internet businesses compete with providers of fixed-line data and Internet services.

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Beginning in 2000, there has been considerable consolidation in the wireless telecommunications industry, resulting in the emergence of stronger competitors. In 2000, KT acquired 47.9% of Hansol M.Com Co., Ltd.'s outstanding shares and renamed the company KT M.Com Co., Ltd. (KT M.Com). KT M.Com merged into KTF in May 2001. In June 2009, KTF merged into KT, which had held a 54.25% interest in KTF before the merger. In addition, in January 2010, LG DACOM and LG Powercomm merged into LG Telecom, which subsequently changed its name to LG U+. Such consolidation has created large, well-capitalized competitors with substantial financial, technical, marketing and other resources to respond to our business offerings.

Significant advances in technology are occurring that may affect our businesses, including the roll-out or the planned roll-out by us and our competitors of advanced high-speed wireless telecommunications networks based on technologies including CDMA, WCDMA, CDMA2000, WiBro and LTE.

As of December 31, 2013, according to the KCC, KT and LG U+ had 16.5 million and 10.9 million subscribers, respectively, representing approximately 30.1% and 19.9%, respectively, of the total number of wireless subscribers in Korea on such date, each including the number of MVNO subscribers leasing its networks. As of December 31, 2013, we had 27.4 million subscribers, representing a market share of approximately 50.0%, including the number of MVNO subscribers leasing its networks. MVNOs leasing our networks had a total of 1.1 million subscribers, representing a market share of approximately 2.0%.

As of December 31, 2013, according to the KCC, KT and LG U+ had 7.9 million and 7.1 million LTE subscribers, respectively, compared to our 13.5 million LTE subscribers.

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.

## **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;

rates, terms and practices of telecommunications service providers;

customer complaints;

interconnection and revenue-sharing between telecommunications service providers;

disputes between telecommunications service providers;

research and development budgeting and objectives of telecommunications service providers; 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

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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 services using WCDMA and WiBro technologies and fourth generation wireless services using LTE technology. Our cellular license is valid until 2021 after a 10-year extension issued in June 2011, our IMT-2000 license is valid until 2016, our WiBro license is valid until 2019 after a 7-year extension issued in March 2012 and our LTE license is valid until December 2021.

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 services 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.

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.

*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.



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*Restrictions on equity investments in other domestic companies.* Under the Fair Trade Act, a company that is a member of a large business group as designated by the FTC was generally required to limit its total investments in other domestic companies to 40.0% of its non-consolidated net assets. In March 2009, an amendment to the Fair Trade Act abolished such restrictions on total investments in other domestic companies.

*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.* Pursuant to a recent amendment to the Enforcement Decree of the Fair Trade Act which became effective in June 2009, 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 service operators while retaining the same mobile phone number. For details of the number of subscribers who transferred to the services of our competitors following the implementation of the number portability system, see [Subscribers](#).

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 3G 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.

For risks relating to number portability, see [Item 3.D. Risk Factors - Risks Relating to Our Business](#). 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.

*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 services 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 MSIP-approved contractual terms. In each of the previous years in which this requirement has been applicable, the KCC designated us for wireless telecommunications service, and KT for local telephone and Internet services, as dominant network service providers that are subject to such approval requirement. The KCC's policy was 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 takes a similar approach in regulating the rates. The MSIP may order changes in the submitted rates if it deems the rates to be significantly unreasonable or against public policy.

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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 service, wireless voice service, broadband Internet access service, fixed-line telephone service and IP TV 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 telecommunications services providers to allow an MVNO, at such MVNO's request, to use their telecommunication facilities at a rate mutually agreed upon that complies with the standards set by the MSIP. We were designated as the only telecommunications services provider obligated to allow the other telecommunications services provider to use our telecommunications facilities. To date, nine MVNOs have commenced providing wireless telecommunications services using the networks leased from us.

On May 13, 2010, the KCC announced a guideline recommending that telecommunication service providers limit their marketing expenses to 22.0% of their annual sales, which was lowered to 20.0% of annual sales with respect to fiscal years 2013, 2012 and 2011. Such marketing expenses include initial commissions, monthly commissions and retention commissions paid to our authorized dealers and subscribers, including handset subsidies, but do not include advertising expenses. While the guideline is not binding, we, as well as our competitors, nonetheless try to adhere to this guideline when feasible. However, according to the KCC, we, KT and LG U+ failed to satisfy the limit on marketing expenses in 2013, 2012 and 2011. Given that the competition in the telecommunication industry continues to intensify, this limitation on our ability to spend on marketing expenses may have a material adverse effect on our business.

*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+, Onse Telecom Corporation 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.

*Frequency Allocation.* The MSIP has the discretion to allocate and adjust the frequency band for each type of service. Upon allocation of new frequency bands or adjustment of frequency bands, 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 2013, 2012 and 2011, the fee amounted to Won 207.7 billion, Won 204.2 billion and Won 216.8 billion, respectively.

In February 2010, the KCC announced its final plan to reallocate 2 x 10 MHz of spectrum in the 800 MHz band that we were using to other service providers starting from July 2011. The KCC's plan also contemplated new allocations of 2 x 10 MHz of spectrum in the 900 MHz band and 2 x 10 MHz of spectrum in the 2.1 GHz band for wireless telecommunication services. KT and LG U+ have been allocated the spectrum in the 900 MHz and 800 MHz bands, respectively. We have been allocated an additional 2 x 10 MHz of spectrum in the 2.1 GHz band for our use until December 2016, which we have been using for our 3G services since October 2010. In addition, in August 2011 the KCC auctioned the right to use 20 MHz of bandwidth in the 1.8 GHz spectrum, 20 MHz of

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bandwidth in the 2.1 GHz spectrum and 10 MHz of bandwidth in the 800 MHz spectrum. In the auction, we acquired the right to use the 20 MHz of bandwidth in the 1.8 GHz spectrum at a price of Won 995.0 billion. We were initially obligated to pay the license fee in installments during the license period of 10 years. KT acquired the right to use the 10 MHz of bandwidth in the 800 MHz spectrum for Won 261.0 billion and LG U+ acquired the right to use the 20 MHz of bandwidth in the 2.1 GHz spectrum for Won 445.5 billion. In August 2013, the MSIP auctioned the right to use 15 MHz and 35 MHz of bandwidth in the 1.8 GHz spectrum and 80 MHz of bandwidth in the 2.6 GHz spectrum. We acquired the right to use the 35 MHz of bandwidth in the 1.8 GHz spectrum at a price of Won 1.08 trillion. In connection with this acquisition, we returned the right to use the previously acquired 20 MHz of bandwidth in the 1.8 GHz spectrum and the remaining installments of license fees for the 20 MHz totaling Won 614.5 billion were waived. Of the license fee for the bandwidth newly acquired in 2013, we paid Won 115.2 billion in 2013 and the remainder is payable in annual installments through the end of the license period in 2021. KT acquired the right to use the 15 MHz of bandwidth in the 1.8GHz spectrum for Won 900.0 billion and LG U+ acquired the right to use the 40 MHz of bandwidth in the 2.6 GHz spectrum for Won 479.0 billion. We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our 2G services, 60 MHz of bandwidth in the 2.1 GHz spectrum for our 3G services and 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.

We paid Won 650.0 billion of the Won 1.3 trillion as the cost of the IMT-2000 license in March 2001 and paid the remainder of the license cost in annual installments for a five-year period from 2007 through 2011. We are required to pay the cost of our additional 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 and paid the first installment in 2012. 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 of bandwidth in the 800 MHz spectrum is Won 416.5 billion, of which Won 208.3 billion was paid in 2011 with the remainder payable in annual installments from 2013 through 2015. The first installment payment was made in 2013. 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 which was payable in annual installments through the end of the license period 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 14 of the notes to our consolidated financial statements for the years ended December 31, 2013, 2012 and 2011, respectively.

For risks relating to the maintenance of adequate bandwidth capacity, see Item 3.D. Risk Factors Risks Relating to Ours 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**

*Contributions to the Fund for Development of Information Telecommunications.* The MSIP has the authority to recommend to network service providers that they provide funds for national research and development of telecommunications technology and related projects. The required annual contribution is 0.5% (0.75% for market dominant service providers like us) of revenues attributable to key communications services (excluding revenues from telecommunications service using an allotted frequency if the consideration for such allotted frequency has been paid) from wireless subscribers for the previous year, and is applicable only to those network service providers who have Won 30.0 billion in total sales for the previous year and have recorded no net loss in the current period. Under the policy, the maximum amount of the annual contribution to be made cannot exceed 70.0% of the net profit for the corresponding period of each company.



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We are no longer required to make any contributions to the Fund for Development of Information Telecommunications in light of the decrease in revenues from our CDMA network and did not make any contribution to this fund in 2013 and 2012. Our contribution to this fund in 2011 was Won 18.8 billion.

*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 35.0% to 50.0% of our monthly fee for cellular 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 2013, our contribution amount was Won 192.3 billion for our fiscal year 2012. In 2012, our contribution amount was Won 20.2 billion for our fiscal year 2011. In 2011, our contribution amount was Won 34.1 billion for our fiscal year 2010. 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, 2013, SK Holdings owned 20,363,452 shares of our common stock, or approximately 25.22% of our issued shares. As of December 31, 2013, a foreign investment fund and its related parties collectively held a 1.1% stake in SK Holdings. If the foreign investment fund and its related parties increase their shareholdings in SK Holdings to 15% or more and such foreign investment fund and its related parties collectively constitute 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, 2013 (which we believe was 48.02%), would reach 73.24%, 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 investment fund and its related parties who own in the aggregate 15.0% or more of SK Holdings. Furthermore, SK Holdings may not exercise 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 may refuse to grant 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

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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 services 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 services provider;

a change in the largest shareholder of a network services provider;

agreements by a network service provider or its shareholders with foreign governments or parties regarding important business matters of such network services provider, such as the appointment of officers and directors and transfer of businesses; and

a change in the shareholder that actually controls a network services 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 services provider. Additionally, if a dominant network services 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 services provider, the voting rights on the shares held in excess of the 5.0% limit may not be exercised.

## **Patents and Licensed Technology**

Access to the latest relevant technology is critical to our ability to offer the most advanced wireless 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 CDMA technology and wireless Internet applications. We have also acquired a number of patents related to WCDMA technologies.

We also license a number of patented processes and trademarks under cross-licensing, technical assistance and other agreements. The most important agreement is with Qualcomm Inc. and relates mainly to CDMA applications technology. This agreement generally grants us a non-exclusive license to manufacture handsets in return for royalty payment or a sub-license to manufacture and sell certain products both in Korea and overseas during a fixed, but usually renewable term. We consider our technical assistance and licensing agreements to be important to our business and believe that we will be able to renew this agreement on commercially reasonable terms that will not adversely affect our ability to use the relevant technologies.

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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 as well as technologies provided by third parties, and our business will suffer if we are unable to protect our proprietary rights, obtain new licensing agreements or renew existing licensing agreements with third parties.

**Seasonality of the Business**

Our business is not affected by seasonality.

**Item 4.C. 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, 2013, SK Group members owned in aggregate 25.22% 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, 2013:

| 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                         |
| Busan                     | Others(1)                               | 1,002,724                       |
|                           | Regional Headquarters                   | 363,282                         |
| Daegu                     | Others(1)                               | 601,912                         |
|                           | Regional Headquarters                   | 153,603                         |
| Jeolla and Jeju Provinces | Others(1)                               | 258,081                         |
|                           | Regional Headquarters                   | 265,614                         |
| Chungcheong Province      | Others(1)                               | 660,350                         |
|                           | Regional Headquarters                   | 459,302                         |
|                           | Others(1)                               | 770,819                         |

(1) Includes cell sites.

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 Digital Wireless Network Network Infrastructure.

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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.

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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 3 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**

We earn revenue principally from initial subscription fees, monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by subscribers to our wireless services, as well as interconnection fees paid to us by other telecommunications operators for use of our network by their customers and subscribers. Our revenue amount depends 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. We also derive revenue from businesses operated by our consolidated subsidiaries, including broadband Internet and fixed-line telephone services offered by SK Broadband, various platform businesses conducted by SK Planet and handset sales made by PS&Marketing. Government regulation also affects our revenues.

Our operations are reported in three segments: (1) cellular services, which include cellular voice service, wireless data service and wireless Internet services, (2) fixed-line telecommunication services, which include fixed-line telephone services, broadband Internet services (including IP TV services) and leased line services and (3) others, which include our Internet portal services, online shopping services and other platform services, gaming services and other operations that do not meet the quantitative thresholds to be separately considered reportable segments.

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 from continuing operations 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 from continuing operations 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:

*Handset Subsidies.* In March 2008, the Government fully lifted a prohibition on the provision of handset subsidies and allowed mobile service providers to subsidize the purchase of new handsets by certain qualifying customers. In order to compete more effectively, we began providing such handset subsidies, which has increased, and may continue to increase, our marketing expenses. 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. Since we do not recognize revenues from sales of handsets by third parties, the trends between

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our digital handset sales and our provision for handset subsidies are not necessarily correlated. In 2013 and 2012, our provision for handset subsidies significantly decreased as we gradually ceased providing handset subsidies to subscribers. Starting in December 2011, we decreased the amount of handset subsidies provided per subscriber and beginning in August 2012, we ceased providing handset subsidies with respect to all handset purchases, with exceptions for a very limited number of handset models. The amount recognized as a provision for handset subsidies is our best estimate of the expenditure required to settle current obligations to relevant subscribers at the end of the reporting period, which is calculated as the sum of the present values of the monthly balances for handset subsidies over the relevant service periods, taking into account the customer retention rate for relevant subscribers. Since April 2008, we also began offering 24-month installment payment plans for new handset purchases by new or existing subscribers, which has increased, and may continue to increase, our capital requirements. On May 13, 2010, the KCC announced a guideline recommending that telecommunication service providers limit their marketing expenses to 22.0% of their annual sales, and the limit was subsequently lowered to 20.0% of their annual sales for the years 2013, 2012 and 2011. Such marketing expenses include initial commissions, monthly commissions and retention commissions paid to our authorized dealers and subscribers, including handset subsidies, but do not include advertising expenses. This guideline remains effective. While the guideline is not binding, we, as well as our competitors, nonetheless try to adhere to such guideline when feasible, which may have a material adverse effect on our businesses and results of operations. Furthermore, failure to comply with rules, regulations and corrective orders may lead to suspension of our business or imposition of monetary penalties. For example, in December 2012, the KCC imposed a suspension on each of us, KT and LG U+ from acquiring new subscribers during the first quarter of 2013, each for a period of more than 20 days, and imposed fines pursuant to its determination that we, KT and LG U+ provided handset subsidies to new subscribers which were not universally available. In March 2013, the KCC imposed additional fines on each of us, KT and LG U+ for the same reason after further investigations. In July 2013, the KCC again imposed additional fines on each of us, KT and LG U+ for the same reason. In December 2013, the KCC imposed additional fines on each of us, KT and LG U+, which amounted to a combined amount of approximately Won 106 billion, which is the largest fine ever imposed by the KCC for providing subsidies to subscribers which were not universally available. In March 2014, the MSIP imposed a suspension on each of us, KT and LG U+ from acquiring new subscribers for a period of 45 days, which is the longest suspension period imposed on us by the Government for providing subsidies to subscribers which were not universally available. The KCC also imposed an additional suspension of business on us for a period of seven days and on LG U+ for a period of 14 days and imposed a fine on each of us, KT and LG U+ for the same reason. The suspension of our business or imposition of monetary penalties by the Government could have a material adverse effect on our business.

*Changes in Tariffs and Interconnection Fees.* Under current regulations, we must obtain prior MSIP approval of the rates and fees we charge subscribers for our cellular services. Generally, the rates we charge for our services have been declining. The KCC periodically reviewed the tariffs charged by wireless operators and, from time to time, suggested tariff reductions. Although these suggestions were not binding, we had in the past implemented some tariff reductions in response to KCC recommendations. Most recently, in September 2011, we reduced the monthly fee by Won 1,000 for every subscriber, exempted SMS usage charges up to 50 messages per month and introduced flexible service plans for smartphone users. The MSIP, which has taken over the KCC's tariff regulation function as of March 23, 2013, is planning to gradually reduce and abolish initial subscription fees by 2015. Pursuant to this policy objective, the MSIP discussed with us, KT and LG U+ gradually reducing and abolishing initial subscription fees and as a result of the discussions, we, KT and LG U+ reduced the initial subscription fee by 40% in December 2013. On January 1, 2014, the MSIP announced its plans to further reduce initial subscription fees in the second half of 2014 so that such fees would be reduced to 50% of the current fee levels, and we expect the remaining initial subscription fees to be abolished by 2015. The MSIP may also suggest other tariff reductions. Any further tariff reductions we make in response to such suggestion may adversely affect our results of operations. For more information about the rates we charge, see Item 4.B. Business Overview Revenues and Rates and Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation.

In addition, 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,

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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. 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. For more information about our interconnection revenue and expenses, see Item 4.B. Business Overview Interconnection.

*Average Monthly Outgoing Voice Minutes and Revenue per Subscriber.* The following table sets forth selected information concerning our wireless telecommunications network during the periods indicated:

|  | For the Year Ended December 31, |            |            |
|--|---------------------------------|------------|------------|
|  | 2013                            | 2012       | 2011       |
| Outgoing voice minutes (in thousands)(1)                 | 58,924,679                      | 57,201,505 | 60,573,960 |
| Average monthly outgoing voice minutes per subscriber(2) | 181                             | 179        | 192        |
| Billing average monthly revenue per subscriber(3)        | 34,551                          | 33,016     | 33,178     |
| Total average monthly revenue per subscriber(4)          | 42,377                          | 40,128     | 40,338     |

- (1) Includes only the minutes of outgoing calls of SK Telecom subscribers and does not include minutes of incoming calls or minutes of use relating to the use of SMS, MMS and other wireless data services.
- (2) The average monthly outgoing voice minutes per subscriber is derived by dividing the total minutes of outgoing voice usage for the period by the monthly average number of subscribers for the period, then dividing that number by the number of months in the period. The monthly average number of subscribers is derived by dividing (i) the sum of the average number of SK Telecom subscribers for each month in the period, calculated as the average of the number of SK Telecom subscribers on the first and last days of the relevant month, by (ii) the number of months in the period.
- (3) The billing average monthly revenue per subscriber is derived by dividing the sum of total SK Telecom and SK Planet revenues from voice service and data service (but excluding revenue from MVNO subscribers) for the period by the monthly average number of subscribers that are not MVNO subscribers for the period, then dividing that number by the number of months in the period.
- (4) The total average monthly revenue per subscriber is derived by dividing the sum of total SK Telecom and SK Planet 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 (including the number of MVNO subscribers leasing our networks) for the period, then dividing that number by the number of months in the period.

Our average monthly outgoing voice minutes per subscriber increased by 1.1% in 2013 but decreased by 6.8% in 2012. We believe the increase in 2013 was caused by our introduction of unlimited voice plans in March 2013. We believe the decrease in 2012 was caused by an increase in the number of subscribers who subscribe to fixed-rate plans, an increase in the number of users who have multiple wireless devices, as well as an increase in the use of free text message or voice services over mobile Internet.

Our total average monthly revenue per subscriber increased by 5.6% to Won 42,377 in 2013 from Won 40,128 in 2012 but decreased by 0.5% to Won 40,128 in 2012 from Won 40,338 in 2011. The increase in total average monthly revenue per subscriber in 2013 was primarily due to increases in LTE subscribers who subscribe to data plans with higher monthly basic charges than our other wireless services and data service usage attributable to increases in the number of smartphone users. The decrease in total average monthly revenue per subscriber in 2012 was primarily due to decreases in voice service usage attributable to the increased use of free text message services by smartphone users, as well as a reduction of the monthly fee by Won 1,000 for every subscriber effective from September 16, 2011, partially offset by increases in data service usage attributable to increases in the number of smartphone users and LTE subscribers who subscribe to data plans with higher monthly basic charges than our other wireless services.





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*Acquisition of SK Hynix Shares.* In February 2012, we acquired a 21.05% 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, 2013, we held a 20.57% equity stake in SK Hynix.

*Cessation of DMB services.* In 2012, we decided to cease SK Telink's satellite DMB services due to the accumulating loss resulting from the continuing decline in satellite DMB subscribers. We presented the loss from the cessation of the DMB business as of August 31, 2012 as loss from discontinued operation for the year ended December 31, 2012 and classified the related assets and liabilities as held for sale. We applied the accounting effects retrospectively, and accordingly re-presented the consolidated statements of income and the consolidated statements of comprehensive income for the year ended December 31, 2011. The consolidated statement of income data in this annual report for the year ended December 31, 2011 are the re-presented amounts.

*Disposition of Loen Entertainment Shares.* In 2013, SK Planet, our wholly-owned subsidiary, disposed of a 52.6% equity stake in Loen Entertainment, Korea's largest music recording company in terms of records released and revenues, for an aggregate sale price of approximately Won 265.9 billion. As a result, Loen Entertainment ceased to be our consolidated subsidiary as of July 18, 2013. We presented our profits from Loen Entertainment in 2013 as profits from discontinued operation for the year ended December 31, 2013. We applied the accounting effects retrospectively, and accordingly re-presented the consolidated statements of income and the consolidated statements of comprehensive income for the years ended December 31, 2012 and 2011. The consolidated statement of income data in this annual report for the years ended December 31, 2012 and 2011 are the re-presented amounts.

*Operating Expenses and Operating Margins.* Our operating expenses consist principally of commissions paid to authorized dealers and our subscribers (including handset subsidies), depreciation and amortization, network interconnection, labor costs, cost of products that have been resold for handset sales, leased line and frequency license fees, rent expenses and advertising expenses. Operating income from continuing operations represented 9.5% of our operating revenue and other income in 2013, 10.6% in 2012 and 13.6% in 2011.

**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. The amendments were applied retroactively to our consolidated statement of income prepared in accordance with K-IFRS for the year ended December 31, 2011 and certain items in such consolidated statement of income were reclassified to conform to the presentation of operating income in the consolidated statement of income prepared in accordance with K-IFRS for the year ended December 31, 2012. 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 from continuing operations 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 from continuing operations as presented in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB for the years ended December 31, 2013, 2012 and

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2011 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, |         |         |
|--|---------------------------------|---------|---------|
|  | 2013                            | 2012    | 2011    |
|  | (In billions of Won)            |         |         |
| Operating income from continuing operations pursuant to IFRS by IASB   | 1,578.4                         | 1,737.7 | 2,162.7 |
| Differences:   |                                 |         |         |
| Other income pursuant to IFRS  |                                 |         |         |
| Fee revenues   | (7.3)                           | (4.0)   | (5.3)   |
| Gain on disposal of property and equipment and intangible assets   | (8.0)                           | (162.6) | (6.3)   |
| Others(1)  | (59.7)                          | (35.3)  | (38.1)  |
|  | (75.0)                          | (201.8) | (49.6)  |
| 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   | 13.8                            | 37.0    | 1.2     |
| Loss on disposal of property and equipment and intangible assets   | 267.5                           | 15.1    | 20.7    |
| Donations  | 82.1                            | 81.3    | 90.0    |
| Bad debt for accounts receivable other   | 22.2                            | 30.1    | 12.8    |
| Others(1)  | 122.2                           | 30.7    | 28.4    |
|  | 507.7                           | 194.2   | 153.1   |
| Operating income pursuant to K-IFRS  | 2,011.1                         | 1,730.0 | 2,266.2 |

(1) Reversal of allowances for doubtful accounts amounting to Won 0.4 billion, Won 5.9 billion and Won 2.3 billion for the years ended December 31, 2013, 2012 and 2011, respectively, and reversal of provision for restoration of Won 0.03 billion for the year ended December 31, 2012, which are included in other income pursuant to IFRS as issued by the IASB, are deducted from other non-operating expenses pursuant to K-IFRS.

However, there is no impact on profit for the year or earnings per share for the years ended December 31, 2013, 2012 and 2011.

**Accounting Standards Updates**

We have adopted IFRS 13, Fair Value Measurement and changed our accounting policies in accordance with the amendments to IAS 19, Employee Benefits, for the year ended December 31, 2013 as well as other new and amended accounting pronouncements and we are aware of several recent accounting pronouncements that we have not yet adopted. See note 3 of the notes to our consolidated financial statements for a summary of IFRS 13, Fair Value Measurement, IAS 19, Employee Benefits and other new and amended accounting pronouncements that have been adopted as well as a summary of recent accounting pronouncements that have not yet been adopted. The initial adoption of these new and amended accounting pronouncements is not expected to have a significant impact on our consolidated results of operations or financial position.

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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:

|   | 2013   | For the Year Ended December 31, |          |        |          | 2011   |
|---|--|---------------------------------|----------|--------|----------|--------|
|   |  | 2012                            |          | 2011   |          |        |
|   | (In billions of Won, except percentage data) |                                 |          |        |          |        |
| Operating Revenue and Other Income                                | 16,677.0                                     | 100.0%                          | 16,343.3 | 100.0% | 15,852.8 | 100.0% |
| Revenue   | 16,602.1                                     | 99.6                            | 16,141.4 | 98.8   | 15,803.2 | 99.7   |
| Other income  | 74.9   | 0.4                             | 201.9    | 1.2    | 49.6     | 0.3    |
| Operating Expense   | 15,098.6                                     | 90.5                            | 14,605.6 | 89.4   | 13,690.1 | 86.4   |
| Operating Income from Continuing Operations                       | 1,578.4                                      | 9.5                             | 1,737.6  | 10.6   | 2,162.7  | 13.6   |
| Profit before Income Tax  | 1,827.1                                      | 11.0                            | 1,519.4  | 9.3    | 2,212.3  | 14.0   |
| Income Tax Expense from Continuing Operations                     | 400.8  | 2.4                             | 288.2    | 1.8    | 601.9    | 3.8    |
| Profit from Continuing Operations                                 | 1,426.3                                      | 8.6                             | 1,231.2  | 7.5    | 1,610.3  | 10.2   |
| Profit (Loss) from Discontinued Operation, Net of Income Taxes(1) | 183.2  | 1.1                             | (115.5)  | (0.7)  | (28.3)   | (0.2)  |
| Profit (Loss) for the Year Attributable to:                       |  |                                 |          |        |          |        |
| Owners of the Parent Company                                      | 1,638.9                                      | 9.8                             | 1,151.7  | 7.0    | 1,612.9  | 10.2   |
| Non-controlling Interests   | (29.4)                                       | (0.2)                           | (36.0)   | (0.2)  | (30.8)   | (0.2)  |
| Profit for the Year   | 1,609.5                                      | 9.6                             | 1,115.7  | 6.8    | 1,582.1  | 10.0   |

- (1) Relates to results of operations of Loen Entertainment, which ceased being our consolidated subsidiary in July 2013, SK Telink's DMB business, which was ceased in August 2012, and SK i-Media Co., Ltd., which was sold in October 2011, which have been classified as discontinued operations after such cessation, sale or liquidation.

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

|  | 2013            |                                   | Year Ended December 31,<br>2012 |                                   | 2011            |                                   |
|--|-----------------|-----------------------------------|---------------------------------|-----------------------------------|-----------------|-----------------------------------|
|  | Amount          | Percentage<br>of Total<br>Revenue | Amount                          | Percentage<br>of Total<br>Revenue | Amount          | Percentage<br>of Total<br>Revenue |
| (In billions of Won, except percentages)                   |                 |                                   |                                 |                                   |                 |                                   |
| <b>Cellular Services Revenue</b>                           |                 |                                   |                                 |                                   |                 |                                   |
| Wireless Service(1)  | 11,001.1        | 66.3%                             | 10,591.5                        | 65.6%                             | 10,447.6        | 66.1%                             |
| Cellular Interconnection                                   | 845.0           | 5.1                               | 860.3                           | 5.3                               | 1,090.9         | 6.9                               |
| Digital Handset Sales (2)                                  | 645.9           | 3.9                               | 1,131.7                         | 7.0                               | 787.2           | 5.0                               |
| Miscellaneous(3)   | 823.5           | 5.0                               | 635.5                           | 3.9                               | 750.6           | 4.7                               |
| <b>Total Cellular Services Revenue</b>                     | <b>13,315.5</b> | <b>80.2</b>                       | <b>13,218.9</b>                 | <b>81.9</b>                       | <b>13,076.3</b> | <b>82.7</b>                       |
| <b>Fixed-line Telecommunication Services Revenue</b>       |                 |                                   |                                 |                                   |                 |                                   |
| Fixed-line Telephone Service(4)                            | 474.4           | 2.9%                              | 485.9                           | 3.0%                              | 490.7           | 3.1%                              |
| Fixed-line Interconnection                                 | 78.7            | 0.5                               | 98.5                            | 0.6                               | 83.8            | 0.5                               |
| Broadband Internet Service(4)                              | 1,023.2         | 6.2                               | 865.0                           | 5.4                               | 1,000.5         | 6.3                               |
| International Calling Service(5)                           | 127.0           | 0.8                               | 144.1                           | 0.9                               | 163.6           | 1.0                               |
| Miscellaneous(6)   | 621.1           | 3.7                               | 600.4                           | 3.7                               | 393.4           | 2.5                               |
| <b>Total Fixed-line Telecommunication Services Revenue</b> | <b>2,324.4</b>  | <b>14.0</b>                       | <b>2,193.9</b>                  | <b>13.6</b>                       | <b>2,131.9</b>  | <b>13.5</b>                       |
| <b>Other Revenue</b>                                       |                 |                                   |                                 |                                   |                 |                                   |
| Commerce Service(7)  | 742.6           | 4.5%                              | 391.9                           | 2.4%                              | 99.9            | 0.6%                              |
| Portal Service(8)  | 92.2            | 0.6                               | 167.8                           | 1.0                               | 233.8           | 1.5                               |
| Miscellaneous(9)   | 127.4           | 0.8                               | 168.9                           | 1.0                               | 261.3           | 1.7                               |
| <b>Total Other Revenue</b>                                 | <b>962.2</b>    | <b>5.8</b>                        | <b>728.6</b>                    | <b>4.5</b>                        | <b>595.0</b>    | <b>3.8</b>                        |
| <b>Total Revenue</b>                                       | <b>16,602.1</b> | <b>100.0%</b>                     | <b>16,141.4</b>                 | <b>100.0%</b>                     | <b>15,803.2</b> | <b>100.0%</b>                     |
| Total Revenue Growth                                       | 2.9%            |                                   | 2.1%                            |                                   | 2.8%            |                                   |
| <b>Segment Operating Expense(10)</b>                       |                 |                                   |                                 |                                   |                 |                                   |
| Cellular Services  | 11,329.4        | 68.2%                             | 11,535.5                        | 71.5%                             | 10,898.2        | 69.0%                             |
| Fixed-line Telecommunication Services                      | 2,268.8         | 13.7                              | 2,140.7                         | 13.3                              | 2,065.7         | 13.1                              |
| Others   | 992.8           | 6.0                               | 735.1                           | 4.6                               | 573.1           | 3.6                               |
| <b>Total Segment Operating Expense</b>                     | <b>14,591.0</b> | <b>87.9%</b>                      | <b>14,411.3</b>                 | <b>89.3%</b>                      | <b>13,537.0</b> | <b>85.7%</b>                      |
| <b>Segment Operating Income</b>                            |                 |                                   |                                 |                                   |                 |                                   |
| Cellular Services  | 1,986.1         | 12.0%                             | 1,683.4                         | 10.4 %                            | 2,178.1         | 13.8%                             |
| Fixed-line Telecommunication Services                      | 55.6            | 0.3                               | 53.1                            | 0.3                               | 66.2            | 0.4                               |
| Others   | (30.6)          | (0.2)                             | (6.5)                           | (0.0)                             | 21.9            | 0.1                               |
| <b>Total Segment Operating Income</b>                      | <b>2,011.1</b>  | <b>12.1%</b>                      | <b>1,730.0</b>                  | <b>10.7%</b>                      | <b>2,266.2</b>  | <b>14.3%</b>                      |

- (1) Wireless service revenue includes revenue from cellular voice service, wireless data service and initial subscription fees. Revenue from cellular voice service is primarily composed of monthly plan-based fees, usage charges for outgoing voice calls, roaming charges and value-added service fees. Revenue from wireless data service is primarily composed of usage charges for SMS and MMS and revenues from outgoing data usage.
  
- (2) Digital handsets are sold by PS&Marketing, our consolidated subsidiary.

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- (3) Miscellaneous cellular services revenue includes revenue from the resale of fixed-line telecommunication services, leased lines, Internet solutions business and other miscellaneous cellular services provided by SK Telecom. For the period from January 1, 2011 to September 30, 2011, miscellaneous cellular services revenue also includes revenue from the sale and licensing of Internet platform solutions, which business was spun off into SK Planet in October 2011 and subsequently included in our others segment.
- (4) Broadband Internet service (including IP TV service) and fixed-line telephone service are provided by SK Broadband, our consolidated subsidiary.
- (5) International calling service is provided by SK Telink, our consolidated subsidiary.
- (6) Miscellaneous fixed-line telecommunication services revenue includes revenues from leased line, corporate data and Internet solutions businesses provided by SK Broadband and VoIP services provided by SK Telink.
- (7) Commerce service revenue includes revenue from 11th Street, our online shopping mall operated by SK Planet, subsequent to the spin-off of SK Planet in October 2011. Prior to the spin-off of SK Planet, such revenue was included in miscellaneous cellular services revenue.
- (8) 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.
- (9) Miscellaneous others revenue includes revenue from T Store, our online open marketplace for mobile applications operated by SK Planet, and certain other platform businesses operated by SK Planet, each subsequent to the spin-off of SK Planet in October 2011. Prior to the spin-off of SK Planet, such revenue from SK Planet's platform businesses was included in miscellaneous cellular services revenue.
- (10) 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.

***2013 Compared to 2012***

*Operating Revenue and Other Income.* Our consolidated operating revenue and other income increased by 2.0% to Won 16,667.0 billion in 2013 from Won 16,343.3 billion in 2012, due to the following increases in operating revenue and other income.

Our consolidated operating revenue increased by 2.9% to Won 16,602.1 billion in 2013 from Won 16,141.4 billion in 2012, primarily as a result of strong growth in the number of new subscribers to our LTE service, which entail higher revenues per subscriber, as well as improved revenues from our consolidated subsidiaries, including SK Planet, SK Broadband and PS&Marketing, which more than offset a decrease in revenues from digital handset sales.

Our consolidated other income decreased by 62.9% to Won 74.9 billion in 2013 from Won 201.8 billion in 2012 due to a decrease in gain on disposal of property and equipment and intangible assets to Won 8.0 billion in 2013 from Won 162.6 billion in 2012, primarily attributable to sales of certain office buildings in 2012, partially offset by an increase in other income to Won 66.6 billion in 2013 from Won 33.4 billion in 2012, due mainly to an increase in value-added tax adjustments to Won 10.3 billion in 2013 from Won 5.5 billion in 2012 as well as compensation for typhoon damage of Won 4.5 billion in 2013 which was not recognized in 2012.

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

**Cellular Services Segment**

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The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, digital handset sales and miscellaneous cellular services, increased by 0.7% to Won 13,315.5 billion in 2013 from Won 13,218.9 billion in 2012.

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The increase in our cellular services revenue was principally due to increases in our wireless service revenue and miscellaneous cellular services revenue, partially offset by decreases in digital handset sales and cellular interconnection revenue.

Wireless service revenue increased by 3.9% to Won 11,001.1 billion in 2013 from Won 10,591.5 billion in 2012, primarily due to an increase in revenue from monthly plan-based fees and wireless data services driven by an increased number of LTE subscribers and smartphone users who subscribe to fixed-price voice and data plans with higher monthly basic charges than our other wireless services, partially offset by a decrease in usage charges for outgoing voice calls. The decrease in usage charges for outgoing voice calls is primarily due to an increased number of subscribers who subscribe to fixed-price voice plans and our introduction of unlimited voice service features. Miscellaneous cellular services revenue increased by 29.6% to Won 823.5 billion in 2013 from Won 635.5 billion in 2012. The increase was primarily attributable to increases in revenue from our Internet solutions business, online shopping services, resale of fixed-line telecommunication services, number portability processing fees and other operating income to the extent attributable to the cellular services segment.

Digital handset sales decreased by 42.9% to Won 645.9 billion in 2013 from Won 1,131.7 billion in 2012, primarily due to a decrease in handset sales to new subscribers, which was mainly attributable to an easing of marketing competition for new subscribers among us, KT and LG U+ in 2013 following disciplinary measures imposed by the Government. Cellular interconnection revenue decreased by 1.8% to Won 845.0 billion in 2013 from Won 860.3 billion in 2012. The decrease was due to decreases in interconnection rates in 2013 and decreases in land-to-mobile call volume.

**Fixed-line Telecommunication Services Segment**

The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service (including IP TV service), fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 5.9% to Won 2,324.4 billion in 2013 from Won 2,193.9 billion in 2012, primarily due to an increase in revenue from our broadband Internet service.

Revenue from our broadband Internet service (including IP TV service) increased by 18.3% to Won 1,023.2 billion in 2013 from Won 865.0 billion in 2012, primarily as a result of an increase in revenue from our IP TV service attributable to an increased number of IP TV subscribers and increased purchases of premium product offerings.

**Others Segment**

The revenue of our others segment, which is composed of revenues from our commerce service and portal service and miscellaneous other revenue, increased by 32.1% to Won 962.2 billion in 2013 from Won 728.6 billion in 2012, due to an increase in revenue from our commerce service, partially offset by decreases in portal service revenue and miscellaneous other revenue.

Commerce service revenue increased by 89.5% to Won 742.6 billion in 2013 from Won 391.9 billion in 2012, primarily due to an increase in revenue generated by 11th Street.

Portal service revenue decreased by 45.1% to Won 92.2 billion in 2013 from Won 167.8 billion in 2012, primarily due to a decrease in advertising revenues from the portal services operated by SK Communications. Miscellaneous other revenue decreased by 24.6% to Won 127.4 billion in 2013 from Won 168.9 billion in 2012, primarily due to the cessation of revenue flows from Loen Entertainment after SK Planet, our wholly-owned subsidiary, disposed of a 52.6% equity stake in Loen Entertainment in July 2013 and it ceased being our consolidated subsidiary.

*Operating Expense.* Our consolidated operating expense in 2013 increased by 3.4% to Won 15,098.6 billion in 2013 from Won 14,605.6 billion in 2012, primarily due to a 30.1% increase in other operating expenses to Won 1,746.3 billion in 2013 from Won 1,342.0 billion in 2012, which was attributable mainly to an increase in loss on disposal of property and equipment and intangible assets to Won 267.5 billion in 2013 from Won 15.1 billion in 2012, which was primarily due to loss on disposal of various intangible assets, a 23.1% increase in labor cost to Won 1,561.4 billion in 2013 from Won 1,267.9 billion in 2012, which was attributable mainly to an increase in the



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number of our employees resulting primarily from the merger of SK Marketing & Company Co., Ltd. into SK Planet in February 2013 and our new business initiatives, as well as a 9.9% increase in depreciation and amortization expenses to Won 2,661.6 billion in 2013 from Won 2,421.1 billion in 2012, which was attributable mainly to depreciation of our newly built-out LTE wireless network and amortization of our frequency license for the 35 MHz of bandwidth in the 1.8 GHz spectrum which we started using 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 Segment**

The segment operating expense for our cellular services segment decreased by 1.8% to Won 11,329.4 billion in 2013 from Won 11,535.5 billion in 2012, primarily due to a decrease in commission paid primarily attributable to an easing of marketing competition for new subscribers among us, KT and LG U+ in 2013, partially offset by increases in other operating expenses, labor costs and depreciation and amortization expenses for the reasons discussed above.

**Fixed-line Telecommunication Services Segment**

The segment operating expense for our fixed-line telecommunication services segment increased by 6.0% to Won 2,268.8 billion in 2013 from Won 2,140.7 billion in 2012, primarily due to an increase in marketing costs attributable mainly to increased media advertisements in connection with an expansion of our customer base, partially offset by a decrease in fees paid primarily attributable to a decrease in fixed-line network construction.

**Others Segment**

The segment operating expense for our others segment increased by 35.1% to Won 992.8 billion in 2013 from Won 735.1 billion in 2012, primarily due to an increase in marketing costs resulting from increased competition in the e-commerce market.

***Operating Income from Continuing Operations.*** Our consolidated operating income from continuing operations decreased by 9.2% to Won 1,578.4 billion in 2013 from Won 1,737.7 billion in 2012, as the increase in operating expense and decrease in other income outpaced the increase in operating revenue.

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 from continuing operations presented in accordance with IFRS by IASB. For a reconciliation of operating income from continuing operations 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.

The segment operating income of our cellular services segment increased by 18.0% to Won 1,986.1 billion in 2013 from Won 1,683.4 billion in 2012, primarily due to an increase in revenue from monthly plan-based fees and wireless data services driven by an increased number of LTE subscribers and smartphone users who subscribe to fixed-price voice and data plans with higher monthly basic charges than our other wireless services, which was enhanced by a decrease in commissions paid relating to marketing expenses to acquire new subscribers. 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 increased to 14.9% in 2013 from 12.7% in 2012. The segment operating income of our fixed-line telecommunication services segment increased by 4.7% to Won 55.6 billion in 2013 from Won 53.1 billion in 2012, due to an increase in revenue from our broadband Internet service. The segment operating margin of our fixed-line telecommunication services segment remained stable at 2.4% in 2013 and 2012. However, the segment operating loss of our others segment increased significantly to Won 30.6 billion in 2013 from Won 6.5 billion in 2012, primarily due to decreased profitability of our e-commerce business resulting from increased competition in the e-commerce market.

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**Finance Income and Finance Costs.** Our finance income decreased by 74.5% to Won 113.4 billion in 2013 from Won 444.6 billion in 2012, primarily due to a Won 273.3 billion decrease in gain on disposal of long-term investment securities to Won 9.3 billion in 2013 from Won 282.6 billion in 2012, which was mainly attributable to the sale in October 2012 of half of the POSCO shares we owned, as well as a 32.6% decrease in interest income to Won 65.6 billion in 2013 from Won 97.3 billion in 2012, which was mainly due to a general decrease in interest rates. Our finance costs decreased by 10.5% to Won 571.2 billion in 2013 from Won 638.3 billion in 2012, primarily due to a 72.7% decrease in other finance costs to Won 52.1 billion in 2013 from Won 190.6 billion in 2012 as a result of a decrease in impairment losses for our available-for-sale financial assets, and a 19.5% decrease in interest expense to Won 331.8 billion in 2013 from Won 412.4 billion as a result of decreases in our interest-bearing financial debt and interest rates, which was partially offset by a Won 126.4 billion increase in loss relating to financial liability at fair value through profit or loss to Won 134.2 billion in 2013 from Won 7.8 billion in 2012 as a result of valuation loss on our exchangeable bonds due to rising stock prices and loss on redemption of debentures upon the exercise of exchange claims.

**Gains (Losses) Related to Investments in Subsidiaries and Associates.** We recorded net gains related to investments in subsidiaries and associates of Won 706.5 billion in 2013 compared to net losses related to investments in subsidiaries and associates of Won 24.6 billion in 2012. The change to a net gain was primarily due to a Won 610.2 billion gain attributable to our investment in SK Hynix, in which we have a 20.57% interest. SK Hynix recorded profit for the year of Won 2,872.5 billion in 2013 compared to loss for the year of Won 158.8 billion in 2012, primarily as a result of increases in both average selling prices and unit sales of its dynamic random-access memory and NAND products.

**Income Tax.** Income tax expense from continuing operations increased by 39.1% to Won 400.8 billion in 2013 from Won 288.2 billion in 2012. Our effective tax rate in 2013 also increased by 2.9%p to 21.9% in 2013 from 19.0% in 2012. Our income tax expense from continuing operations and effective tax rate increased in 2013 compared to 2012 primarily due to a decrease in tax credits related to our capital expenditures in 2013, as well as a decrease in discretionary exemptions extended by the tax authority in 2013.

**Profit (Loss) from Discontinued Operations.** We recognized profit from discontinued operations of Won 183.2 billion in 2013 compared to loss from discontinued operations of Won 115.5 billion in 2012. The profit from discontinued operations in 2013 was related to Loen Entertainment, in which SK Planet, our wholly-owned subsidiary, disposed of a 52.6% equity stake for an aggregate sale price of approximately Won 265.9 billion and as a result, ceased to be our consolidated subsidiary in 2013. The loss from discontinued operations in 2012 was related to SK Telink's former satellite DMB business, which was ceased during 2012.

**Profit for the Year.** Principally as a result of the factors discussed above, our profit for the year increased by 9.7% to Won 1,609.5 billion in 2013 from Won 1,115.7 billion in 2012. Profit for the year as a percentage of operating revenue and other income was 9.7% in 2013 compared to 6.8% in 2012.

**2012 Compared to 2011**

**Operating Revenue and Other Income.** Our consolidated operating revenue and other income increased by 3.1% to Won 16,343.3 billion in 2012 from Won 15,852.8 billion in 2011, due to the following increases in operating revenue and other income.

Our consolidated operating revenue increased by 2.1% to Won 16,141.4 billion in 2012 from Won 15,803.2 billion in 2011, primarily as a result of strong growth in the number of new subscribers to our LTE service, which entail higher revenues per subscriber, as well as improved revenues from our consolidated subsidiaries, including SK Planet, SK Broadband and PS&Marketing, which more than offset a decrease in revenues from our non-LTE subscribers.

Our consolidated other income increased by more than threefold to Won 201.8 billion in 2012 from Won 49.6 billion in 2011, due to an increase in gain on disposal of property and equipment and intangible assets to Won 162.6 billion in 2012 from Won 6.3 billion in 2011, primarily attributable to sales of certain office buildings in 2012.

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

**Cellular Services Segment**

The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, digital handset sales and miscellaneous cellular services, increased by 1.1% to Won 13,218.9 billion in 2012 from Won 13,076.3 billion in 2011.

The increase in our cellular services revenue was principally due to increases in our digital handset sales and wireless service revenue, partially offset by decreases in cellular interconnection revenue and miscellaneous cellular services revenue.

Digital handset sales increased by 43.8% to Won 1,131.7 billion in 2012 from Won 787.2 billion in 2011, primarily due to an increase in unit sales of LTE smartphones, which also have unit prices that are generally higher than those of other handsets. Wireless service revenue increased by 1.4% to Won 10,591.5 billion in 2012 from Won 10,447.6 billion in 2011, primarily due to an increase in revenue from wireless data services and monthly plan-based fees driven by an increased number of smartphone users and LTE subscribers who subscribe to fixed-price data and voice plans with higher monthly basic charges than our other wireless services, partially offset by a decrease in usage charges for outgoing voice calls. The decrease in usage charges for outgoing voice calls is primarily due to a decrease in voice service usage attributable to the increased use of free text message services by smartphone users, as well as a reduction of the monthly fee by Won 1,000 for every subscriber effective from September 16, 2011.

Cellular interconnection revenue decreased by 21.1% to Won 860.3 billion in 2012 from Won 1,090.9 billion in 2011. The decrease was due to decreases in interconnection rates in 2012 and decreases in land-to-mobile and mobile-to-mobile call volume. Miscellaneous cellular services revenue decreased by 15.3% to Won 635.5 billion in 2012 from Won 750.6 billion in 2011. The decrease was primarily attributable to the effects of the reclassification of revenues generated by our platform businesses from the cellular services segment to the others segment in connection with the spin-off of SK Planet in October 2011. If we had not reclassified such revenues, miscellaneous cellular services revenue would have increased by 21.0% to Won 1,074.6 billion in 2012 from Won 887.8 billion in 2011, primarily due to an increase in revenue generated from 11<sup>th</sup> Street and other platform businesses.

**Fixed-line Telecommunication Services Segment**

The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service (including IP TV service), fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 2.9% to Won 2,193.9 billion in 2012 from Won 2,131.9 billion in 2011, primarily due to an increase in revenue from our miscellaneous fixed-line telecommunication services, partially offset by a decrease in revenue from our broadband Internet service.

Miscellaneous fixed-line telecommunication services revenue, including revenues from the leased line, corporate data and Internet solutions businesses, increased by 52.6% to Won 600.4 billion in 2012 from Won 393.4 billion in 2011, primarily due to an increase in revenue from the construction of fixed lines for our B2B solutions business.

Revenue from our broadband Internet service (including IP TV service) decreased by 13.5% to Won 865.0 billion in 2012 from Won 1,000.5 billion in 2011, primarily as a result of an increase in the number of existing subscribers subscribing to our bundled fixed-line and mobile telecommunications services, through which we offer broadband Internet services at a discounted rate, partially offset by an increase in revenue from our IP TV service attributable to an increased number of IP TV subscribers.

**Others Segment**

The revenue of our others segment, which is composed of revenues from our commerce service and portal service and miscellaneous other revenue, increased by 22.5% to Won 728.6 billion in 2012 from Won 595.0 billion in 2011, primarily due to an increase in revenue from our commerce service, partially offset by decreases in miscellaneous other revenue and portal service revenue. If we had not reclassified the revenues generated by our

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platform businesses from the cellular services segment to the others segment in connection with the spin-off of SK Planet in October 2011, the revenue of our others segment would have decreased by 36.8% to Won 289.5 billion in 2012 from Won 457.8 billion in 2011.

Commerce service revenue increased by almost threefold to Won 391.9 billion in 2012 from Won 99.9 billion in 2011, primarily due to an increase in revenue generated by 11th Street.

Miscellaneous other revenue decreased by 35.4% to Won 168.9 billion in 2012 from Won 261.3 billion in 2011, primarily due to the cessation of revenue flows from our consolidated subsidiary, Ntreev Soft Co., Ltd. ( Ntreev ), after we sold our investment in Ntreev in February 2012. Portal service revenue decreased by 28.2% to Won 167.8 billion in 2012 from Won 233.8 billion in 2011, primarily due to a decrease in advertising revenues from the portal services operated by SK Communications.

*Operating Expense.* Our consolidated operating expense in 2012 increased by 6.7% to Won 14,605.6 billion in 2012 from Won 13,690.1 billion in 2011, primarily due to a 7.0% increase in commissions paid to Won 5,949.5 billion in 2012 from Won 5,560.1 billion in 2011, which was attributable mainly to an increase in marketing expenses to acquire new LTE subscribers and an increase in sales commission from increased smartphone sales, a 35.0% increase in cost of products that have been resold to Won 1,292.3 billion in 2012 from Won 957.1 billion in 2011, which was attributable mainly to an increase in LTE smartphone sales by PS&Marketing, as well as a 5.9% increase in depreciation and amortization expenses to Won 2,421.1 billion in 2012 from Won 2,286.6 billion in 2011, which was attributable mainly to an increase in our investment in wireless networks, including our LTE multi-carrier technology, and the amortization of our frequency license for the 1.8 GHz spectrum which we started using in 2012.

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 Segment

The segment operating expense for our cellular services segment increased by 5.8% to Won 11,535.5 billion in 2012 from Won 10,898.2 billion in 2011, primarily due to increases in commissions paid, cost of products that have been resold and depreciation and amortization expenses for the reasons discussed above, partially offset by a decrease in network interconnection expenses primarily attributable to decreases in interconnection traffic volume and fee rates, as well as the effects of the reclassification of expenses incurred by our platform businesses from the cellular services segment to the others segment in connection with the spin-off of SK Planet in October 2011. If we had not reclassified such expenses, segment operating expense of our cellular services segment would have increased by an additional Won 277.0 billion in 2012, primarily due to an increase in commissions related to SK Planet's platform businesses.

### Fixed-line Telecommunication Services Segment

The segment operating expense for our fixed-line telecommunication services segment increased by 3.6% to Won 2,140.7 billion in 2012 from Won 2,065.7 billion in 2011, primarily due to an increase in commissions paid related to increased revenue from fixed-line network construction, partially offset by a decrease in network interconnection expenses primarily attributable to decreases in interconnection traffic volume and fee rates.

### Others Segment

The segment operating expense for our others segment increased by 28.3% to Won 735.1 billion in 2012 from Won 573.1 billion in 2011, primarily due to the reclassification of expenses incurred by our platform businesses from the cellular services segment to the others segment in connection with the spin-off of SK Planet in October 2011 as explained above with respect to the segment operating expense of our cellular services segment, partially offset by a decrease in expenses incurred by the portal services operated by SK Communications. If we had not reclassified these expenses, the segment operating expense of our others segment would have decreased by 25.9% to Won 329.5 billion in 2012 from Won 444.5 billion in 2011.

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*Operating Income from Continuing Operations.* Our consolidated operating income from continuing operations decreased by 19.7% to Won 1,737.7 billion in 2012 from Won 2,162.7 billion in 2011, as the increase in operating expense outpaced the increase in operating revenue and other income, primarily with respect to our cellular services segment.

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 from continuing operations presented in accordance with IFRS by IASB. For a reconciliation of operating income from continuing operations 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.

The segment operating income of our cellular services segment decreased by 22.7% to Won 1,683.4 billion in 2012 from Won 2,178.1 billion in 2011, primarily due to an increase in commissions paid relating to marketing expenses to acquire new LTE subscribers, which more than offset an increase in revenue from our cellular services segment of Won 142.6 billion. 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 12.7% in 2012 from 16.7% in 2011. The segment operating income of our fixed-line telecommunication services segment decreased by 19.8% to Won 53.1 billion in 2012 from Won 66.2 billion in 2011, due to an increase in operating expenses, including commissions paid related to increased revenue from fixed-line network construction. The segment operating margin of our fixed-line telecommunication services segment decreased to 2.4% in 2012 from 3.1% in 2011. However, in our others segment, we recorded operating loss of Won 6.5 billion in 2012 compared to operating income of Won 21.9 billion in 2011. The change to operating loss in 2012 was primarily due to a decrease in operating income from the portal services operated by SK Communications.

*Finance Income and Finance Costs.* Our finance income increased by 1.0% to Won 444.6 billion in 2012 from Won 440.2 billion in 2011, primarily due to a 71.9% increase in gain on disposal of long-term investment securities to Won 282.6 billion in 2012 from Won 164.4 billion in 2011, which was mainly attributable to the sale in October 2012 of half of the POSCO shares we owned, partially offset by a 41.4% decrease in interest income to Won 97.3 billion in 2012 from Won 166.1 billion in 2011 as a result of a decrease in accounts receivable related to sales of handsets on installment payment plans. The accounts receivable related to sales of handsets on installment payment plans have continued to decrease since September 2010, when Hana SK Card took over this financing from us. Our finance costs increased by 85.7% to Won 638.3 billion in 2012 from Won 343.8 billion in 2011, primarily due to a 38.8% increase in interest expense to Won 412.4 billion in 2012 from Won 297.2 billion in 2011 as a result of an increase in our interest-bearing financial debt and an increase in other finance costs to Won 190.6 billion in 2012 from Won 12.8 billion in 2011 as a result of an increase in impairment losses for our available-for-sale financial assets.

*Losses Related to Investments in Subsidiaries and Associates.* Losses related to investments in subsidiaries and associates, net decreased by 47.6% to Won 24.6 billion in 2012 from Won 46.9 billion in 2011, primarily due to a Won 66.0 billion gain on the disposal of our investment in Ntreev in February 2012 and a Won 6.9 billion gain attributable to our investment in SK Hynix, in which we have a 20.57% interest.

*Income Tax.* Income tax expense from continuing operations decreased by 52.1% to Won 288.2 billion in 2012 from Won 601.9 billion in 2011. Our effective tax rate in 2012 also decreased by 8.2% to 19.0% in 2012 from 27.2% in 2011. Our income tax expense from continuing operations and effective tax rate decreased in 2012 compared to 2011 primarily due to an increase in tax credits related to our capital expenditures in 2012, as well as a tax refund received in 2012 for previous years and as a result of tax audits conducted in 2011 for prior periods.

*Loss from Discontinued Operations.* We recognized loss from discontinued operations of Won 115.5 billion in 2012 and Won 28.3 billion in 2011 related to SK Telink's former satellite DMB business, which was ceased during 2012.

*Profit for the Year.* Principally as a result of the factors discussed above, our profit for the year decreased by 29.5% to Won 1,115.7 billion in 2012 from Won 1,582.1 billion in 2011. Profit for the year as a percentage of operating revenue and other income was 6.8% in 2012 compared to 10.0% in 2011.

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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 1.3% in 2013, 2.2% in 2012 and 4.0% in 2011.

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

We had a working capital deficit (current liabilities in excess of current assets) of Won 945.8 billion as of December 31, 2013 and Won 880.5 billion as of December 31, 2012. The working capital deficit as of December 31, 2013 was primarily caused by our acquisition of property and equipment in connection with the further expansion and enhancement of our LTE network in 2013 and our repayment of debt incurred in connection with the financing of our acquisition of an equity stake in SK Hynix as discussed below. The working capital deficit as of December 31, 2012 was primarily caused by our acquisition of property and equipment in connection with the further expansion and enhancement of our LTE network in 2012, the acquisition of a 21.05% equity stake in SK Hynix in February 2012 and our repayment of debt incurred in connection with the financing of such equity stake in SK Hynix. 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 1,816.2 billion as of December 31, 2013 and Won 1,494.7 billion as of December 31, 2012. We had outstanding short-term borrowings of Won 260.0 billion as of December 31, 2013 and Won 600.2 billion as of December 31, 2012. As of December 31, 2013, we had credit lines with several local banks that provided for borrowing of up to Won 607.0 billion, of which Won 260.0 billion was outstanding and Won 347.0 billion 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 1,398.6 billion as of December 31, 2013 and Won 920.1 billion as of December 31, 2012. 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       |         |              |         |
|---|--|-----------|-----------|--------------|---------|--------------|---------|
|   | 2013                                     | 2012      | 2011      | 2013 to 2012 |         | 2011 to 2012 |         |
|   | (In billions of Won, except percentages) |           |           |              |         |              |         |
| Net Cash Provided by Operating Activities   | 3,558.6                                  | 3,999.7   | 6,306.4   | (441.1)      | (11.0)% | (2,306.7)    | (36.6)% |
| Net Cash Used in Investing Activities   | (2,506.5)                                | (5,309.6) | (4,239.1) | 2,803.1      | (52.8)  | (1,070.5)    | 25.3    |
| Net Cash Provided by (Used in) Financing Activities                                     | (573.2)                                  | 585.3     | (1,079.3) | (1,158.5)    | N/A     | 1,664.6      | N/A     |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents Held in Foreign Currencies | (0.4)                                    | (6.0)     | 3.4       | 5.6          | (93.3)  | (9.4)        | N/A     |
| Net Increase (Decrease) in Cash and Cash Equivalents                                    | 478.9                                    | (724.7)   | 988.0     | 1,203.6      | N/A     | (1,712.7)    | N/A     |
| Cash and Cash Equivalents at Beginning of Period  | 920.1                                    | 1,650.8   | 659.4     | (730.7)      | (44.3)  | 991.4        | 150.3   |
| Cash and Cash Equivalents at End of Period  | 1,398.6                                  | 920.1     | 1,650.8   | 478.5        | 52.0 %  | (730.7)      | (44.3)% |

N/A = Not applicable.

*Cash Flows from Operating Activities.* Net cash provided by operating activities was Won 3,558.6 billion in 2013, Won 3,999.7 billion in 2012 and Won 6,306.4 billion in 2011. Profit for the year was Won 1,609.5 billion in

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2013, Won 1,115.7 billion in 2012 and Won 1,582.1 billion in 2011. Net cash provided by operating activities in 2013 decreased by 11.0% from 2012, primarily due to a decrease in collections of other accounts receivable related to sales of handsets on installment payment plans and a decrease in other accounts payable. Net cash provided by operating activities in 2012 decreased by 36.6% from 2011, primarily due to a 29.5% decrease in profit for the year and a decrease in collections of other accounts receivable related to sales of handsets on installment payment plans in 2012. There have been no additional other accounts receivable related to sales of handsets on installment payment plans since September 2010, when Hana SK Card took over this financing from us.

*Cash Flows from Investing Activities.* Net cash used in investing activities was Won 2,506.5 billion in 2013, Won 5,309.6 billion in 2012 and Won 4,239.1 billion in 2011. Cash inflows from investing activities were Won 1,251.8 billion in 2013, Won 1,831.2 billion in 2012 and Won 725.9 billion in 2011. 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 inflows in 2012 were primarily attributable to proceeds from disposal of long-term investment securities of Won 511.4 billion, mostly relating to the sale in October 2012 of half of the POSCO shares we owned, a decrease in short-term financial instruments, net of Won 464.5 billion, the proceeds of which were used to repay our outstanding debt, collection of short-term loans of Won 282.7 billion, as well as proceeds from disposal of property and equipment of Won 271.1 billion, mostly relating to the sales of certain office buildings. Cash inflows in 2011 largely related to proceeds from disposal of long-term investment securities of Won 256.7 billion, including shares of SK C&C, and the collection of short-term loans of Won 194.6 billion.

Cash outflows for investing activities were Won 3,758.3 billion in 2013, Won 7,140.8 billion in 2012 and Won 4,964.9 billion in 2011. Cash outflows in 2013 were primarily attributable to expenditures related to the acquisition of property and equipment of Won 2,879.1 billion, primarily in connection with the further expansion of our LTE network to provide nationwide coverage and to enhance and improve its quality. Cash outflows in 2012 were largely attributable to expenditures related to the acquisition of property and equipment of Won 3,394.3 billion, primarily in connection with the further expansion of our LTE network to provide nationwide coverage and to enhance and improve its quality, and the acquisition of investments in associates of Won 3,098.8 billion, primarily relating to our acquisition of a 21.05% equity stake in SK Hynix. Cash outflows in 2011 largely related to expenditures related to the acquisition of property and equipment of Won 2,960.6 billion, primarily relating to expenditures in connection with upgrades to and expansion of our WCDMA network, as well as the initial build-out of our LTE network and expansion of our WiBro network, as well as an increase in intangible assets of Won 598.4 billion primarily as a result of our acquisition of additional frequency licenses.

*Cash Flows from Financing Activities.* Net cash used in financing activities in 2013 was Won 573.2 billion, net cash provided by financing activities in 2012 was Won 585.3 billion and net cash used in financing activities in 2011 was Won 1,079.3 billion. Cash inflows from financing activities were Won 1,852.2 billion in 2013, Won 4,245.3 billion in 2012 and Won 1,401.9 billion in 2011. Such inflows were primarily driven by the issuance of debentures, which provided cash of Won 1,328.7 billion in 2013, Won 2,098.4 billion in 2012 and Won 1,129.5 billion in 2011, proceeds from long-term borrowings, which provided cash of Won 105.1 billion in 2013, Won 2,059.0 billion in 2012 and Won 92.4 billion in 2011, and the issuance of hybrid bonds in 2013, which provided cash of Won 398.5 billion. The proceeds from long-term borrowings in 2012 consist primarily of borrowings pursuant to a syndicated loan in connection with our acquisition of a 21.05% equity stake in SK Hynix.

Cash outflows for financing activities were Won 2,425.4 billion in 2013, Won 3,660.0 billion in 2012 and Won 2,481.2 billion in 2011. 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 655.9 billion in 2013, Won 655.1 billion in 2012 and Won 668.3 billion in 2011. Repayments of current portion of long-term debt were Won 161.6 billion in 2013, Won 102.7 billion in 2012 and Won 224.6 billion in 2011. Repayment of long-term borrowings were Won 467.2 billion in 2013, Won 1,660.5 billion in 2012 and Won 512.4 billion in 2011.

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Repayment of debentures were Won 772.0 billion in 2013, Won 1,145.7 billion in 2012 and Won 842.2 billion in 2011. Decrease in short-term borrowings, net accounted for Won 340.2 billion and Won 61.4 billion of cash outflows for financing activities in 2013 and 2012, respectively. We recorded a net increase of short-term borrowings of Won 174.2 billion in 2011. Acquisition of treasury shares accounted for Won 208.0 billion of cash outflows for financing activities in 2011. We did not acquire any treasury shares in 2013 and 2012.

As of December 31, 2013, we had total long-term debt (excluding current portion) outstanding of Won 5,010.4 billion, which included debentures in the amount of Won 4,905.6 billion and bank and institutional borrowings in the amount of Won 104.8 billion. As of December 31, 2012, we had total long-term debt (excluding current portion) outstanding of Won 5,348.5 billion, which included debentures in the amount of Won 4,979.2 billion and bank and institutional borrowings in the amount of Won 369.2 billion. The decrease in our long-term debt as of December 31, 2013 was primarily due to the redemption of long-term borrowings and reclassification of long-term debt to current portion of long-term debt. For a description of our long-term liabilities, see note 17 of the notes to our consolidated financial statements.

In September 2006, we issued Korean Won-denominated corporate bonds in an aggregate principal amount of Won 200.0 billion with a maturity of ten years and an annual interest rate of 5.0%.

In July 2007, we issued U.S. dollar-denominated bonds in the principal amount of US\$400 million with a maturity of twenty years and an annual interest rate of 6.625%. In November 2007, we issued Korean Won-denominated bonds in the principal amount of Won 200.0 billion with a maturity of seven years and an annual interest rate of 5.00%.

In March 2008, we issued two tranches of Korean Won-denominated bonds, each tranche in the principal amount of Won 200.0 billion with an annual interest rate of 5.00%, maturing in seven and ten years, respectively.

In January 2009, we issued notes in the principal amounts of Won 40.0 billion with a maturity of seven years and annual interest rates of 5.54%. In March 2009, we issued notes in the principal amount of Won 230.0 billion with a maturity of seven years and an annual interest rate of 5.92%.

In December 2011, we issued floating rate notes in the principal amount of US\$250 million with a maturity of three years and an annual interest rate based on LIBOR plus 1.60% and SG\$65 million with a maturity of three years and an annual interest rate based on Singapore Swap Offered Rate, or SOR, plus 1.20%. In December 2011, we issued two tranches of Korean Won-denominated bonds in the principal amounts of Won 110.0 billion and Won 190.0 billion with maturities of five and ten years, respectively, and annual interest rates of 3.95% and 4.22%, respectively.

In June 2012, we issued Swiss Franc-denominated bonds in the principal amount of CHF 300 million with a maturity of five years and an annual interest rate of 1.75%.

In August 2012, we issued three tranches of Korean Won-denominated bonds in the following principal amounts with the following maturities and annual interest rates: (i) a principal amount of Won 170.0 billion with a maturity of seven years and an annual interest rate of 3.24%, (ii) a principal amount of Won 140.0 billion with a maturity of ten years and an annual interest rate of 3.30% and (iii) a principal amount of Won 90.0 billion with a maturity of twenty years and an annual interest rate of 3.45%.

In November 2012, we issued U.S. dollar-denominated bonds in the principal amount of US\$700 million with a maturity of 5.5 years and an annual interest rate of 2.13%.

In January 2013, we issued Australian Dollar-denominated bonds in the principal amount of AUD 300 million with a maturity of four years and an annual interest rate of 4.75%.

In March 2013, we issued floating rate notes in the principal amount of US\$300 million with a maturity of 17 years and an annual interest rate based on LIBOR plus 0.88%.

In April 2013, we issued two tranches of Korean Won-denominated bonds in the following principal amounts with the following maturities and annual interest rates: (i) a principal amount of Won 230.0 billion with a maturity of ten years and an annual interest rate of 3.03% and (ii) a principal amount of Won 130.0 billion with a maturity of twenty years and an annual interest rate of 3.22%.





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In February 2011, SK Telink issued Korean Won-denominated bonds in the principal amount of Won 50.0 billion with a maturity of three years and an annual interest rate of 4.86%. In November 2011, SK Telink issued Korean Won-denominated bonds in the principal amount of Won 50.0 billion with a maturity of three years and an annual interest rate of 4.62%.

In April 2011, SK Broadband issued Korean Won-denominated bonds in the principal amount of Won 290.0 billion with a maturity of three years and an annual interest rate of 4.53%. In September 2011, SK Broadband issued Korean Won-denominated bonds in the principal amount of Won 100.0 billion with a maturity of three years and an annual interest rate of 4.40%. In January 2012, SK Broadband issued three tranches of Korean Won-denominated bonds in the following principal amounts with the following maturities and annual interest rates: (i) a principal amount of Won 110.0 billion with a maturity of three years and an annual interest rate of 4.09%, (ii) a principal amount of Won 110.0 billion with a maturity of three years and an annual interest rate of 4.14% and (iii) a principal amount of Won 100.0 billion with a maturity of five years and an annual interest rate of 4.28%. In October 2012, SK Broadband issued two tranches of Korean Won-denominated bonds in the principal amounts of Won 130.0 billion and Won 120.0 billion with maturities of three and five years, respectively, and annual interest rates of 3.14% and 3.27%, respectively. In October 2013, SK Broadband issued U.S. dollar-denominated bonds in the principal amount of US\$300 million with a maturity of five years and an annual interest rate of 2.875%.

As of December 31, 2013, a substantial portion of our foreign currency-denominated long-term borrowings, which amounted to approximately 37.0% 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 and growing business areas, including our broadband Internet and fixed-line telephone business, wireless Internet business, convergence businesses and overseas operations, including through acquisitions and strategic alliances, as well as our investment in SK Hynix. 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, as well as for the acquisition of additional frequency licenses.

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 2014. 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.

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*Capital Expenditures.* The following table sets forth our actual capital expenditures for 2013, 2012 and 2011:

|                | Year Ended December 31, |                |                |
|----------------|-------------------------|----------------|----------------|
|                | 2013                    | 2012           | 2011           |
|                | (In billions of Won)    |                |                |
| WCDMA Network  | 124.2                   | 294.7          | 989.4          |
| LTE Network(1) | 1,439.4                 | 1,767.1        | 233.7          |
| WiBro Network  | 19.4                    | 18.7           | 28.2           |
| Others(2)      | 1,296.1                 | 1,313.8        | 1,709.3        |
| <b>Total</b>   | <b>2,879.1</b>          | <b>3,394.3</b> | <b>2,960.6</b> |

(1) We commenced LTE service in July 2011.

(2) Includes investments in infrastructure consisting of our basic CDMA and CDMA 1xEV/DO networks, equipment necessary for the provision of data services, Wi-Fi networks and marketing, as well as investments in SK Broadband's fixed-line networks.

We set our capital expenditure budget for each upcoming year on an annual basis. Our actual capital expenditures in 2013 were Won 2,879.1 billion. Of such amount, we spent approximately Won 124.2 billion on capital expenditures related to the upgrade and maintenance of our WCDMA network, Won 1,439.4 billion related to expanding and enhancing the quality of our LTE network, Won 19.4 billion related to the upgrade of our WiBro network and Won 1,296.1 billion on other capital expenditures and projects. Our actual capital expenditures in 2012 were Won 3,394.3 billion. Of such amount, we spent approximately 294.7 billion on capital expenditures related to the upgrade and maintenance of our WCDMA network, Won 1,767.1 billion related to expanding and enhancing the quality of our LTE network, Won 18.7 billion related to the upgrade of our WiBro network and Won 1,313.8 billion on other capital expenditures and projects. Our actual capital expenditures in 2011 were Won 2,960.6 billion. Of such amount, we spent approximately 989.4 billion on capital expenditures related to the upgrade and expansion of our WCDMA network, Won 233.7 billion related to building our LTE network, Won 28.2 billion related to development and expansion of our WiBro network, and Won 1,709.3 billion on other capital expenditures and projects, including Won 590.8 billion related to the general upkeep of our CDMA network.

We paid Won 650.0 billion of the Won 1.3 trillion as the cost of the IMT-2000 license in March 2001 and paid the remainder of the license cost in annual installments for a five-year period from 2007 through 2011. We are required to pay the cost of our additional 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 and paid the first installment in 2012. 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 is Won 416.5 billion, of which Won 208.3 billion was paid in 2011 with the remainder payable in annual installments from 2013 through 2015. The first installment payment was made in 2013. 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 which was payable in annual installments through the end of the license period, 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 14 of the notes to our consolidated financial statements for the years ended December 31, 2013, 2012 and 2011, respectively.

We currently provide WiBro service to hot zone areas in 93 cities. We are not planning to make significant additional capital expenditures in 2014 to expand or enhance our WiBro network as we believe we have made sufficient capital investments to provide quality WiBro services in the hot zone areas we deem suitable for WiBro service. Our investment plans are subject to change depending on the market demand for WiBro services, the competitive landscape for similar services and development of competing technologies.



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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 and our wideband LTE service in September 2013. We plan to continue to make capital investments in 2014 to further expand and enhance our LTE network and further develop related technologies.

We expect that our capital expenditure amount in 2014 will be less than that of 2013. Our expenditures will be for a range of projects, including investments to improve our LTE network and deploy our LTE-A service, investments to maintain our WCDMA network-based products and services, investments in our wireless Internet-related and convergence businesses and funding for mid-to long-term research and development projects, as well as other initiatives, primarily related to the development of our new businesses such as our B2B solutions and healthcare businesses, 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 2014 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. 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, 2013, our principal repayment obligations with respect to long-term borrowings, bonds and obligations under capital leases outstanding were as follows for the periods indicated:

| <b>Year Ending December 31,</b> | <b>Total<br/>(In billions of Won)</b> |
|---------------------------------|---------------------------------------|
| 2014                            | 1,065.5                               |
| 2015                            | 560.0                                 |
| 2016                            | 623.8                                 |
| 2017 and thereafter             | 3,873.6                               |

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 Businesses and Global Expansion and Other Needs.* We may also require capital for investments to support our development of growing businesses areas, as well as the purchase of additional treasury shares and shares of our affiliates.

For example, in February 2012, we acquired a 21.05% 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.

In April 2014, we acquired a controlling interest in Neo S Networks Co., Ltd., a provider of residential and small business electronic security and other related alarm monitoring services.

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.

*Acquisition of Treasury Shares.* From time to time, we acquire treasury shares through open market purchases. In a series of open market purchases in the period between July 21, 2011 and September 28, 2011, we acquired 1,400,000 shares of our common stock at an aggregate purchase price of Won 208.0 billion. We did not acquire any treasury shares in 2012 and 2013. As of December 31, 2013, we held 9,809,375 shares of common stock as treasury shares and 80,745,711 shares of common stock were outstanding.

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**Financing of Installment Payment Plans.** We had offered installment payment plans for new handset purchases by our new or existing subscribers before Hana SK Card, which is 51.0% owned by Hana Financial Group and 49% owned by us, took over this financing from us in September 2010. Under these plans, we provide financing to our new or existing subscribers who wish to purchase new handsets on credit and, in certain cases, charge fees or interest. As of December 31, 2013, short-term accounts receivable (other), net of allowance for doubtful accounts, related to this financing amounted to Won 51.9 billion and no long-term accounts receivable (other) were recorded. As of December 31, 2012, short-term accounts receivable (other), net of allowance for doubtful accounts, related to this financing amounted to Won 74.4 billion and no long-term accounts receivable (other) were recorded. As of December 31, 2011, short-term and long-term accounts receivable (other), each net of allowance for doubtful accounts, related to this financing amounted to Won 541.3 billion and Won 5.4 billion, respectively. These decreases in 2013 and 2012 were primarily because Hana SK Card has taken over this financing from us since September 2010, reducing the amount of our capital resources required to finance these installment payment plans.

**Severance Payments.** The defined benefit obligation, which is the total accrued and unpaid retirement and severance benefits for our employees, as of December 31, 2013 was Won 74.2 billion. This amount was reflected in our consolidated financial statements as a liability, which is net of deposits with insurance companies totaling Won 238.3 billion to fund a portion of the employees' severance indemnities.

Also see Item 6.D. Employees' Employee Stock Ownership Association and Other Benefits and note 21 of the notes to our consolidated financial statements.

**Dividends.** Total cash outflows for payments of dividends amounted to Won 655.9 billion in 2013, Won 655.1 billion in 2012 and Won 668.3 billion in 2011.

In April 2014, we distributed annual dividends at Won 8,400 per share to our shareholders for an aggregate payout amount of Won 595.9 billion.

**Contractual Obligations and Commitments**

The following summarizes our contractual cash obligations at December 31, 2013, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

|   | Total          | Payments Due by Period(1) |                                   |                | After<br>5 Years |
|---|----------------|---------------------------|-----------------------------------|----------------|------------------|
|   |                | Less<br>Than<br>1 Year    | 1-3 Years<br>(In billions of Won) | 4-5 Years      |                  |
| <b>Bonds</b>                              |                |                           |                                   |                |                  |
| Principal                                 | 5,966.7        | 1,024.1                   | 1,140.0                           | 2,113.9        | 1,688.7          |
| Interest                                  | 1,164.8        | 206.9                     | 297.2                             | 224.1          | 436.6            |
| <b>Long-term borrowings</b>               |                |                           |                                   |                |                  |
| Principal                                 | 132.9          | 22.0                      | 39.9                              | 28.4           | 42.6             |
| Interest                                  | 10.3           | 2.1                       | 3.7                               | 2.3            | 2.2              |
| <b>Capital lease obligations</b>          |                |                           |                                   |                |                  |
| Principal                                 | 23.3           | 19.4                      | 3.9                               |                |                  |
| Interest                                  | 0.8            | 0.7                       | 0.1                               |                |                  |
| <b>Operating leases</b>                   |                |                           |                                   |                |                  |
| Facility deposits                         | 2.9            | 0.5                       |                                   |                | 2.4              |
| <b>Derivatives</b>                        | 133.5          | 31.8                      | 21.2                              | 79.1           | 1.4              |
| <b>Other long-term payables(2)</b>        |                | 0.0                       | 0.0                               | 0.0            | 0.0              |
| Principal                                 | 1,107.7        | 207.6                     | 310.9                             | 235.7          | 353.5            |
| Interest                                  | 122.4          | 27.7                      | 45.4                              | 29.6           | 19.7             |
| <b>Short-term borrowings</b>              | 260.0          | 260.0                     |                                   |                |                  |
| <b>Total contractual cash obligations</b> | <b>8,925.3</b> | <b>1,802.8</b>            | <b>1,862.3</b>                    | <b>2,713.1</b> | <b>2,547.1</b>   |

- (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

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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.

(2) Related to acquisition of frequency licenses. See note 16 of the notes to our consolidated financial statements.  
See note 36 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, deferred revenue relating to initial subscription fees, 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 268.6 billion in 2012 and Won 296.5 billion in 2013. 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, 2013 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.



**Table of Contents*****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 six to 15 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 2013. See note 16 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 15 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 54.3 billion in 2013 compared to Won 353.8 billion in 2012 and Won 762.9 billion in 2011. Our provision for handset subsidies has decreased as we gradually ceased providing handset subsidies 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 19 of the notes to our consolidated financial statements.

***Deferred Revenue relating to Initial Subscription Fees***

We charge initial subscription fees related to activation of many of our services, which are deferred and recognized as revenue over the expected terms of customer relationships. Our estimate of expected terms of customer

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relationships is based on the historical retention rate, which may differ in the future. If the management's estimation is amended, it may cause significant differences in the timing of revenue recognition and amount recognized.

**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 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 1%, then the estimated defined benefit obligations would have decreased by Won 22.8 billion, or 7.3% in total. If the expected rates of salary increase were increased by 1%, then the estimated defined benefit obligations would have increased by Won 25.3 billion, or 8.1% in total. Defined benefit liabilities were Won 74.2 billion in 2013, Won 86.5 billion in 2012 and Won 85.9 billion in 2011. Defined benefit liabilities in 2013 decreased by Won 12.3 billion compared to 2012 due to an increase by 0.4% of the estimated average discount rate and a decrease by 0.88% of the expected rates of salary increase. See note 21 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 a critical accounting estimate because (1) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities, and (2) the impact that changes in actual performance versus these estimates could have on the realization of tax benefits as reported in our results of operations could be material. Management's assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so. As of December 31, 2013, 2012 and 2011, unused tax loss carryforwards of Won 669.9 billion, Won 792.8 billion and Won 836.8 billion, respectively, were not recognized as deferred tax assets because we did not believe that their realization would be probable. The decrease of Won 122.9 billion in unrecognized tax loss carryforwards in 2013 compared to 2012 and the decrease of Won 44.0 billion in 2012 compared to 2011 were primarily due to the expiration of unrecognized tax loss carryforwards. See note 30 of the notes to our consolidated financial statements.

**Item 5.C. Research and Development, Patents and Licenses, etc.  
Overview**

We maintain a high level of spending on our internal research activity. We also donate funds to several Korean research institutes and educational organizations that focus on research and development activity. We believe that we must maintain a substantial in-house technology capability to achieve our strategic goals.

The following table sets forth our annual research and development expenses:

|                          | As of and for the Year Ended<br>December 31, |       |       |
|--------------------------|--|-------|-------|
|                          | 2013   | 2012  | 2011  |
|                          | (In billions of Won)                         |       |       |
| Internal R&D Expenses(1) | 352.4  | 304.6 | 271.4 |
| External R&D Expenses    |  | 4.0   | 20.0  |
| Total R&D Expenses       | 352.4  | 308.6 | 291.4 |



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(1) Consists of research and development costs that are expensed as incurred and costs that are amortized during the respective period. Our total research and development expenses were approximately 2.1% in 2013, 1.9% in 2012 and 1.8% in 2011, respectively, of operating revenue and other income.

Our external research and development expenses have been influenced by the annual recommendations made by the Ministry of Knowledge Economy of the previous Government concerning our minimum level of contribution to the Government-run Fund for Development of Information Telecommunications. We were required to contribute 0.75% of our revenues attributable to our key communications services (excluding revenues from telecommunications service using an allotted frequency if the consideration for such allotted frequency has been paid) for 2011. We are no longer required to make any contributions to the Fund for Development of Information Telecommunications in light of the decrease in revenues from our CDMA network and did not make any contribution to this fund in 2012 and 2013. Under the new Government, the MSIP supervises this Fund for Development of Information Telecommunications but has yet to make any recommendation for 2013. We are not obligated to make donations to any other external research institute. See Item 4.B. Business Overview Law and Regulation Mandatory Contributions and Obligations.

### **Internal Research and Development**

The main focus of our internal research and development activity is the development of new wireless technologies and services and value-added technologies and services for our CDMA-based, WCDMA-based, LTE-based and WiBro networks, such as wireless data communications, as well as development of new technologies that reflect the growing convergence between telecommunications and other industries. We spent approximately Won 352.4 billion on internal research and development in 2013.

Our internal research and development activity is centered at a research center with state-of-the-art facilities and equipment established in January 1999 in Bundang-gu, Seongnam-si, Gyeonggi-do, Korea. To more efficiently manage our research and development resources, our research and development center is organized into five core areas:

The *network technology R&D center*, which has pioneered the development of 3G, 3.5G and LTE technologies. This center is developing next-generation network technologies, as well as core network equipment and new services. Current projects include the improvement of LTE technology and the next generation transmission technology and the development of data femtocell and hybrid access points to improve network coverage, as well as location-based services and mobile voice blogging service.

The *information technology R&D center*, which focuses on improving the quality and operation of our core networks; building a flexible service infrastructure that will support the introduction of new products and services and enable easy maintenance; developing new technologies relating to IT security, public cloud services, B2B solutions and next-generation IT technologies, as well as developing new services based on customer needs.

The *fusion technology R&D center*, which is responsible for developing core semiconductor technology, smart storage system technology and quantum technology, including short-distance cryptographic communication technology.

The *emerging technology R&D center*, which is responsible for developing base technologies such as high-quality voice recognition, sentence generation and other new technologies as well as future technologies such as core video and imaging technology and platform technology related to biographical data.

The *health care group*, which is responsible for developing diagnostic instruments and chemicals by combining information technology and health care technology and analyzing computer data relating to health information as well as developing core technologies for

medical devices.

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Each business unit also has its own research team that can concentrate on specific short-term research needs. Such research teams permit our research center to concentrate on long-term, technology-intensive research projects. We aim to establish strategic alliances with selected domestic and foreign companies with a view to exchanging or jointly developing technologies, products and services.

### **External Research and Development**

In addition to conducting research in our own facilities, we have been a major financial supporter of other Korean research institutes, and we have helped coordinate the Government's effort to commercialize CDMA-based, WCDMA-based, LTE-based and WiBro technology. We do not independently own intellectual property rights in the technologies or products developed by any external research institute.

#### **Item 5.D. *Trend Information***

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

#### **Item 5.E. *Off-Balance Sheet Arrangements***

None.

#### **Item 5.F. *Tabular Disclosure of Contractual Obligations***

These matters are discussed under Item 5.B. above where relevant.

#### **Item 5.G. *Safe Harbor***

These matters are discussed under Forward-Looking Statements.

### **Item 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES***

#### **Item 6.A. *Directors and Senior Management***

Our board of directors has ultimate responsibility for the management of our affairs. Under our articles of incorporation, our board is to consist of at least three but no more than twelve directors, more than half of whom must be independent non-executive directors. We currently have a total of eight directors, five of whom are independent non-executive directors. We elect our directors at a general meeting of shareholders with the approval of at least a majority of those shares present or represented at such meeting. Such majority must represent at least one-fourth of our total issued and outstanding shares with voting rights.

As required under relevant Korean laws and our articles of incorporation, we have a committee for recommendation of independent non-executive directors within the board of directors, the Independent Director Nomination Committee. Independent non-executive directors are appointed from among those candidates recommended by the Independent Director Nomination Committee.

The term of offices for directors is until the close of the third annual general shareholders meeting convened after he or she commences his or her term. Our directors may serve consecutive terms. Our shareholders may remove them from office by a resolution at a general meeting of shareholders adopted by the holders of at least two-thirds of the voting shares present or represented at the meeting, and such affirmative votes also represent at least one-third of our total voting shares then issued and outstanding.

Representative directors are directors elected by the board of directors with the statutory power to represent our company.

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The following are the names and positions of our standing and non-standing directors. The business address of all of our directors is the address of our registered office at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 100-999, Korea.

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Standing directors are our full-time employees and executive officers, and they also comprise the senior management, or the key personnel who manage us. Their names, dates of birth and positions at our company and other positions are set forth below:

| <b>Name</b>   | <b>Date of Birth</b> | <b>Director Since</b> | <b>Expiration of Term</b> | <b>Position</b>                       | <b>Other Principal Directorships and Positions</b>  | <b>Business Experience</b>  |
|---------------|----------------------|-----------------------|---------------------------|---------------------------------------|---|---|
| Sung Min Ha   | Mar. 24, 1957        | 2011                  | 2017                      | President and Chief Executive Officer | Chairman of the SK SUPEX Council Strategy Committee | Head of Mobile Network Operator Business, SK Telecom; CFO & Head of Strategic Planning Office, SK Telecom   |
| Dong Seob Jee | Jul. 7, 1963         | 2012                  | 2015                      | Head of Corporate Vision Department   |   | Head of Corporate Strategy Department, Head of Marketing Strategy Department, and Head of MNO Strategy Department, SK Telecom                                 |
| Dae Sik Cho   | Nov. 27, 1960        | 2013                  | 2016                      | Executive Director                    | Chief Executive Officer, SK Holdings                | Chief Finance Officer, Head of Finance Division and Risk Management & Corporate Auditing Office, SK Holdings; Head of Business Management Office, SK Holdings |

Our current non-standing directors are as set forth below:

| <b>Name</b>     | <b>Date of Birth</b> | <b>Director Since</b> | <b>Expiration of Term</b> | <b>Position</b>                    | <b>Other Positions</b>  | <b>Business Experience</b>  |
|-----------------|----------------------|-----------------------|---------------------------|------------------------------------|---|---|
| Dae Shick Oh    | Nov. 28, 1954        | 2013                  | 2016                      | Independent Non-executive Director | Advisor, Bae, Kim & Lee LLC   | Outside Director, CJ Corporation, Head of Seoul Regional Tax Office; Head of Investigation Department, Korea National Tax Service                                     |
| Hyun Chin Lim   | Apr. 26, 1949        | 2012                  | 2015                      | Independent Non-executive Director | Professor, College of Social Science, Seoul National University                   | President, Korea Sociological Association; Dean, College of Social Science, Seoul National University; President, Korean Association of NGO Studies                   |
| Jay Young Chung | Oct. 15, 1944        | 2011                  | 2017                      | Independent Non-executive Director | Honorary Professor, Sung Kyun Kwan University                                     | Chief, Asia-Pacific Economic Association; Vice President, Sung Kyun Kwan University; Independent Non-executive Director, POSCO  |
| Jae Hoon Lee    | Sep. 26, 1955        | 2014                  | 2017                      | Independent Non-executive Director | President, Association of Future Strategy Forum on Energy & Resources Development | Vice Minister, Ministry of Knowledge Economy; Vice Minister, Ministry of Commerce, Industry and Energy; Assistant Minister, Ministry of Commerce, Industry and Energy |
| Jae Hyeon Ahn   | Feb. 2, 1961         | 2014                  | 2017                      | Independent Non-executive          | Vice President, College of Business, KAIST  | Dean, College of Information and Media  |



Director

Management, KAIST;  
President, Korea Media  
Management Association;  
Senior Technical Staff  
Member, AT&T Bell Labs

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### **Involvement in Certain Legal Proceedings**

In January 2012, Seoul Central Prosecutors' Office indicted Mr. Jae Won Chey, our director at the time, and Mr. Tae Won Chey, the Chairman and Chief Executive Officer of SK Holdings, on charges of embezzlement and criminal breach of fiduciary duty alleging that they misappropriated Won 46.85 billion of our corporate funds and additional funds of our affiliates. On February 27, 2014, the Supreme Court of Korea confirmed the Seoul High Court's decision, sentencing Mr. Jae Won Chey and Mr. Tae Won Chey to prison terms of three and a half years and four years, respectively.

### **Item 6.B. Compensation**

The aggregate of the remuneration paid and in-kind benefits granted to the directors (all standing directors, who also serve as our executive officers, and non-standing directors) during the year ended December 31, 2013 totaled approximately Won 3.3 billion. This amount included Won 635 million in salary and Won 631 million in bonus paid to Mr. Sung Min Ha, our President and Chief Executive Officer, and Won 308 million in salary and Won 286 million in bonus paid to Mr. Dong Seob Jee, head of our corporate vision department.

Remuneration for the directors is determined by shareholder resolution. Severance allowances for directors are determined by the board of directors in accordance with our regulation on severance allowances for officers, which was adopted by shareholder resolution. The regulation provides for monthly salary, performance bonus, severance payment and fringe benefits. The amount of performance bonuses is independently decided by a resolution of the board of directors.

In March 2002, pursuant to resolutions of the shareholders, and in accordance with our articles of incorporation, certain of our directors and officers were granted options to purchase our common shares, which have all expired without being exercised. Since 2003, none of our directors and officers have been granted options to purchase our common shares.

### **Item 6.C. Board Practices**

For information regarding the expiration of each director's term of appointment, as well as the period from which each director has served in such capacity, see the table set out under Item 6.A. Directors and Senior Management above.

### **Termination of Directors, Services**

Directors are given a retirement and severance payment upon termination of employment in accordance with our internal regulations on severance payments. Upon retirement, directors who have made significant contributions to our company during their term may be appointed to serve either as an advisor to us or as an officer of an affiliate company.

### **Audit Committee**

Under relevant Korean laws and our articles of incorporation, we are required to have an audit committee under the board of directors. The committee is composed of at least three members, two-thirds of whom must be independent non-executive directors in accordance with applicable rules. The members of the audit committee are appointed annually by a resolution of the general meeting of shareholders. They are required to:

examine the agenda for the general meeting of shareholders;

examine financial statements and other reports to be submitted by the board of directors to the general meeting of shareholders;

review the administration by the board of directors of our affairs; and

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examine the operations and asset status of us and our subsidiaries.

In addition, the audit committee must appoint independent auditors to examine our financial statements. An audit and review of our financial statements by independent auditors is required for the purposes of a securities report. Listed companies must provide such report on an annual, semi-annual and quarterly basis to the FSC and the KRX KOSPI Market.

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Our audit committee is composed of three independent non-executive directors: Dae Shick Oh, Hyun Chin Lim and Jae Hyeon Ahn, each of whom is financially literate and independent under the rules of the NYSE as applicable. The board of directors has determined that Dae Shick Oh is an audit committee financial expert as defined under the applicable rules of the SEC. See Item 16A. Audit Committee Financial Expert.

**Independent Director Nomination Committee**

This committee is devoted to recommending independent non-executive directors for the board of directors. The objective of the committee is to help promote fairness and transparency in the nomination of candidates for these positions. The board of directors decides from time to time who will comprise the members of this committee. The committee is comprised of one executive director and two independent directors.

**Capex Review Committee**

This committee is responsible for reviewing our business plan (including the budget). It also examines major capital expenditure revisions, and routinely monitors capital expenditure decisions that have already been executed. The committee is comprised of one executive director and four independent directors.

**Compensation Review Committee**

This committee oversees our overall compensation scheme for top-level executives and directors. It is responsible for reviewing both the criteria for and level of compensation. It is comprised of three independent directors, Hyun Chin Lim, Jay Young Chung and Jae Hoon Lee.

**Corporate Citizenship Committee**

This committee was established to help us achieve world-class sustainable growth and to help us fulfill our corporate social responsibilities. It is comprised of one executive director and four independent directors.

**Item 6.D. Employees**

The following table sets forth the numbers of our regular employees, temporary employees and total employees as of the dates indicated:

|                   | <b>Regular<br/>Employees</b> | <b>Temporary<br/>Employees</b> | <b>Total</b> |
|-------------------|------------------------------|--------------------------------|--------------|
| December 31, 2011 | 15,480                       | 5,475                          | 20,955       |
| December 31, 2012 | 16,447                       | 5,701                          | 22,148       |
| December 31, 2013 | 21,546                       | 2,243                          | 23,789       |

**Labor Relations**

As of December 31, 2013, SK Telecom had a company union consisting of 2,006 regular employees out of 3,976 total regular employees. We have never experienced a work stoppage of a serious nature. 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. Our wage negotiations for 2011 were completed in September 2011 and resulted in an average wage increase of 3.0% for SK Telecom employees. Our wage negotiations for 2012 were completed in April 2012 and resulted in an average wage increase of 4.0% for SK Telecom employees. Our wage negotiations for 2013 were completed in October 2013 and resulted in an average wage increase of 1.5% for SK Telecom employees. Our wage negotiations for 2014 have not commenced yet. We consider our relations with our employees to be good.

**Employee Stock Ownership Association and Other Benefits**

Since April 1999, we have been required to contribute an amount equal to 4.5% of employee wages toward a national pension plan. Employees are eligible to participate in an employee stock ownership association. We are not required to, and we do not, make any contributions to the employee stock ownership association, although we subsidize the employee stock ownership association through the Employee Welfare Fund by providing low interest



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rate loans to employees who desire to purchase our stock through the plan in the event of a capitalization by the association. On December 26, 2007 and January 23, 2008, we loaned Won 31.0 billion and Won 29.7 billion, respectively, to our employee stock ownership association to help fund the employee stock ownership association's acquisition of our treasury shares. Such loans are to be repaid over a period of five years, beginning on the second anniversary of each loan date. We expect these loans to be repaid in full by 2015. As of March 31, 2014, the employee stock ownership association owned approximately 0.15% of our issued common stock.

We are required to pay a severance amount to eligible employees who voluntarily or involuntarily cease employment with us, including through retirement. This severance amount is based upon the employee's length of service with us and the employee's salary level at the time of severance. As of December 31, 2013, the defined benefit obligation, which is the accrued and unpaid retirement and severance benefits, of Won 312.5 billion for all of our employees are reflected in our consolidated financial statements as a liability, of which a total of Won 238.3 billion was funded. Under Korean laws and regulations, we are prevented from involuntarily terminating a full-time employee except under certain limited circumstances. In September 2002, we entered into an employment stabilization agreement with the union. Among other things, this agreement provides for a one-year guarantee of the same wage level in the event that we reorganize a department into a separate entity or we outsource an employee to a separate entity where the wage is lower.

Under the Basic Labor Welfare Act, we may also contribute up to 5.0% of our annual earnings before tax for employee welfare. Contribution amounts are determined annually following negotiation with the union. The contribution amount for 2013, which was decided in December 2013, was set at 1.64% of SK Telecom's profit before income tax on a separate basis, or Won 20.0 billion. The contribution amount for 2012, which was decided in December 2012, was set at 1.29% of SK Telecom's profit before income tax on a separate basis, or Won 20.0 billion. The contribution amount for 2011, which was decided in December 2011, was set at 0.4% of SK Telecom's profit before income tax on a separate basis, or Won 10.0 billion.

In addition, we provide our employees with miscellaneous other fringe benefits including housing loans, free medical examinations, subsidized on-site child care facilities and sabbatical programs for long-term employees.

**Item 6.E. Share Ownership**

The following table sets forth the share ownership by our standing and non-standing directors as of March 31, 2014:

| Name                           | Position                            | Number of Shares Owned | Percentage of Total Shares Outstanding | Special Voting Rights | Options |
|--------------------------------|-------------------------------------|------------------------|--|-----------------------|---------|
| <b>Standing Directors:</b>     |                                     |                        |  |                       |         |
| Sung Min Ha                    | President & Chief Executive Officer | 738                    | 0                                      | None                  | None    |
| Dae Sik Cho                    | Executive Director                  | 0                      | 0                                      | None                  | None    |
| Dong Seob Jee                  | Head of Corporate Vision Department | 0                      | 0                                      | None                  | None    |
| <b>Non-Standing Directors:</b> |                                     |                        |  |                       |         |
| Hyun Chin Lim                  | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |
| Dae Shick Oh                   | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |
| Jay Young Chung                | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |
| Jae Hoon Lee                   | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |
| Jae Hyeon Ahn                  | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |

**Table of Contents****Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Item 7.A. Major Shareholders**

As of the close of our shareholders registry on December 31, 2013, approximately 51.98% of our issued shares were held in Korea by approximately 17,892 shareholders. According to Citibank, N.A., depository for our American Depositary Receipts, as of December 31, 2013, there were 44,407 U.S. holders of our American Depositary Receipts evidencing ADSs and 13,677,811 shares of our common stock were held in the form of ADSs. As of such date, outstanding ADSs represented approximately 16.9% of our outstanding common shares.

The following table sets forth certain information as of March 31, 2014 with respect to any person known to us to be the beneficial owner of more than 5.0% of our common shares and with respect to the total amount of such shares owned by our employees and our officers and directors, as a group:

| Shareholder/Category              | Number of Shares | Percentage Total Shares Issued | Percentage Total Shares Outstanding |
|-----------------------------------|------------------|--------------------------------|-------------------------------------|
| Domestic Shareholders             |                  |                                |                                     |
| SK Holdings                       | 20,363,452       | 25.22%                         | 28.71%                              |
| Employees(1)                      | 120,723          | 0.15                           | 0.17                                |
| Treasury shares(2)                | 9,809,375        | 12.15                          | N/A                                 |
| Officers and Directors            | 6,074            | 0.01                           | 0.01                                |
| Other Domestic Shareholders       | 11,674,232       | 14.46                          | 16.46                               |
| Foreign Shareholders(3)           |                  |                                |                                     |
| Shareholders holding ADRs         | 13,485,736       | 16.70                          | 19.01                               |
| Shareholders holding common stock | 25,286,119       | 31.31                          | 35.64                               |
| Total Issued Shares(4)            | 80,745,711       | 100%                           |                                     |
| Total Outstanding Shares(5)       | 70,936,336       |                                | 100%                                |

(1) Represents shares owned by our employee stock ownership association. See Item 6.D. Employees.

(2) Treasury shares do not have any voting rights.

(3) Based on the data collected by the KRX KOSPI Market under the Foreign Exchange Transaction Laws.

(4) On January 9, 2009, we purchased (using retained earnings) and cancelled 448,000 common shares. As a result of such retirement of common shares, the total number of shares decreased to 80,745,711 from 89,278,946 which is the total number of shares issued to date.

(5) Represents total issued shares excluding treasury shares.

The following table sets forth significant changes in the percentage ownership held by our major shareholders during the past three years:

| Shareholder | As of December 31, |      |      |
|-------------|--------------------|------|------|
|             | 2013               | 2012 | 2011 |

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|             | (As a percentage of total<br>issued shares)(1) |        |        |
|-------------|--|--------|--------|
| SK Group(2) | 25.22%   | 25.22% | 25.22% |
| SK Holdings | 25.22  | 25.22  | 25.22  |
| POSCO(3)    | 0.00   | 0.00   | 2.90   |

(1) Includes 9,809,375, 11,050,712 and 11,050,712 shares held in treasury as of December 31, 2013, 2012 and 2011, respectively.

(2) SK Group's ownership interest as of December 31, 2013, 2012 and 2011 consisted of the ownership interest of SK Holdings only.

(3) POSCO acquired these shares in connection with our acquisition of a 27.7% equity interest in Shinsegi and sold these shares in the first half of 2012.

Except as described above, other than companies in the SK Group, no other persons or entities known by us to be acting in concert, directly or indirectly, jointly or severally, own in excess of 5.0% of our total shares outstanding or exercise control or could exercise control over our business.



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On July 1, 2007, the company formerly known as SK Corporation underwent a corporate reorganization, pursuant to which SK Corporation spun off substantially all of its operating business divisions into a newly established corporation named SK Energy Co., Ltd. The surviving company currently operates as a holding company, renamed SK Holdings. Ownership of all our shares held by SK Corporation immediately preceding the reorganization passed to SK Holdings as of July 1, 2007.

As of March 31, 2014, SK Holdings held 25.22% of our shares of common stock. For a description of our foreign ownership limitation, 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 and Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements. In the event that SK Holdings announces plans of a sale of our shares, we expect to be able to discuss the details of such sale with them in advance and will endeavor to minimize any adverse effects on our share prices as a result of such sale.

As of March 31, 2014, the total number of our common shares outstanding was 70,936,336.

Other than as disclosed herein, there are no other arrangements, to the best of our knowledge, which would result in a material change in the control of us. Our major shareholders do not have different voting rights.

### **Item 7.B. Related Party Transactions** **SK Networks**

In September 2009, we acquired the leased-line business and related ancillary businesses from SK Networks for Won 892.76 billion and assumed Won 611.44 billion of debt as part of the transaction. Prior to such acquisition, KT and SK Networks provided a substantial majority of our leased lines. For a more detailed discussion of the lines we lease from fixed-line operators, see Item 4.B. Business Overview Digital Wireless Network Network Infrastructure.

As of December 31, 2013, we had Won 5.9 billion of accounts receivable from SK Networks. As of the same date, we had Won 118.8 billion of accounts payable to SK Networks, mainly consisting of commissions to dealers owned by SK Networks.

### **Other Related Parties**

On July 22, 2003, we acquired 2,481,310 shares of POSCO common stock held by SK Holdings at a price of Won 134,000 per share in accordance with a resolution of our board of directors dated July 22, 2003. We decided to purchase the shares for strategic reasons in order to address overhang concerns arising from POSCO's ownership of our shares. In the first half of 2012, POSCO sold all of our shares that it owned and on October 8, 2012, we sold half of the POSCO shares we owned. We currently own 1.42% of POSCO's shares.

We enter into agreements with SK C&C Co., Ltd. ( SK C&C ) from time to time for specific information technology-related projects. The aggregate fees we paid to SK C&C for information technology services amounted to Won 357.9 billion in 2013, Won 324.2 billion in 2012 and Won 321.4 billion in 2011. We also purchase various information technology-related equipment from SK C&C from time to time. The total amount of such purchases was Won 206.3 billion in 2013, Won 304.1 billion in 2012 and Won 299.2 billion for 2011. We are a party to several service agreements with SK C&C relating to the development and maintenance of our information technologies systems.

We are part of the SK Group of affiliated companies. See Item 7.A. Major Shareholders. As disclosed in note 32 of the notes to our consolidated financial statements, we had related party transactions with a number of affiliated companies of the SK Group during the year ended December 31, 2013.

### **Item 7.C. Interests of Experts and Counsel** Not applicable.

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**Table of Contents****Item 8. FINANCIAL INFORMATION****Item 8.A. Consolidated Statements and Other Financial Information**

See Item 18. Financial Statements and pages F-1 through G-75.

**Legal Proceedings*****FTC Proceedings***

In June 2011, the FTC fined us Won 2.0 billion and Loen Entertainment, our consolidated subsidiary at the time, Won 8.7 billion for activities allegedly restricting competition in markets for digital music services. We and Loen Entertainment paid such fine in August 2011 and filed appeals at the Seoul High Court and subsequently at the Supreme Court of Korea, where the case is currently pending.

In March 2012, the FTC fined us Won 21.9 billion for allegedly colluding with KT, LG U+, Samsung Electronics, LG Electronics and Pantech (which were also assessed separate fines) to inflate the prices of handsets while advertising that the handsets are offered at a discount through subsidy plans. We paid such fine in September 2012 and filed an appeal at the Seoul High Court, where the case is currently pending.

In July 2012, the FTC fined us Won 25.0 billion for alleged violation of Article 23 of the Fair Trade Act relating to the payment of system management and operation fees. We paid such fine in November 2012 and filed an appeal at the Seoul High Court, where the case is currently pending.

***MIC, KCC and MSIP Proceedings***

On June 10, 2010, the KCC ordered us to pay a fine of Won 2.0 billion and issued a correction order for restricting USIM portability and thereby impeding our subscribers' interests. We paid such fine and completed the improvement of the relevant procedures in September 2010.

On September 24, 2010, the KCC ordered us to pay a fine of Won 12.9 billion and issued a correction order for providing subsidies to our subscribers which were not universally available. We paid such fine and completed the improvement of the relevant procedures in January 2011.

On December 2, 2010, the KCC ordered us to pay a fine of Won 6.2 billion alleging that we had improperly charged subscribers for wireless data transmitted without their request. We paid such fine in March 2011.

On February 21, 2011, the KCC ordered SK Broadband to pay a fine of Won 3.2 billion and issued a correction order for providing fee reductions to its high-speed Internet subscribers which were not universally available. SK Broadband paid such fine and completed the improvement of the relevant procedures in March 2012.

On September 19, 2011, the KCC ordered us to pay a fine of Won 6.9 billion and issued a correction order for providing subsidies to subscribers which were not universally available. We paid such fine in October 2011 and completed the improvement of the relevant procedures in January 2012.

On December 24, 2012, the KCC ordered us to pay a fine of Won 6.9 billion, which we paid in December 2012, imposed a suspension on acquiring new subscribers from January 31, 2013 to February 21, 2013 and issued a correction order for providing subsidies to subscribers which were not universally available. On March 14, 2013, the KCC imposed an additional fine of Won 3.1 billion on us for the same reason after further investigations. We paid such additional fine in April 2013. On July 18, 2013, the KCC imposed an additional fine of Won 36.5 billion on us for the same reason and we paid such fine in July 2013. On December 27, 2013, the KCC imposed an additional fine on us of Won 56.0 billion, which is the largest fine ever imposed by the KCC for providing handset subsidies to subscribers which were not universally available. We paid such additional fine in December 2013.

On March 7, 2014, the MSIP imposed a suspension on us from acquiring new subscribers for a period of 45 days, which is the longest suspension period imposed on us by the Government for providing subsidies to subscribers which were not universally available. On March 13, 2014, the KCC imposed an additional suspension of business on us for a period of seven days and imposed a fine of Won 16.7 billion on us for the same reason and we expect to pay such fine in the first half of 2014.



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***KT Interconnection Fee Litigation***

In December 2010, we filed a lawsuit in the Seoul Central District Court against KT alleging that they paid us lower interconnection fees for intentionally bypassing our 3G spectrum and using our 2G network rather than our 3G network. In response, KT filed a counterclaim against us, alleging that we failed to respond to their request for information and that we intentionally delayed the interconnection for calls from fixed-line KT users to our wireless service subscribers and seeking damages of Won 33.7 billion. In September 2012, the Seoul Central District Court dismissed our lawsuit against KT and rendered a judgment that accepted KT's claims in part. We filed an appeal at the Seoul High Court in October 2012, and in January 2014, the Seoul High Court overturned the District Court's decision and rendered a judgment that accepted our claims in part. We and KT each filed an appeal at the Supreme Court of Korea in February 2014.

***SK Broadband Litigation***

Since April 2008, customers of SK Broadband (then Hanarotelecom Incorporated) have filed lawsuits against SK Broadband in the Seoul Central District Court, alleging that subscribers' personal information was leaked due to the company's poor data protection policies. The plaintiffs also alleged that current and former employees were involved in the sale of subscribers' personal information, including resident registration identification numbers, telephone numbers and mailing addresses.

In the second half of 2011, the Seoul Central District Court rendered judgments that accepted the plaintiffs' claims in part, ordering a payment of Won 100,000 to Won 200,000 to each plaintiff who did not consent to the sale of personal information, which amounted to an aggregate of approximately Won 5.5 billion compared to the plaintiffs' claims of approximately Won 24.7 billion. Both SK Broadband and the plaintiffs filed appeals at the Seoul High Court and the Seoul High Court affirmed the judgments of the Seoul Central District Court with respect to a few of these lawsuits. SK Broadband subsequently settled with all of the remaining plaintiffs and there are no outstanding claims against SK Broadband related to these lawsuits.

***SK Communications Litigation***

In July 2011, there was a leak of personal information of subscribers of NATE and Cyworld websites operated by SK Communications, our consolidated subsidiary. As of December 31, 2013, 22 lawsuits were filed against SK Communications, alleging that the leak was caused by its poor management of subscribers' personal information and seeking damages of approximately Won 5.5 billion. With respect to a few of the lawsuits, the relevant district courts have rendered judgments for the relevant plaintiffs' claims in part and SK Communications has appealed such judgments to the applicable high courts. With respect to one of these lawsuits, the relevant high court has rendered judgment for the relative plaintiff's claims in part. Other cases remain pending at various high courts and district courts in Korea.

***COLORing Litigation***

In May 2010, Korea Music Copyright Association (KOMCA) filed a lawsuit against us seeking license fees for our COLORing service that plays music as ring tones. In February 2011, the court rendered a judgment against us ordering us to pay Won 570 million to KOMCA, which was affirmed by the appellate court in October 2011. We appealed the decision to the Supreme Court of Korea in November 2011. In July 2013, the Supreme Court of Korea overturned the appellate court's decision and sent the case back to the appellate court for further deliberation. While we do not expect that the outcome of the litigation would have a material adverse impact on our business or results of operations, we may be required to pay increased on-going license fees to KOMCA if the final judgment is rendered against us.

Except as described above, neither we nor any of our subsidiaries are involved in any litigation, arbitration or administrative proceedings relating to claims which may have, or have had during the twelve months preceding the date hereof, a significant effect on our financial position or the financial position of our subsidiaries taken as a whole, and, so far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

**Table of Contents****Dividends**

Annual dividends, if any, on our outstanding shares must be approved at the annual general meeting of shareholders. This meeting is generally held in March of the following year, and the annual dividend is generally paid shortly after the meeting. Since our shareholders have discretion to declare annual dividends, we cannot give any assurance as to the amount of dividends per share or that any dividends will be declared at all. Interim dividends, if any, can be approved by a resolution of our board of directors. Once declared, dividends must be claimed within five years, after which the right to receive the dividends is extinguished and reverted to us.

We pay cash dividends to the ADR depositary in Won. Under the terms of the deposit agreement, cash dividends received by the ADR depositary generally are to be converted by the ADR depositary into Dollars and distributed to the holders of the ADSs, less withholding tax, other governmental charges and the ADR depositary's fees and expenses. The ADR depositary's designated bank in Korea must approve this conversion and remittance of cash dividends. See Item 10.B. Memorandum and Articles of Incorporation—Description of American Depositary Shares and Item 10.D. Exchange Controls—Korean Foreign Exchange Controls and Securities Regulations.

The following table sets forth the dividend per share and the aggregate total amount of dividends declared (including any interim dividends), as well as the number of outstanding shares entitled to dividends, with respect to the years indicated. The dividends set out for each of the years below were paid in the immediately following year.

| <b>Year Ended December 31,</b> | <b>Dividend<br/>per Share<br/>(In Won)</b> | <b>Total Amount<br/>of Dividends<br/>(In billions of Won)</b> | <b>Number of<br/>Shares Entitled<br/>to Dividend</b> |
|--------------------------------|--|---|--|
| 2009                           | 9,400                                      | 680.0   | 72,344,999   |
| 2010                           | 9,400                                      | 669.5   | 71,094,999   |
| 2011                           | 9,400                                      | 656.5   | 69,694,999(1)  |
| 2012                           | 9,400                                      | 655.1   | 69,694,999   |
| 2013                           | 9,400                                      | 666.4   | 70,936,336   |

(1) The number of shares entitled to the interim dividend was 71,094,999.

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. Our common shares represented by the ADSs have the same dividend rights as other outstanding common shares.

Holders of non-voting shares are entitled to receive dividends in priority to the holders of common shares. The dividend on the non-voting shares is between 9.0% and 25.0% of the par value as determined by the board of directors at the time of their issuance. If the dividends for common shares exceed the dividends for non-voting shares, the holders of non-voting shares will be entitled to participate in the distribution of such excess amount with the holders of common shares. If the amount available for dividends is less than the aggregate amount of the minimum required dividend, holders of non-voting shares will be entitled to receive such accumulated unpaid dividend from dividends payable in the next fiscal year before holders of common shares. There are no non-voting shares issued or outstanding.

We declare dividends annually at the annual general meeting of shareholders which is generally held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record or registered pledges as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in shares. However, a dividend of shares must be distributed at par value. Dividends in shares may not exceed one-half of the annual dividend. Our obligation to pay dividend expires if no claim to dividend is made for five years from the payment date.

Under the Korean Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital, (2) the total amount of our capital surplus reserve, (3) legal reserve accumulated up to the end of the relevant dividend period and (4) the increase in our net asset value resulting from the evaluation of our assets and liabilities that has not been offset against unrealized losses. In addition, we may not pay an annual dividend unless we have set aside as a legal reserve an amount equal to at least 10.0% of the cash portion of the annual dividend or until we have accumulated a legal reserve of not less



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than one-half of our stated capital. We may not use our legal reserve to pay cash dividends but may transfer amounts from our legal reserve to capital stock or use our legal reserve to reduce an accumulated deficit.

In addition, the Korean Commercial Code and our articles of incorporation provide that, in addition to annual dividends, we may pay interim dividends once during each fiscal year. Unlike annual dividends, the decision to pay interim dividends can be made by a resolution of the board of directors and is not subject to shareholder approval. Any interim dividends must be paid in cash to the shareholders of record as of June 30 of the relevant fiscal year. In August 2013, we distributed such interim dividends at Won 1,000 per share to our shareholders for a total amount of approximately Won 70.5 billion.

Under the Korean Commercial Code, the total amount of interim dividends payable in a fiscal year shall not be more than the net assets on the balance sheet of the immediately preceding fiscal year, after deducting (1) a company's capital in the immediately preceding fiscal year, (2) the aggregate amount of its capital reserves and legal reserves accumulated up to the immediately preceding fiscal year, (3) the amount of earnings for dividend payments confirmed at the general shareholders' meeting with respect to the immediately preceding fiscal year and (4) the amount of legal reserve that should be set aside for the current fiscal year following the interim dividend payment. Furthermore, the rate of interim dividends for non-voting shares must be the same as that for our common shares.

Our obligation to pay interim dividends expires if no claims to such dividends are made for a period of five years from the payment date.

### **Item 8.B. *Significant Changes***

Not applicable.

## **Item 9. *THE OFFER AND LISTING***

### **Item 9.A. *Offering and Listing Details***

These matters are described under Item 9.C. below where relevant.

### **Item 9.B. *Plan of Distribution***

Not applicable.

### **Item 9.C. *Markets***

The principal trading market for our common shares is the KRX KOSPI Market. As of March 31, 2014, 70,936,336 shares of our common stock were outstanding.

The ADSs are traded on the NYSE and the London Stock Exchange. The ADSs have been issued by the ADR depository and are traded on the NYSE under the ticker symbol *SKM*. Each ADS represents one-ninth of one share of our common stock. As of March 31, 2014, ADSs representing 13,485,736 shares of our common stock were outstanding.

**Table of Contents****Shares of Common Stock**

The following table sets forth the high, low and closing prices and the average daily trading volume of our common shares on the KRX KOSPI Market since January 1, 2009:

| Calendar Year                     | Prices  |                            |         | Average Daily<br>Trading<br>Volume<br>(Number of shares) |
|-----------------------------------|---------|----------------------------|---------|--|
|                                   | High(1) | Low(1)<br>(Won per shares) | Close   |  |
| 2009                              | 218,000 | 166,000                    | 169,500 | 332,913  |
| First Quarter                     | 218,000 | 180,500                    | 192,000 | 231,340  |
| Second Quarter                    | 183,500 | 170,500                    | 174,000 | 278,545  |
| Third Quarter                     | 185,500 | 166,000                    | 182,500 | 242,112  |
| Fourth Quarter                    | 190,500 | 169,500                    | 169,500 | 171,571  |
| 2010                              | 188,000 | 158,500                    | 173,500 | 193,937  |
| First Quarter                     | 188,000 | 168,500                    | 173,500 | 306,532  |
| Second Quarter                    | 178,000 | 158,500                    | 160,500 | 202,245  |
| Third Quarter                     | 171,500 | 158,500                    | 171,500 | 145,561  |
| Fourth Quarter                    | 180,500 | 168,500                    | 173,500 | 127,235  |
| 2011                              | 172,500 | 131,000                    | 141,500 | 214,788  |
| First Quarter                     | 172,500 | 156,000                    | 163,500 | 124,796  |
| Second Quarter                    | 169,000 | 152,500                    | 161,500 | 160,839  |
| Third Quarter                     | 161,500 | 131,000                    | 149,500 | 324,018  |
| Fourth Quarter                    | 165,000 | 141,500                    | 141,500 | 249,500  |
| 2012                              | 161,000 | 120,500                    | 152,500 | 216,031  |
| First Quarter                     | 146,000 | 134,500                    | 139,500 | 193,924  |
| Second Quarter                    | 142,500 | 120,500                    | 125,000 | 284,712  |
| Third Quarter                     | 153,000 | 125,000                    | 147,000 | 208,276  |
| Fourth Quarter                    | 161,000 | 145,500                    | 152,500 | 177,955  |
| 2013                              | 238,500 | 150,000                    | 230,000 | 212,769  |
| First Quarter                     | 185,500 | 150,000                    | 180,500 | 234,684  |
| Second Quarter                    | 225,500 | 172,000                    | 210,000 | 245,151  |
| Third Quarter                     | 226,500 | 202,000                    | 218,500 | 175,670  |
| Fourth Quarter                    | 238,500 | 211,500                    | 230,000 | 195,925  |
| 2014 (through April 25)           | 229,000 | 196,500                    | 204,500 | 190,961  |
| First Quarter                     | 229,000 | 196,500                    | 215,500 | 184,185  |
| January                           | 229,000 | 205,500                    | 216,500 | 176,445  |
| February                          | 216,500 | 196,500                    | 216,500 | 196,008  |
| March                             | 219,000 | 203,500                    | 215,500 | 180,296  |
| Second Quarter (through April 25) | 217,000 | 198,000                    | 204,500 | 212,717  |
| April (through April 25)          | 217,000 | 198,000                    | 204,500 | 212,717  |

Source: Korea Exchange

(1) Both high and low prices are based on the daily closing prices for the period.



**Table of Contents****American Depositary Shares**

The following table sets forth the high, low and closing prices and the average daily trading volume of the ADSs on the NYSE since January 1, 2009:

| Calendar Year                     | Prices |                       |       | Average Daily Trading Volume<br>(Number of ADSs) |
|-----------------------------------|--------|-----------------------|-------|--|
|                                   | High   | Low<br>(US\$ per ADS) | Close |  |
| 2009                              | 18.64  | 12.59                 | 16.26 | 1,246,873  |
| First Quarter                     | 18.35  | 12.59                 | 15.45 | 1,280,533  |
| Second Quarter                    | 16.73  | 14.84                 | 15.15 | 1,161,833  |
| Third Quarter                     | 17.50  | 14.82                 | 17.45 | 990,400  |
| Fourth Quarter                    | 18.64  | 15.97                 | 16.26 | 1,788,667  |
| 2010                              | 19.13  | 14.73                 | 18.63 | 1,288,546  |
| First Quarter                     | 18.33  | 16.32                 | 17.26 | 1,422,379  |
| Second Quarter                    | 18.51  | 14.73                 | 14.73 | 1,486,937  |
| Third Quarter                     | 17.48  | 14.84                 | 17.47 | 1,294,034  |
| Fourth Quarter                    | 19.13  | 17.74                 | 18.63 | 960,206  |
| 2011                              | 19.80  | 13.47                 | 13.61 | 1,866,528  |
| First Quarter                     | 19.02  | 16.83                 | 18.81 | 1,639,731  |
| Second Quarter                    | 19.80  | 17.36                 | 18.70 | 1,640,469  |
| Third Quarter                     | 18.77  | 13.47                 | 14.07 | 2,125,730  |
| Fourth Quarter                    | 15.89  | 13.49                 | 13.61 | 2,060,180  |
| 2012                              | 16.41  | 10.85                 | 15.83 | 1,758,414  |
| First Quarter                     | 14.60  | 12.89                 | 13.91 | 1,644,366  |
| Second Quarter                    | 14.18  | 10.85                 | 12.10 | 2,135,473  |
| Third Quarter                     | 15.08  | 12.03                 | 14.54 | 1,836,959  |
| Fourth Quarter                    | 16.41  | 14.41                 | 15.83 | 1,409,508  |
| 2013                              | 25.16  | 15.63                 | 24.62 | 1,407,958  |
| First Quarter                     | 18.72  | 15.63                 | 17.87 | 1,884,190  |
| Second Quarter                    | 22.45  | 16.91                 | 20.33 | 1,724,433  |
| Third Quarter                     | 22.79  | 19.42                 | 22.70 | 848,082  |
| Fourth Quarter                    | 25.16  | 22.12                 | 24.62 | 1,204,890  |
| 2014 (through April 25)           | 24.31  | 20.64                 | 21.95 | 963,256  |
| First Quarter                     | 24.31  | 20.74                 | 22.57 | 952,847  |
| January                           | 24.31  | 21.06                 | 21.94 | 1,063,899  |
| February                          | 22.56  | 20.74                 | 22.38 | 1,073,892  |
| March                             | 22.74  | 21.08                 | 22.57 | 732,277  |
| Second Quarter (through April 25) | 23.06  | 20.64                 | 21.95 | 998,533  |
| April (through April 25)          | 23.06  | 20.64                 | 21.95 | 998,533  |

**The Korean Securities Market*****The Korea Exchange Inc.***

With the enactment of the Korea Stock and Futures Exchange Act, which came into effect on January 27, 2005, the three existing spot and futures exchanges (which were the Korea Stock Exchange, Korean Futures Exchange, and KOSDAQ) and KOSDAQ Committee, a sub-organization of Korea Securities Dealers Association, were merged and integrated into the Korea Exchange as a joint stock company. There are four different markets run by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market (the KRX KOSDAQ Market), the KRX KONEX Market and the KRX Derivatives Market. The Korea Exchange has three trading floors located in Seoul, one for the KRX KOSPI Market, one for the KRX KOSDAQ Market and one for the KRX KONEX Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (1) securities companies and futures companies that were formerly members of the Korea Stock Exchange or the Korea Futures Exchange, (2) the Small & Medium Business Corporation, (3) the



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Korea Securities Finance Corporation and (4) the Korea Financial Investment Association. Currently, the Korea Exchange is the only stock exchange in Korea and is run by membership, having most of Korean securities companies and some Korean branches of foreign securities companies as its members.

As of December 31, 2013, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately Won 1,186.0 trillion. For the year ended December 31, 2013, the average daily trading volume of equity securities was approximately 328.3 million shares with an average trading value of Won 3,993.4 billion. For the year ended December 31, 2012, the average daily trading volume of equity securities was approximately 486.5 million shares with an average trading value of Won 4,823.6 billion. For the year ended December 31, 2011, the average daily trading volume of equity securities was approximately 353.8 million shares with an average trading value of Won 6,863.1 billion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers an excess capacity in a particular industry and induced private companies to publicly offer their securities.

The Korea Exchange publishes the KOSPI, every ten seconds, which is an index of all equity securities listed on the KRX KOSPI Market. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price to earnings ratios:

| Year | Opening  | High     | Low    | Closing  | Period Average        |                |
|------|----------|----------|--------|----------|-----------------------|----------------|
|      |          |          |        |          | Dividend Yield(1) (%) | Price Earnings |
| 1980 | 100.00   | 119.36   | 100.00 | 106.87   | 20.9                  | 2.6            |
| 1981 | 97.95    | 165.95   | 93.14  | 131.37   | 13.2                  | 3.1            |
| 1982 | 123.60   | 134.49   | 106.00 | 127.31   | 10.5                  | 3.4            |
| 1983 | 122.52   | 134.46   | 115.59 | 121.21   | 6.9                   | 3.8            |
| 1984 | 116.73   | 142.46   | 114.37 | 142.46   | 5.1                   | 4.5            |
| 1985 | 139.53   | 163.37   | 131.40 | 163.37   | 5.3                   | 5.2            |
| 1986 | 161.40   | 279.67   | 153.85 | 272.61   | 4.3                   | 7.6            |
| 1987 | 264.82   | 525.11   | 264.82 | 525.11   | 2.6                   | 10.9           |
| 1988 | 532.04   | 922.56   | 527.89 | 907.20   | 2.4                   | 11.2           |
| 1989 | 919.61   | 1,007.77 | 844.75 | 909.72   | 2.0                   | 13.9           |
| 1990 | 908.59   | 928.77   | 566.27 | 696.11   | 2.2                   | 12.8           |
| 1991 | 679.75   | 763.10   | 586.51 | 610.92   | 2.6                   | 11.2           |
| 1992 | 624.23   | 691.48   | 459.07 | 678.44   | 2.2                   | 10.9           |
| 1993 | 697.41   | 874.10   | 605.93 | 866.18   | 1.6                   | 12.7           |
| 1994 | 879.32   | 1,138.75 | 860.47 | 1,027.37 | 1.2                   | 16.2           |
| 1995 | 1,013.57 | 1,016.77 | 847.09 | 882.94   | 1.2                   | 16.4           |
| 1996 | 888.85   | 986.84   | 651.22 | 651.22   | 1.3                   | 17.8           |
| 1997 | 653.79   | 792.29   | 350.68 | 376.31   | 1.5                   | 17.0           |
| 1998 | 385.49   | 579.86   | 280.00 | 562.46   | 1.9                   | 10.8           |
| 1999 | 587.57   | 1,028.07 | 498.42 | 1,028.07 | 1.1                   | 13.5           |

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| Year                    | Opening  | High     | Low      | Closing  | Period Average    |                   |
|-------------------------|----------|----------|----------|----------|-------------------|-------------------|
|                         |          |          |          |          | Dividend Yield(1) | Price Earnings(2) |
| 2000                    | 1,059.04 | 1,059.04 | 500.60   | 504.62   | 2.4               | 15.3              |
| 2001                    | 520.95   | 704.50   | 468.76   | 693.70   | 1.7               | 29.3              |
| 2002                    | 724.95   | 937.61   | 584.04   | 829.44   | 1.8               | 15.6              |
| 2003                    | 635.17   | 822.16   | 515.24   | 810.71   | 2.1               | 10.1              |
| 2004                    | 821.26   | 936.06   | 719.59   | 895.92   | 2.1               | 15.8              |
| 2005                    | 893.71   | 1,379.37 | 870.84   | 1,379.37 | 1.7               | 11.0              |
| 2006                    | 1,389.27 | 1,464.70 | 1,192.09 | 1,434.46 | 1.7               | 11.4              |
| 2007                    | 1,435.26 | 2,064.85 | 1,355.79 | 1,897.13 | 1.4               | 16.8              |
| 2008                    | 1,853.45 | 1,888.88 | 938.75   | 1,124.47 | 2.6               | 9.0               |
| 2009                    | 1,157.4  | 1,718.88 | 1,018.81 | 1,682.77 | 1.2               | 23.7              |
| 2010                    | 1,696.14 | 2,052.97 | 1,532.68 | 2,051.00 | 1.1               | 17.8              |
| 2011                    | 2,070.08 | 2,228.96 | 1,652.71 | 1,825.74 | 1.6               | 10.9              |
| 2012                    | 1,826.37 | 2,049.28 | 1,769.31 | 1,997.05 | 1.3               | 12.9              |
| 2013                    | 2,031.10 | 2,059.58 | 1,780.63 | 2,011.34 | 1.2               | 13.5              |
| 2014 (through April 25) | 1,967.19 | 1,008.61 | 1,886.85 | 1,971.66 | 1.2               | 14.7              |

Source: Korea Exchange

(1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.

(2) The price to earnings ratio is based on figures for companies that record a profit in the preceding year. KOSPI closed at 1,971.66 on April 25, 2014.

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15.0% of the previous day's closing price of the shares, rounded down as set out below:

| Previous Day's Closing Price | Rounded Down to |
|------------------------------|-----------------|
| Less than 5,000              | 5               |
| 5,000 to less than 10,000    | 10              |
| 10,000 to less than 50,000   | 50              |
| 50,000 to less than 100,000  | 100             |
| 100,000 to less than 500,000 | 500             |
| 500,000 or more              | 1,000           |

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to a recent deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to

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subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the KRX KOSPI Market. See Item 10.E. Taxation Korean Taxation.

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The following table sets forth the number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization and the average daily trading volume at the end of the periods indicated:

| Year                    | Number of Listed Companies | Market Capitalization on the Last Day of Each Period |                       | Average Daily Trading Volume, Value |                   |                        |
|-------------------------|----------------------------|--|-----------------------|-------------------------------------|-------------------|------------------------|
|                         |                            | (Billions of Won)                                    | (Millions of US\$(1)) | Thousands of Shares                 | (Millions of Won) | (Thousands of US\$(1)) |
| 1981                    | 343                        | 2,959  | US\$ 4,223            | 10,565                              | 8,708             | US\$ 12,427            |
| 1982                    | 334                        | 3,001  | 4,012                 | 9,704                               | 6,667             | 8,914                  |
| 1983                    | 328                        | 3,490  | 4,361                 | 9,325                               | 5,941             | 7,425                  |
| 1984                    | 336                        | 5,149  | 6,207                 | 14,847                              | 10,642            | 12,829                 |
| 1985                    | 342                        | 6,570  | 7,362                 | 18,925                              | 12,315            | 13,798                 |
| 1986                    | 355                        | 11,994   | 13,863                | 31,755                              | 32,870            | 37,991                 |
| 1987                    | 389                        | 26,172   | 32,884                | 20,353                              | 70,185            | 88,183                 |
| 1988                    | 502                        | 64,544   | 93,895                | 10,367                              | 198,364           | 288,571                |
| 1989                    | 626                        | 95,477   | 140,119               | 11,757                              | 280,967           | 412,338                |
| 1990                    | 669                        | 79,020   | 109,872               | 10,866                              | 183,692           | 255,412                |
| 1991                    | 686                        | 73,118   | 95,541                | 14,022                              | 214,263           | 279,973                |
| 1992                    | 688                        | 84,712   | 107,027               | 24,028                              | 308,246           | 389,445                |
| 1993                    | 693                        | 112,665  | 138,870               | 35,130                              | 574,048           | 707,566                |
| 1994                    | 699                        | 151,217  | 190,762               | 36,862                              | 776,257           | 979,257                |
| 1995                    | 721                        | 141,151  | 181,943               | 26,130                              | 487,762           | 628,721                |
| 1996                    | 760                        | 117,370  | 138,490               | 26,571                              | 486,834           | 928,418                |
| 1997                    | 776                        | 70,989   | 41,881                | 41,525                              | 555,759           | 327,881                |
| 1998                    | 748                        | 137,799  | 114,261               | 97,716                              | 660,429           | 547,619                |
| 1999                    | 725                        | 349,504  | 307,662               | 278,551                             | 3,481,620         | 3,064,806              |
| 2000                    | 704                        | 188,042  | 148,415               | 306,163                             | 2,602,211         | 2,053,837              |
| 2001                    | 689                        | 255,850  | 194,785               | 473,241                             | 1,997,420         | 1,520,685              |
| 2002                    | 683                        | 258,681  | 216,071               | 857,245                             | 3,041,598         | 2,540,590              |
| 2003                    | 684                        | 355,363  | 298,624               | 542,010                             | 2,216,636         | 1,862,719              |
| 2004                    | 683                        | 412,588  | 398,597               | 372,895                             | 2,232,109         | 2,156,419              |
| 2005                    | 702                        | 655,075  | 648,589               | 467,629                             | 3,157,662         | 3,126,398              |
| 2006                    | 731                        | 704,588  | 757,622               | 279,096                             | 3,435,180         | 3,693,742              |
| 2007                    | 746                        | 951,900  | 1,017,205             | 363,732                             | 5,539,588         | 5,919,697              |
| 2008                    | 765                        | 576,888  | 457,122               | 355,205                             | 5,189,644         | 4,112,238              |
| 2009                    | 770                        | 887,316  | 762,528               | 485,657                             | 5,795,552         | 4,980,494              |
| 2010                    | 777                        | 1,114,882  | 1,260,486             | 379,171                             | 5,607,749         | 6,340,121              |
| 2011                    | 791                        | 1,041,999  | 899,438               | 353,759                             | 6,863,146         | 5,924,166              |
| 2012                    | 784                        | 1,154,294  | 1,085,679             | 486,734                             | 4,824,610         | 4,537,819              |
| 2013                    | 777                        | 1,185,974  | 1,123,826             | 328,325                             | 3,993,422         | 3,784,158              |
| 2014 (through April 25) | 770                        | 1,174,879  | 1,128,606             | 233,289                             | 3,721,007         | 3,574,454              |

Source: Korea Exchange

(1) Converted at the noon buying rate on the last business day of the period indicated.

The Korean securities markets are principally regulated by the FSC and became subject to the FSCMA beginning in February 2009. The law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.



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### **Further Opening of the Korean Securities Market**

Stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Korea Stock Exchange. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

In addition, the Korea Stock Exchange opened new option markets for stocks of seven companies including our shares of common stock and common stock of six other companies on January 28, 2002. Foreigners will be permitted to invest in such options for individual stocks subject to certain procedural requirements.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Korea Stock Exchange or registered on the KOSDAQ, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The FSC sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in securities including shares of most Korean companies that are not listed on the KRX KOSPI Market or the KRX KOSDAQ Market and in bonds that are not listed.

### ***Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License***

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the financial investment company with a brokerage license) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or rehabilitation procedure involving a financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

When a customer places a sell order with a financial investment company with a brokerage license which is not a member of the Korea Exchange and this financial investment company places a sell order with another financial investment company with a brokerage license which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or rehabilitation of the non-member company.

Under the FSCMA, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company with a brokerage license which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company with a brokerage license if a bankruptcy or



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rehabilitation procedure is instituted against such financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million per investor in case of such financial investment company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the FSCMA, subject to certain exceptions, financial investment companies with a brokerage license are required to deposit the cash received from their customers with the Korea Securities Finance Corporation, a special entity established pursuant to the FSCMA. Set-off or attachment of cash deposits by financial investment companies with a brokerage license is prohibited. The premiums related to this insurance under the Depositor Protection Act are paid by financial investment companies with a brokerage license.

### **Item 9.D *Selling Shareholders***

Not Applicable.

### **Item 9.E. *Dilution***

Not Applicable.

### **Item 9.F. *Expenses of the Issue***

Not Applicable.

## **Item 10. *ADDITIONAL INFORMATION***

### **Item 10.A. *Share Capital***

Not Applicable.

### **Item 10.B. *Memorandum and Articles of Incorporation* **Description of Capital Stock****

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the FSCMA, the Korean Commercial Code, the Telecommunications Business Act and related laws of Korea, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the FSCMA, the Korean Commercial Code and the Telecommunications Business Act. We have filed copies of our articles of incorporation and the Telecommunications Business Act as exhibits to our annual reports on Form 20-F.

#### ***General***

The name of our company is SK Telecom Co., Ltd. We are registered under the laws of Korea under the commercial registry number of 110111-0371346. As specified in Article 2 (Objectives) of our articles of incorporation, as amended and approved at our general shareholders meeting held on March 22, 2013, the company's objectives are the rational management of the telecommunications business, development of telecommunications technology, and contribution to public welfare and convenience. In order to achieve these objectives, we are engaged in the following:

information and communication business;

sale and lease of subscriber handsets;

new media business;

advertising business;

mail order sales business;

real estate business (development, management and leasing, etc.) and chattel leasing business;

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research and technology development relating to the first four items above;

overseas and import/export business relating to the first four items above;

manufacture and distribution business relating to the first four items above;

travel business;

electronic financial services business;

film business (production, import, distribution and screening);

lifetime education and management of lifetime educational facilities;

electric engineering business;

information- and communication-related engineering business;

ubiquitous city construction and related service business;

any related business through investment, management and operation of our Korean or offshore subsidiaries and investment companies;

construction business, including the machine and equipment business; and

any business or undertaking incidental or conducive to the attainment of the objectives stated above.

Currently, our authorized share capital is 220,000,000 shares, which consists of shares of common stock, par value Won 500 per share, and shares of non-voting stock, par value Won 500 per share (common shares and non-voting shares together are referred to as shares ). Under our articles of incorporation, we are authorized to issue up to 5,500,000 non-voting preferred shares. As of March 31, 2014, 80,745,711 common shares were issued, of which 9,809,375 shares were held by us in treasury. We have never issued any non-voting preferred shares. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

***Board of Directors***

Meetings of the board of directors are convened by the representative director as he or she deems necessary or upon the request of three or more directors. The board of directors determines all important matters relating to our business. In addition, the prior approval of the majority of the independent non-executive directors is required for certain matters, which include:

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investment by us or any of our subsidiaries in a foreign company in equity or acquisition of such foreign company's other overseas assets in an amount equal to 5.0% or more of our equity under our most recent balance sheet; and

contribution of capital, loans or guarantees, acquisition of our subsidiaries' assets or similar transactions with our affiliated companies in excess of Won 10.0 billion through one or a series of transactions.

Resolutions of the board are adopted in the presence of a majority of the directors in office and by the affirmative vote of a majority of the directors present. No director who has an interest in a matter for resolution may exercise his or her vote upon such matter.

There are no specific shareholding requirements for director's qualification. Directors are elected at a general meeting of shareholders if the approval of the holders of the majority of the voting shares present at such meeting is obtained and if such majority also represents at least one-fourth of the total number of shares outstanding. Under the Korean Commercial Code, unless otherwise stated in the articles of incorporation, holders of an aggregate of 1.0% or more of the outstanding shares with voting rights may request cumulative voting in any election for two or more directors. Our articles of incorporation do not permit cumulative voting for the election of directors.

The term of office for directors is until the close of the third annual general shareholders meeting convened after he or she commences his or her term. Our directors may serve consecutive terms and our shareholders may remove them from office at any time by a special resolution adopted at a general meeting of shareholders.

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### ***Dividends***

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. Our common shares represented by the ADSs have the same dividend rights as other outstanding common shares. For a detailed discussion of our dividend policy, see Item 8.A. Consolidated Statements and Other Financial Information – Dividends.

### ***Distribution of Free Shares***

In addition to paying dividends in shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

### ***Preemptive Rights and Issuance of Additional Shares***

We may at times issue authorized but unissued shares, unless otherwise provided in the Korean Commercial Code, on terms determined by our board of directors. All our shareholders are generally entitled to subscribe to any newly-issued shares in proportion to their existing shareholdings. We must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders registry as of the relevant record date. We must give public notice of the preemptive rights regarding new shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised or where fractions of shares occur.

Under the Korean Commercial Code and our articles of incorporation, we may issue new shares pursuant to a board resolution to persons other than existing shareholders only if (1) the new shares are issued for the purpose of issuing depositary receipts in accordance with the relevant regulations or through an offering to public investors and (2) the purpose of such issuance is deemed necessary by us to achieve a business purpose, including, but not limited to, the introduction of new technology or the improvement of our financial condition. If we make an allotment of new shares to persons other than our existing shareholders, we are required by the Korean Commercial Code to notify our existing shareholders of (a) the class and number of new shares, (b) the issuance price of new shares and the date set for the payment thereof, (c) in cases of no par value shares, the amount to be included in the paid-up capital out of the issuance price of new shares and (d) the method of subscription to new shares by no later than two weeks before the date of payment of the subscription price, or publicly announce such information. Under our articles of incorporation, only our board of directors is authorized to set the terms and conditions with respect to such issuance of new shares.

In addition, under our articles of incorporation, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 400.0 billion, to persons other than existing shareholders, where such issuance is deemed necessary by us to achieve a business purpose, including, but not limited to, the introduction of new technology or the improvement of our financial condition.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20.0% of the shares publicly offered pursuant to the FSCMA. This right is exercisable only to the extent that the total number of shares so acquired and held by members of our employee stock ownership association does not exceed 20.0% of the sum of the number of shares then outstanding and the number of newly-issued shares. As of March 31, 2014, approximately 0.15% of the issued shares were held by members of our employee stock ownership association.

### ***General Meeting of Shareholders***

We generally hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

at the request of holders of an aggregate of 3.0% or more of our outstanding common shares;



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at the request of shareholders holding an aggregate of 1.5% or more of our outstanding shares and preferred shares for at least six months; or

at the request of our audit committee.

Holders of non-voting preferred shares may request a general meeting of shareholders only after the non-voting shares become entitled to vote or enfranchised, as described under **Voting Rights** below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of less than 1.0% of the total number of issued and outstanding voting shares, we may give notice by placing at least two public notices in at least two daily newspapers at least two weeks in advance of the meeting. Currently, we use The Korea Economic Daily News and Maeil Business Newspaper, both published in Seoul, for this purpose, but we may give notice in the future through electronic means. Shareholders who are not on the shareholders' registry as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of non-voting preferred shares, unless enfranchised, are not entitled to receive notice of or vote at general meetings of shareholders.

Our general meetings of shareholders have historically been held in or near Seoul.

### ***Voting Rights***

Holders of our common shares are entitled to one vote for each common share, except that voting rights of common shares held by us (including treasury shares and shares held by bank trust funds controlled by us), or by a corporate shareholder in which we own more than 10.0% equity interest, either directly or indirectly, may not be exercised. The Korean Commercial Code, unless otherwise stated in the articles of incorporation, permits cumulative voting, which would allow each shareholder to have multiple voting rights corresponding to the number of directors to be appointed in the voting and to exercise all voting rights cumulatively to elect one director. Our articles of incorporation do not permit cumulative voting for the election of directors.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting if such affirmative votes also represent at least one-fourth of our total voting shares then issued and outstanding. However, under the Korean Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting shares present or represented at a meeting, and such affirmative votes must also represent at least one-third of our total voting shares then issued and outstanding:

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

effecting our acquisition of all of the business of any other company or a part of the business of any other company having a material effect on our business;

reducing our capital; or

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issuing any new shares at a price lower than their par value.

In general, holders of non-voting preferred shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders.

However, in case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases which affect the rights or interests of the non-voting preferred shares, approval of the holders of non-voting preferred shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the non-voting preferred shares present or represented at a class meeting of the holders of non-voting preferred shares, where the affirmative votes also represent at least one-third of our total issued and outstanding non-voting shares. In addition, if we are unable to pay dividends on non-voting preferred shares as provided in our articles of



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incorporation, the holders of non-voting shares will become enfranchised and will be entitled to exercise voting rights beginning at the next general meeting of shareholders to be held after the declaration of non-payment of dividends is made until such dividends are paid. The holders of enfranchised non-voting preferred shares will have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy. A shareholder may give proxies only to another shareholder, except that a corporate shareholder may give proxies to its officers or employees.

Holders of ADRs exercise their voting rights through the ADR depository, an agent of which is the record holder of the underlying common shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depository how to vote our common shares underlying their ADSs.

### ***Limitation on Shareholdings***

The Telecommunications Business Act prohibits foreign governments, individuals, and entities (including Korean entities that are deemed foreigners, as discussed below) 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 such Korean entities' outstanding voting stock are deemed foreigners. A foreigner who has acquired shares of our voting stock in excess of such limitation may not exercise the voting rights with respect to the shares exceeding such limitation and may be subject to the MSIP's corrective orders.

### ***Rights of Dissenting Shareholders***

Under Financial Investment Services and Capital Market Act, in some limited circumstances, including the transfer of all or a significant part of our business or our merger or consolidation with another company (with certain exceptions), dissenting shareholders have the right to require us to purchase their shares. To exercise this right, shareholders, including holders of non-voting shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Then, within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of such dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily share prices on the KRX KOSPI Market for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily share price on the KRX KOSPI Market for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily share price on the KRX KOSPI Market for the one week period before the date of the adoption of the relevant resolution. However, a court may determine the purchase price if we or dissenting shareholders do not accept the purchase price.

### ***Registry of Shareholders and Record Dates***

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It records and registers transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the registry of shareholders is closed for the period from January 1 to January 31 of the following year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the shares, we may, on at least two weeks' public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of shares and the delivery of share certificates may continue while the register of shareholders is closed.

### ***Annual Report***

At least one week before the annual general meeting of shareholders, we must make our annual reports and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

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Under the FSCMA, we must file with the FSC and the Korea Exchange (1) an annual securities report within 90 days after the end of our fiscal year, (2) a mid-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the Korea Exchange.

***Transfer of Shares***

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his or her name, seal and address registered on our registry of shareholders, maintained by our transfer agent. A non-Korean shareholder may file a sample signature in place of a seal, unless he or she is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent in Korea authorized to receive notices on his or her behalf and file his or her mailing address in Korea.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Korean citizens. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations.

Our transfer agent is Kookmin Bank, located at 24, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, Korea.

***Restrictions Applicable to Shares***

Pursuant to the Telecommunications Business Act, the maximum aggregate foreign shareholding in us is limited to 49.0%. See Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements. In addition, certain foreign exchange controls and securities regulations apply to the acquisition of securities by non-residents or non-Korean citizens. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations.

***Acquisition of Shares by Us***

We may acquire our own shares pursuant to an approval at the general meeting of shareholders, through purchases on the Korea Exchange or a tender offer, or by acquiring the interests in a trust account holding our own shares through agreements with trust companies and asset management companies. The aggregate purchase price for the shares may not exceed the total amount available for distribution as dividends as of the end of the preceding fiscal year less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

Under the Korean Commercial Code, we may resell or transfer any shares acquired by us to a third party pursuant to an approval by the Board of Directors. In general, corporate entities in which we own a 50.0% or more equity interest may not acquire our common stock. Under the FSCMA, we are subject to certain selling restrictions with respect to the shares acquired by us. In October 2001, in accordance with the approval of our board of directors, we established trust funds with four Korean banks with a total funding of Won 1.3 trillion for the purpose of acquiring our shares at market value or within a range of five percent of market value. In October 2007, in accordance with the approval of our board of directors, we extended the terms of such trust funds until October 2010, but the total amount of funding was reduced to Won 982.0 billion. In October 2010, upon expiration of the terms of the trust funds, our shares held by the trust funds were transferred to us and are currently held by us as treasury shares. For more details on the trust funds, see Item 5.B. Liquidity and Capital Resources.

***Liquidation Rights***

In the event of our liquidation, remaining assets after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to their shareholdings. Holders of non-voting preferred shares have no preference in liquidation. Holders of debt securities have no preference over other creditors in the event of liquidation.

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### ***Description of American Depositary Shares***

The following is a summary of the deposit agreement dated as of May 31, 1996, as amended by amendment no. 1 dated as of March 15, 1999, amendment no. 2 dated as of April 24, 2000 and amendment no. 3 dated as of July 24, 2002, among us, Citibank, N.A., as ADR depository, and all holders and beneficial owners of ADSs, as supplemented by side letters dated as of July 25, 2002, October 1, 2002 and October 1, 2007. The deposit agreement is governed by the laws of the State of New York. Because it is a summary, this description does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the ADR. The deposit agreement has been filed as an exhibit to our registration statement on Form F-3 (File No. 333-91304) filed with the SEC. Copies of the deposit agreement are available for inspection at the principal New York office of the ADR depository, currently located at 388 Greenwich Street, 14th Floor, New York, New York 10013, United States of America, and at the principal London office of the ADR depository, currently located at Canada Square, Canary Wharf, London, E14 5LB, England.

### ***American Depositary Receipts***

The ADR depository may execute and deliver ADRs evidencing the ADSs. Each ADR evidences a specified number of ADSs, each ADS representing one-ninth of one share of our common stock to be deposited with the ADR depository's custodian in Seoul. Korea Securities Depository is the institution authorized under applicable law to effect book-entry transfers of our common shares, known as the Custodian. The Custodian is located at 358-8, Hosu-ro, Ilsandong-gu, Goyang-si, Gyeonggi-do 411-770, Korea. An ADR may represent any number of ADSs. We and the ADR depository will treat only persons in whose names ADRs are registered on the books of the registrar as holders of ADRs.

### ***Deposit and Withdrawal of Shares of Common Stock***

Notwithstanding the provisions described below, under the terms of the deposit agreement, the deposit of shares and issuance of ADSs may only be made if the total number of shares represented by ADSs after such deposit does not exceed a specified maximum, 24,321,893 shares as of March 31, 2014. This limit will be adjusted in certain circumstances, including (1) upon the cancellation of existing ADSs, (2) upon future offerings of ADSs by us or our shareholders, (3) rights offerings and (4) adjustments for share reclassifications. The limit also may be decreased in certain circumstances. As of March 31, 2014, the outstanding ADSs represented 13,485,736 shares of our common stock. Notwithstanding the foregoing, the ADR depository and the Custodian may not accept deposits of shares of common stock for issuance of ADSs if it has been notified by us in writing that we block deposits to prevent a violation of applicable Korean laws or regulations or a violation of our articles of incorporation. In addition, the ADR depository may not accept deposits of shares of common stock for issuance of ADSs from a person who identifies him-, her- or itself to the depository, and has been identified in writing by us, as a holder of at least 3.0% of our shares of common stock.

The shares of common stock underlying the ADSs are delivered to the ADR depository's Custodian in book-entry form. Accordingly, no share certificates will be issued but the ADR depository will hold the shares of common stock through the book-entry settlement system of the Custodian. The delivery of the shares of common stock pursuant to the deposit agreement will take place through the facilities of the Custodian in accordance with its applicable settlement procedures. The ADR depository will execute and deliver ADSs if you or your broker deposit shares or evidence of rights to receive shares of common stock with the Custodian. Upon payment of fees and expenses and any taxes or charges, such as stamp taxes or stock transfer taxes, the ADR depository will register the appropriate number of ADSs in the names you designate. The ADR depository and the ADR depository's Custodian will refuse to accept shares of common stock for deposit whenever we restrict transfer of shares of common stock to comply with ownership restrictions under applicable law or our articles of incorporation or whenever the deposit would cause the total number of shares of common stock deposited to exceed a level we determine from time to time. We may instruct the ADR depository to take certain actions with respect to a holder of ADSs who holds in excess of the ownership limitation set forth in the deposit agreement, including the mandatory sale or disposition of the shares represented by the ADSs in excess of such ownership limitations if, and to the extent, permitted by applicable law.

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You may surrender your ADRs to the ADR depository to withdraw the underlying shares of our common stock. Upon payment of the fees and any governmental charges and taxes provided in the deposit agreement, and subject to applicable laws and regulations of Korea and our articles of incorporation, you will be entitled to physical delivery or electronic delivery to an account in Korea or, if permissible under applicable Korean law, outside the United States, of the shares of common stock evidenced by the ADRs and any other property at the time represented by ADR you surrendered. If you surrender an ADR evidencing a number of ADSs not evenly divisible by nine, the ADR depository will deliver the appropriate whole number of shares of common stock represented by the surrendered ADSs and will execute and deliver to you a new ADR evidencing ADSs representing any remaining fractional shares of common stock.

If you request withdrawal of shares of common stock, you must deliver to the ADR depository a written order directing the ADR depository to cause the shares of common stock being withdrawn to be delivered or to cause such delivery upon the written order of the person designated in your order, subject to applicable Korean laws and the provisions of the deposit agreement.

Under the provisions of the deposit agreement, the ADR depository may not lend shares of common stock or ADSs. However, subject to the provisions of the deposit agreement and limitations established by the ADR depository, the ADR depository may execute and deliver ADSs before deposit of the underlying shares of common stock. This is called a pre-release of the ADS. The ADR depository may also deliver shares of common stock upon cancellation of pre-released ADSs (even if the cancellation occurs before the termination of the pre-release). The ADR depository may pre-release ADSs only under the following circumstances:

before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the ADR depository in writing that the person, or, in case of an institution its customer, owns the shares of common stock or ADSs to be deposited and show evidence of the ownership to the ADR depository's satisfaction;

before or at the time of such pre-release, the person to whom the pre-release is being made must agree in writing that he or she will hold the shares of common stock or ADSs in trust for the ADR depository until their delivery to the ADR depository or Custodian, reflect on his or her records the ADR depository as owner of such shares of common stock or ADSs and deliver such shares of common stock upon the ADR depository's request;

the pre-release must be fully collateralized with cash or U.S. government securities;

the ADR depository must be able to terminate the pre-release on not more than five business days' notice; and

the pre-release is subject to further indemnities and credit regulations as the ADR depository deems appropriate.

The ADR depository may retain for its own account any compensation received by it in connection with the pre-release, such as earnings on the collateral.

If you want to withdraw the shares of common stock from the depository facility, you must register your identity with the Financial Supervisory Service of Korea (the "FSS") before you acquire the shares of common stock unless you intend to sell the shares of common stock within three months. See Item 10.D. Exchange Controls Korean Foreign Exchange Controls and Securities Regulations Restrictions Applicable to Shares.

### ***Dividends, Other Distributions and Rights***

If the ADR depository can, in its judgment and pursuant to applicable law, convert Won (or any other foreign currency) into Dollars on a reasonable basis and transfer the resulting Dollars to the United States, the ADR depository will as promptly as practicable convert all cash dividends and other cash distributions received by it on the deposited shares of common stock into Dollars and distribute the Dollars to you in proportion to the number of ADSs representing shares of common stock held by you, after deduction of the fees and expenses of the ADR depository. If the ADR depository determines that in its judgment any currency other than Dollars it receives from



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us cannot be converted and distributed on a reasonable basis, the ADR depositary may distribute the currency it receives to the extent permitted under applicable law or hold the currency for your account if you are entitled to receive the distribution. The ADR depositary will not be liable for any interest. Before making a distribution, the ADR depositary will deduct any withholding taxes that must be paid.

In the event that the ADR depositary or the ADR depositary's Custodian receives any distribution upon any deposited shares of common stock in property or securities (other than shares of common stock, non-voting preferred stock or rights to receive shares of common stock or non-voting preferred stock), the ADR depositary will distribute the property or securities to you in proportion to your holdings in any manner that the ADR depositary deems, after consultation with us, equitable and practicable. If the ADR depositary determines that any distribution of property or securities (other than shares of common stock, non-voting preferred stock or rights to receive shares of common stock or non-voting preferred stock) cannot be made proportionally, or if for any other reason the ADR depositary deems the distribution not to be feasible, the ADR depositary may, after consultation with us, dispose of all or a portion of the property or securities in such amounts and in such manner, including by public or private sale, as the ADR depositary deems equitable or practicable. The ADR depositary will distribute to you the net proceeds of any such sale, or the balance of the property or securities, after the deduction of the fees and expenses of the ADR depositary.

If a distribution by us consists of a dividend in, or free distribution of, our shares of common stock, the ADR depositary may, with our approval, and will, if we request, deposit the shares of common stock and either (1) distribute to you, in proportion to your holdings, additional ADSs representing those shares of common stock, or (2) reflect on the records of the ADR depositary the increase in the aggregate number of ADSs representing those number of shares of common stock, in both cases, after the deduction of the fees and expenses of the ADR depositary. If the ADR depositary deems that such distribution for any reason is not feasible, the ADR depositary may adopt, after consultation with us, any method as it may deem equitable and practicable, including by public or private sale of all or part of the shares of common stock received. The ADR depositary will distribute to you the net proceeds of any such sale in the same way as it does with cash. The ADR depositary will only distribute whole ADSs. If the ADR depositary does not distribute additional ADSs, then each outstanding ADS will also represent the new shares so distributed.

If a distribution by us consists of a dividend in, or free distribution of, shares of non-voting preferred stock, the ADR depositary will deposit such shares of non-voting preferred stock under a non-voting preferred stock deposit agreement to be entered into among us, the ADR depositary and all holders and beneficial owners of depositary shares. The ADR depositary will deliver to you, in proportion to your holdings of ADSs, depositary shares issued under the non-voting preferred stock deposit agreement representing the number of non-voting shares received as such dividend or distribution. If the ADR depositary deems such distribution for any reason is not feasible, the ADR depositary may adopt, after consultation with us, any method as it may deem equitable and practicable, including by public or private sale of all or part of the nonvoting shares received. The ADR depositary will distribute to you the net proceeds of any such sale in the same way as it does with cash. The ADR depositary will only distribute whole depositary shares. We are not obligated to list depositary shares representing non-voting shares on any exchange.

If we offer holders of our securities any rights to subscribe for additional shares of common stock or any other rights, the ADR depositary may make these rights available to you. The ADR depositary must first determine whether it is lawful and feasible to do so. If the ADR depositary determines that it is not lawful or feasible to make these rights available to you, then upon our request, the ADR depositary will sell the rights and distribute the proceeds in the same way as it would do with cash. The ADR depositary may allow these rights that are not distributed or sold to lapse. In that case, you will receive no value for these rights.

If we issue any rights with respect to non-voting shares, the securities issuable upon any exercise of such rights by holders or beneficial owners will be depositary shares representing those non-voting shares issued under the provisions of a non-voting preferred stock deposit agreement.

If a registration statement under the Securities Act is required with respect to the securities to which any rights relate in order for us to offer the rights to you and to sell the securities represented by these rights, the ADR depositary will not offer such rights to you until such a registration is in effect, or unless the offering and sale of such securities and such rights to you are exempt from the registration requirements of the Securities Act or any

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required filing, report, approval or consent has been submitted, obtained or granted. We or the ADR depository will not be obligated to register the rights or securities under the Securities Act or to submit, obtain or request any filing, report, approval or consent.

The ADR depository may not be able to convert any currency or to sell or dispose of any distributed or offered property or rights in a timely manner or at a specified price, or at all.

### ***Record Dates***

The ADR depository will fix a record date, after consultation with us, in each of the following situations:

any cash dividend or other cash distribution becomes payable;

any distribution other than cash is made;

rights are issued with respect to deposited shares of common stock;

the ADR depository causes a change in the number of shares of common stock that are represented by each ADS; or

the ADR depository receives notice of any shareholders' meeting.

The record date will, to the extent practicable, be as near as the record date fixed by us for the shares of common stock. The record date will determine (1) the ADR holders who are entitled to receive the dividend, distribution or rights, or the net proceeds of the sale of the rights; or (2) the ADR holders who are entitled to receive notices or exercise rights.

### ***Voting of the Underlying Shares of Common Stock***

We will give the ADR depository a notice of any meeting or solicitation of shareholder proxies immediately after we finalize the form and substance of such notice but not less than 14 days before the meeting. As soon as practicable after it receives our notice, the ADR depository will fix a record date, and upon our written request, the ADR depository will mail to you a notice that will contain the following:

the information contained in our notice to the ADR depository including an English translation, or, if requested by us, a summary of the information provided by us;

a statement that the ADR holders as of the close of business on a specified record date will be entitled to instruct the ADR depository as to how to exercise their voting rights for the number of shares of deposited shares of common stock, subject to the provisions of applicable Korean law and our articles of incorporation, which provisions, if any, will be summarized in the notice to the extent that they are material; and

a statement as to the manner in which the ADR holders may give their instructions.

Upon your written request received on or before the date set by the ADR depository for this purpose, the ADR depository will endeavor, in so far as practicable, to vote or cause to be voted the deposited shares of common stock in accordance with the instructions set forth in your written requests. The ADR depository may not itself exercise any voting discretion over any deposited shares of common stock. You may only exercise the voting rights in respect of nine ADSs or multiples of nine ADSs. ADR holders may not be entitled to give instruction to vote the shares represented by the ADSs if, and to the extent, the total number of shares represented by the ADSs of an ADR holder exceeds the limit set under

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applicable law. We can give no assurance to you, however, that we will notify the ADR depositary sufficiently in advance of the scheduled date of a meeting or solicitation of consents or proxies to enable the ADR depositary to make a timely mailing of notices to you, or that you will receive the notices sufficiently in advance of a meeting or solicitation of consents or proxies to give instructions to the ADR depositary.

### ***Inspection of Transfer Books***

The ADR depositary will keep books at its principal New York office, which is currently located at 388 Greenwich Street, 14th Floor, New York, New York 10013, for the registration and transfer of ADRs. You may



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inspect the books of the ADR depository as long as the inspection is not for the purpose of communicating with holders in the interest of a business or object other than our business or a matter related to the deposit agreement or the ADRs.

### ***Reports and Notices***

On or before the first date on which we give notice, by publication or otherwise, of any meeting of shareholders, or of any adjourned meeting of shareholders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights in respect of the shares of common stock, we will transmit to the Custodian and the ADR depository sufficient copies of the notice in English in the form given or to be given to shareholders. We will furnish to the ADR depository English language versions of any reports, notices and other communications that we generally transmit to holders of our common stock, including our annual reports, with annual audited consolidated financial statements prepared in conformity with IFRS and unaudited non-consolidated semiannual financial statements prepared in conformity with IFRS. The ADR depository will arrange for the prompt mailing of copies of these documents, or, if we request, a summary of any such notice provided by us to you or, at our request, make notices, reports (other than the annual reports and semiannual financial statements) and other communications available to you on a basis similar to that for the holders of our common stock or on such other basis as we may advise the ADR depository according to any applicable law, regulation or stock exchange requirement.

Notices to you under the deposit agreement will be deemed to have been duly given if personally delivered or sent by mail or cable, telegraph or facsimile transmission, confirmed by letter, addressed to you at your address as it appears on the transfer books of the ADR depository or at such other address as you have notified the ADR depository.

In addition, the ADR depository will make available for inspection by holders at its principal New York office and its principal London office any notices, reports or communications, including any proxy soliciting materials, received from us that we generally transmit to the holders of our common stock or other deposited securities, including the ADR depository. The ADR depository will also send to you copies of reports and communications we will provide as provided in the deposit agreement.

### ***Changes Affecting Deposited Shares of Common Stock***

In case of a change in the par value, or a split-up, consolidation or any other reclassification of our common shares or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting us, any securities received by the ADR depository or the Custodian in exchange for, in conversion of or in respect of deposited shares of our common stock will be treated as new deposited shares of common stock under the deposit agreement. In that case, ADSs will, subject to the terms of the deposit agreement and applicable laws and regulations, including any registration requirements under the Securities Act, represent the right to receive the new deposited shares of common stock, unless additional ADRs are issued, as in the case of a stock dividend, or unless the ADR depository calls for the surrender of outstanding ADRs to be exchanged for new ADRs.

### ***Amendment and Termination of the Deposit Agreement***

We may agree with the ADR depository to amend the deposit agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or certain expenses of the ADR depository, or prejudices any substantial existing right of ADR holders, it will only become effective 30 days after the ADR depository notifies you of the amendment. If you continue to hold your ADSs at the time an amendment becomes effective, you will be considered to have agreed to the amendment and to be bound by the deposit agreement as amended. Except as otherwise required by any mandatory provisions of applicable law, no amendment may impair your right to surrender your ADSs and to receive the underlying deposited securities.

The ADR depository will terminate the deposit agreement if we ask it to do so with 90 days prior written notice. The ADR depository may also terminate the deposit agreement if the ADR depository has notified us at least 90 days in advance that it would like to resign and we have not appointed a new depository. In both cases, the ADR depository must notify you at least 30 days before the termination date.

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If any ADRs remain outstanding after the date of termination, the ADR depository will stop performing any further acts under the deposit agreement, except:

to collect dividends and other distributions pertaining to the deposited shares of common stock;

to sell property and rights and the conversion of deposited shares of common stock into cash as provided in the deposit agreement; and

to deliver deposited shares of common stock, together with any dividends or other distributions received with respect to the deposited shares of common stock and the net proceeds of the sale of any rights or other property represented by those ADSs in exchange for surrendered ADRs.

At any time after the expiration of six months from the date of termination, the ADR depository may sell any remaining deposited shares of common stock and hold uninvested the net proceeds in an unsegregated account, together with any other cash or property then held, without liability for interest, for the pro rata benefit of the holders of ADSs that have not been surrendered by then.

### ***Charges of ADR Depository***

The fees and expenses of the ADR depository as agreed between us and the ADR depository include:

taxes and other governmental charges;

registration fees applicable to transfers of shares of common stock on our shareholders' register, or that of any entity acting as registrar for the shares, to the name of the ADR depository or its nominee, or the Custodian or its nominee, when making deposits or withdrawals under the deposit agreement;

cable, telegraph and facsimile transmission expenses that are expressly provided in the deposit agreement;

expenses incurred by the ADR depository in the conversion of foreign currency into Dollars under the deposit agreement;

a fee of up to US\$5.00 per 100 ADSs, or portion thereof, for execution and delivery of ADSs and the surrender of ADRs under the deposit agreement; and

a fee of up to US\$0.02 per ADS held for cash distributions, a sale or exercise of rights or the taking of any other corporate action involving distributions to shareholders.

For a detailed description of fees and charges payable by the holders of ADSs under the deposit agreement, see Item 12.D. American Depositary Shares - Fees and Charges under Deposit Agreement.

### ***General***

Neither we nor the ADR depository will be liable to you if prevented or delayed by law, governmental authority, any provision of our articles of incorporation or any circumstances beyond our or its control in performing our or its obligations under the deposit agreement. The deposit agreement provides that the ADR depository will hold the shares of common stock for your sole benefit. Our obligations and those of the ADR depository under the deposit agreement are expressly limited to performing, in good faith and without negligence, our and its respective duties

specified in the deposit agreement.

The ADSs are transferable on the books of the ADR depositary, provided that the ADR depositary may, after consultation with us, close the transfer books at any time or from time to time, when deemed expedient by it in connection with the performance of its duties. As a condition precedent to the execution and delivery of any ADSs, registration of transfer, split-up, combination of any ADR or surrender of any ADS for the purpose of withdrawal of deposited shares of common stock, the ADR depositary or the Custodian may require payment from the depositor of the shares of common stock or a holder of ADSs of a sum sufficient to reimburse the ADR depositary for any tax or other governmental charge and any stock transfer or registration fee and payment of any applicable fees payable by the holders of ADSs.

Any person depositing shares of common stock, any holder of an ADS or any beneficial owner may be required from time to time to file with the ADR depositary or the Custodian a proof of citizenship, residence,

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exchange control approval, payment of applicable Korean or other taxes or governmental charges, or legal or beneficial ownership and the nature of their interest, to provide information relating to the registration on our shareholders' register (or our appointed agent for the transfer and registration of shares of common stock) of the shares of common stock presented for deposit or other information, to execute certificates and to make representations and warranties as we or the ADR depositary may deem necessary or proper or to enable us or the ADR depositary to perform our and its obligations under the deposit agreement. The ADR depositary may withhold the execution or delivery or registration of transfer of all or part of any ADR or the distribution or sale of any dividend or other distribution of rights or of the proceeds from their sale or the delivery of any shares deposited under the deposit agreement and any other securities, property and cash received by the ADR depositary or the Custodian until the proof or other information is filed or the certificates are executed or the representations and warranties are made. The ADR depositary shall provide us, unless otherwise instructed by us, in a timely manner, with copies of any of these proofs and certificates and these written representations and warranties.

The delivery and surrender of ADSs and transfer of ADSs generally may be suspended during any period when our or the ADR depositary's transfer books are closed or, if that action is deemed necessary or advisable by us or the ADR depositary, at any time or from time to time in accordance with the deposit agreement. We may restrict, in a manner as we deem appropriate, transfers of shares of common stock where the transfers may result in ownership of shares of common stock in excess of limits under applicable law. Except as described in "Deposit and Withdrawal of Shares of Common Stock" above, notwithstanding any other provision of the deposit agreement, the surrender of outstanding ADRs and withdrawal of Deposited Securities (as defined in the deposit agreement) represented by the ADRs may be suspended, but only as required in connection with (1) temporary delays caused by closing the transfer books of the ADR depositary or the issuer of any Deposited Securities (or the appointed agent or agents for such issuer for the transfer and registration of such Deposited Securities) in connection with voting at a shareholders' meeting or the payment of dividends, (2) payment of fees, taxes and similar charges, or (3) compliance with any United States or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of the Deposited Securities.

***Governing Law***

The deposit agreement and the ADRs will be interpreted under, and all rights under the deposit agreement or the ADRs are governed by, the laws of the State of New York.

We have irrevocably submitted to the non-exclusive jurisdiction of New York State or United States Federal Courts located in New York City and waived any objection to legal actions or proceedings in these courts whether on the ground of venue or on the ground that the proceedings have been brought in an inconvenient forum.

This submission was made for the benefit of the ADR depositary and the holders and will not limit the right of any of them to take legal actions or proceedings in any other court of competent jurisdiction nor will the taking of legal actions or proceedings in one or more jurisdictions preclude the taking of legal actions or proceedings in any other jurisdiction (whether concurrently or not), to the extent permitted under applicable law.

***Information Relating to the ADR Depositary***

Citibank, N.A. ( "Citibank" ) has been appointed as ADR depositary pursuant to the deposit agreement. Citibank is an indirect wholly-owned subsidiary of Citigroup Inc., a Delaware corporation whose principal office is located in New York, New York. Citibank is a global financial services organization serving individuals, businesses, governments and financial institutions in approximately 100 countries around the world.

Citibank was originally organized on June 16, 1812, and now is a national banking association organized under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal office is at 399 Park Avenue, New York, NY 10022.

The consolidated balance sheets of Citibank are set forth in Citigroup's most recent annual report on Form 10-K and quarterly report on Form 10-Q, each on file with the SEC.

Citibank's Articles of Association and By-laws, each as currently in effect, together with Citigroup's most recent annual and quarterly reports will be available for inspection at the Depositary Receipt office of Citibank, N.A., 388 Greenwich Street, 14th Floor, New York, New York 10013.

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### **Item 10.C. *Material Contracts***

We have not entered into any material contracts since January 1, 2013, other than in the ordinary course of our business. For information regarding our agreements and transactions with entities affiliated with the SK Group, see Item 7.B. Related Party Transactions and note 32 of the notes to our consolidated financial statements. For a description of certain agreements entered into during the past three years related to our capital commitments and obligations, see Item 5B. Liquidity and Capital Resources.

### **Item 10.D. *Exchange Controls* Korean Foreign Exchange Controls and Securities Regulations**

#### ***General***

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree, collectively referred to as the Foreign Exchange Transaction Laws, regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The FSC has also adopted, pursuant to its authority under the FSCMA, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Subject to certain limitations, the MOSF has authority to take the following actions under the Foreign Exchange Transaction Laws:

if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the MOSF may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies; and

if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries are likely to adversely affect the Won, exchange rate or other macroeconomic policies, the MOSF may take action to require any person who intends to effect or effects a capital transaction to deposit all or a portion of the means of payment acquired in such transactions with The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies.

Under the regulations of the FSC amended on February 4, 2009, (1) if a company listed on the KRX KOSPI Market or a company listed on the KRX KOSDAQ Market has submitted a public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the FSC and the Korea Exchange, and (2) if a KRX KOSPI Market-listed company or KRX KOSDAQ Market-listed company is approved for listing on a foreign stock market or determined to be de-listed from the foreign stock market or actually listed on, or de-listed from a foreign stock market, then it must submit a copy of any document, which it submitted to or received from the relevant foreign government, foreign financial investment supervisory authority or the foreign stock market, and a Korean translation thereof to the FSC and the Korea Exchange.

#### ***Government Review of Issuances of ADSs***

In order for us to issue ADSs in excess of US\$30 million, we are required to submit a report to the MOSF with respect to the issuance of the ADSs prior to and after such issuance; provided that such US\$30 million threshold amount would be reduced by the aggregate principal amount of any foreign currency loans borrowed, and any securities offered and issued, outside Korea during the one-year period immediately preceding the report's submission date. The MOSF may at its discretion direct us to take necessary measures to avoid exchange rate fluctuation in connection with its acceptance of report of the issuance of the ADSs.

Under current Korean laws and regulations, the depositary is required to obtain our prior consent for any proposed deposit of common shares if the number of shares to be deposited in such proposed deposit



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exceeds the number of common shares initially deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent issuances of ADSs by us or with our consent and stock dividends or other distributions related to the ADSs).

In addition to such restrictions under Korean laws and regulations, there are also restrictions on the deposits of our common shares for issuance of ADSs. See Item 10.B. Memorandum and Articles of Incorporation Description of American Depositary Shares. Therefore, a holder of ADRs who surrenders ADRs and withdraws shares may not be permitted subsequently to deposit those shares and obtain ADRs.

We submitted a report to and obtained acceptance thereof by the MOSF for the issuance of ADSs up to an amount corresponding to 24,321,893 common shares. No additional Korean governmental approval is necessary for the issuance of ADSs except that if the total number of our common shares on deposit for conversion into ADSs exceeds 24,321,893 common shares, we may be required to file a report to and obtain acceptance thereof by the MOSF with respect to the increase of such limit and the issuance of additional ADSs.

***Reporting Requirements for Holders of Substantial Interests***

Under the FSCMA, any person whose direct or beneficial ownership of shares with voting rights, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively referred to as equity securities ), together with the equity securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5.0% or more of the total outstanding equity securities is required to report the status and purpose (in terms of whether the purpose of shareholding is to affect control over management of the issuer) of the holdings to the FSC and the Korea Exchange within five business days after reaching the 5.0% ownership interest threshold and promptly deliver a copy of such report to the issuer. In addition, any change (1) in the ownership interest subsequent to the report which equals or exceeds 1.0% of the total outstanding equity securities, or (2) in the shareholding purpose is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change. However, reporting deadline of such reporting requirement is extended to (1) certain professional investors, as specified under the FSCMA, or (2) persons who hold shares for purposes other than management control by the tenth day of the month immediately following the month of share acquisition or change in their shareholding. Those who reported the purpose of shareholding is to affect control over management of the issuer are prohibited from exercising their voting rights and acquiring additional shares for five days subsequent to the report under the FSCMA.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of unreported equity securities exceeding 5.0%. Furthermore, the FSC may issue an order to dispose of such non-reported equity securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our common shares accounts for 10.0% or more of the total issued and outstanding shares with voting rights (a major shareholder ) must report the status of his or her shareholding to the Securities and Futures Commission and the Korea Exchange within five business days after he or she becomes a major shareholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Securities and Futures Commission and the Korea Exchange by the fifth business day of any changes in his or her shareholding. Violations of these reporting requirements may subject a person to criminal sanctions, such as fines or imprisonment.

***Restrictions Applicable to ADSs***

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery of shares in Korea in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the FSS, as described below. The acquisition of the shares by a foreigner must be reported by the foreigner or his or her standing proxy in Korea immediately to the Governor of the FSS (the Governor ).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

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In addition, we are required to file a securities registration statement with the FSC and such securities registration statement has to become effective pursuant to the FSCMA in order for us to issue shares represented by ADSs, except in certain limited circumstances.

### ***Restrictions Applicable to Shares***

As a result of amendments to the Foreign Exchange Transaction Laws and the regulations of the FSC, together referred to as the Investment Rules, adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or the KRX KOSDAQ Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including, among others:

odd-lot trading of shares;

acquisition of shares by a foreign company as a result of a merger;

acquisition or disposal of shares in connection with a tender offer;

acquisition of shares by exercise of warrant, conversion right under convertible bonds, exchange right under exchangeable bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company ( converted shares );

acquisition of shares through exercise of rights under securities issued outside of Korea;

acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;

acquisition of shares by direct investment under the Foreign Investment Promotion Law;

acquisition and disposal of shares on an overseas stock exchange market, if such shares are simultaneously listed on the KRX KOSPI Market or KRX KOSDAQ Market and such overseas stock exchange;

arm's length transactions between foreigners in the event all such foreigners belong to an investment group managed by the same person; and

acquisition and disposal of shares through alternative trading systems.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must



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involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions through borrowing shares from financial investment companies with respect to shares which are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares for the first time on the KRX KOSPI Market or the KRX KOSDAQ Market (including converted shares) and shares being publicly offered for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire converted shares with the intention of selling such converted shares within three months from the date of acquisition of the converted shares or who acquire the shares in an over-the-counter transaction or dispose of shares where such acquisition or disposal is deemed to be a foreign direct investment pursuant to the Foreign Investment Promotion Law. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a financial investment company or financial institution in Korea. Foreigners eligible to obtain an investment registration card include foreign nationals

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who have not been residing in Korea for a consecutive period of six months or longer, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree promulgated under the FSCMA. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, where a foreign investor acquires or sells shares outside the KRX KOSPI Market and the KRX KOSDAQ Market, such acquisition or sale of shares must be reported by the foreign investor or such foreign investor's standing proxy to the Governor at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transaction. In the event a foreign investor desires to acquire or sell shares outside the KRX KOSPI Market or the KRX KOSDAQ Market and the circumstances in connection with such sale or acquisition do not fall within the exceptions made for certain limited circumstances described above, then the foreign investor must obtain the prior approval of the Governor. In addition, in the event a foreign investor acquires or sells shares outside the KRX KOSPI Market or the KRX KOSDAQ Market, a prior report to the Bank of Korea may also be required in certain circumstances. A foreign investor must appoint one or more standing proxies among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians which will act as a standing proxy to exercise shareholders' rights, or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than his, her or its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on his, her or its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. The Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and certain eligible foreign custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his, her or its custodian deposits the shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40.0% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3.0% of the total number of shares in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor of not less than 10.0% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Trade, Industry and Energy of Korea, which delegates its authority to foreign exchange banks or the Korea Trade-Investment Promotion Agency under the relevant regulations. The acquisition of our shares by a foreign investor is also subject to the restrictions prescribed in the Telecommunications Business Act. The Telecommunications Business Act generally limits the maximum aggregate foreign shareholdings in us to 49.0% of

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the outstanding shares. A foreigner who has acquired shares in excess of such restriction described above may not exercise the voting rights with respect to the shares exceeding such limitations and may be subject to corrective orders.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to make a portfolio investment in shares of a Korean company listed on the KRX KOSPI Market or the KRX KOSDAQ Market must designate a foreign exchange bank at which he, she or it must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any such shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any such shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment companies with a securities dealing, brokerage or collective investment license or the investor's Won account. Funds in the investor's Won account may be transferred to such investor's foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount is reported to the tax authorities by the foreign exchange bank at which the Won account is maintained. Funds in the investor's Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these financial investment companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

### **Item 10.E. Taxation**

#### **United States Taxation**

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold our common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

a bank;

a life insurance company;

a tax-exempt organization;

a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;

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a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10.0% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

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Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are the beneficial owner of a common share or an ADS and are:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

### ***Dividends***

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your receipt of the dividend, in the case of common shares, or the depositary's receipt, in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at a maximum rate of 20.0% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) the ADSs are readily tradable on an established securities market in the United States and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes (PFIC). The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements, as well as relevant market and shareholder data, we believe that we were not a PFIC with respect to our 2013 taxable year. In addition, based on our audited financial statements and current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2014 taxable year.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

### ***Sale or Other Disposition***

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

### ***Foreign Tax Credit Considerations***

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs, so long as you have owned our common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally



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applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on general limitation income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

***U.S. Information Reporting and Backup Withholding Rules***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient and demonstrates this when required or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

**Korean Taxation**

The following is a summary of the principal Korean tax consequences to owners of the common shares or ADSs, as the case may be, who are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable or with which the relevant income is effectively connected ( Non-resident Holders ). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the common shares or ADSs, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident, and any tax treaty between Korea and their country of residence, by consulting their own tax advisors.

***Tax on Dividends***

Dividends on the common shares or ADSs paid (whether in cash or in shares) to a Non-resident Holder will be subject to Korean withholding taxes at the rate of 22.0% (including local income tax) or such lower rate as is applicable under a treaty between Korea and such Non-resident Holder's country of tax residence. Free distributions of shares representing a capitalization of certain capital surplus reserves may be subject to Korean withholding taxes.

The tax is withheld by the payer of the dividend. Since the payer is required to withhold the tax, Korean law does not entitle the person who was subject to the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if it subsequently produces evidence that it was entitled to have tax withheld at a lower rate, except in certain limited circumstances.

***Tax on Capital Gains***

As a general rule, capital gains earned by Non-resident Holders upon transfer of the common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11.0% (including local income tax) of the gross proceeds realized or (2) 22.0% (including local income tax) of the net realized gains (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs), unless exempt from Korean income taxation under the effective Korean tax treaty with the Non-resident Holder's country of tax residence.

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However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the common shares through the KRX KOSPI Market if the Non-resident Holder (1) has no permanent establishment in Korea and (2) did not or has not owned (together with any shares owned by any entity with certain special relationship with such Non-resident Holder) 25.0% or more of the total issued and outstanding shares of us at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

It should be noted that capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation, provided that the ADSs are deemed to have been issued overseas. If and when an owner of the underlying common shares transfers the ADSs following the conversion of the underlying shares for ADSs, such person will not be exempt from Korean income taxation.

***Inheritance Tax and Gift Tax***

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and vary according to the identity of the parties involved.

Under Korean inheritance and gift tax laws, securities issued by a Korean corporation are deemed to be located in Korea irrespective of where they are physically located or by whom they are owned.

***Securities Transaction Tax***

Securities transaction tax is imposed on the transfer of shares issued by a Korean corporation or the right to subscribe for such shares generally at the rate of 0.5% of the sales price. In the case of the transfer of shares listed on the KRX KOSPI Market (such as our common shares), the securities transaction tax is imposed generally at the rate of (1) 0.3% of the sales price of such shares (including agricultural and fishery special surtax thereon) if traded on the KRX KOSPI Market or (2) subject to certain exceptions, 0.5% of the sales price of such shares if traded outside the KRX KOSPI Market.

Securities transaction tax or the agricultural and fishery special surtax is not applicable if (1) the shares or rights to subscribe for shares are listed on a designated foreign stock exchange and (2) the sale of the shares takes place on such exchange.

Securities transaction tax, if applicable, must be paid by the transferor of the shares or rights, in principle. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay (to the tax authority) the tax, and when such transfer is made through a financial investment company with a brokerage license only, such company is required to withhold and pay the tax. Where the transfer is effected by a Non-resident Holder without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company with a brokerage license, the transferee is required to withhold the securities transaction tax. Failure to do so will result in the imposition of penalties equal to the sum of (1) between 10.0% to 40.0% of the tax amount due, depending on the nature of the improper reporting, and (2) 10.95% per annum on the tax amount due for the default period.

***Tax Treaties***

Currently, Korea has income tax treaties with a number of countries, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Ireland, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States under which the rate of withholding tax on dividend and interest is reduced, generally to between 5.0% and 16.5% (including local income tax), and the tax on capital gains derived by a non-resident from the transfer of securities issued by a Korean company is often eliminated.

Each Non-resident Holder of common shares should inquire for itself whether it is entitled to the benefits of a tax treaty with Korea. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest,



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dividend, capital gains or other income to submit to us (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, prior to or at the time of payment, such evidence of tax residence of the party claiming the treaty benefit as the Korean tax authorities may require in support of its claim for treaty protection. In the absence of sufficient proof, we (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, must withhold tax at the normal rates.

Furthermore, in order for a non-resident of Korea to obtain the benefits of tax exemption on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agent) to submit to the payer of such Korean source income an application for a tax exemption along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

For a non-resident of Korea to obtain the benefits of treaty-reduced tax rates on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for treaty-reduced tax rates prior to receipt of such Korean source income; provided, however, that an owner of ADSs who is a non-resident of Korea is not required to submit such application, if the Korean source income on the ADSs is paid through an account opened at the Korea Securities Depository by a foreign depository.

At present, Korea has not entered into any tax treaty relating to inheritance or gift tax.

**Item 10.F. *Dividends and Paying Agents***

Not applicable.

**Item 10.G. *Statements by Experts***

Not applicable.

**Item 10.H. *Documents on Display***

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC's Website at <http://www.sec.gov>.

Documents filed with annual reports and documents filed or submitted to the SEC are also available for inspection at our principal business office during normal business hours. Our principal business office is located at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 100-999, Korea.

**Item 10.I. *Subsidiary Information***

Not applicable.

**Item 11. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities and to equity price risk as a result of our investment in equity instruments.

We have entered into floating-to-fixed cross currency swap contracts to hedge foreign currency and interest rate risks with respect to long-term borrowings of US\$100 million borrowed in October 2006, US\$250 million of bonds issued in December 2011, SG\$65 million of bonds issued in December 2011 and US\$300 million of bonds issued in March 2013. In addition, we have entered into fixed-to-fixed cross currency swap

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contracts to hedge the foreign currency risks of US\$400 million of bonds issued in July 2007, CHF 300 million of bonds issued in June 2012, US\$700 million of bonds issued in November 2012 and AUD 300 million of bonds issued in January 2013. See note 20 of the notes to our consolidated financial statements. We may consider in the future entering into other such transactions solely for hedging purposes.

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The following discussion and tables, which constitute forward looking statements that involve risks and uncertainties, summarize our market-sensitive financial instruments including fair value, maturity and contract terms. These tables address market risk only and do not present other risks which we face in the normal course of business, including country risk, credit risk and legal risk.

**Exchange Rate Risk**

Korea is our main market and, therefore, substantially all of our cash flow is denominated in Won. We are exposed to foreign exchange risk related to foreign currency denominated liabilities. These liabilities relate primarily to foreign currency denominated debt, primarily in Dollars, Franc and Australian Dollars. A 10.0% change in the exchange rate between the Won and all foreign currencies would result in a change in net liabilities (total monetary liabilities minus total monetary assets) of approximately 0.06% or Won 1.7 billion as of December 31, 2013. For a further discussion of our exchange rate risk exposures, see note 31(1) of the notes to our consolidated financial statements.

**Interest Rate Risk**

We are also subject to market risk exposure arising from changing interest rates. The following table summarizes the carrying amounts and fair values, maturity and contract terms of our exchange rate and interest sensitive short-term and long-term liabilities as of December 31, 2013:

|                          | Maturities                                       |       |       |       |         |            | Total   | Fair Value |
|--------------------------|--|-------|-------|-------|---------|------------|---------|------------|
|                          | 2014   | 2015  | 2016  | 2017  | 2018    | Thereafter |         |            |
|                          | (In billions of Won, except for percentage data) |       |       |       |         |            |         |            |
| Local currency:          |  |       |       |       |         |            |         |            |
| Fixed-rate               | 877.8  | 566.8 | 584.9 | 222.7 | 195.0   | 946.4      | 3,393.6 | 3,475.8    |
| Average weighted rate(1) | 4.23%  | 4.22% | 5.20% | 3.73% | 5.14%   | 3.42%      |         |            |
| Sub-total                | 877.8  | 566.8 | 584.9 | 222.  | 195.0   | 946.4      | 3,393.6 | 3,475.8    |
| Foreign currency:        |  |       |       |       |         |            |         |            |
| Fixed-rate               | 104.9  | 12.2  | 12.2  | 647.2 | 1,055.7 | 458.3      | 2,290.5 | 2,334.3    |
| Average weighted rate(1) | 1.75%  | 1.70% | 1.70% | 3.07% | 2.37%   | 6.26%      |         |            |
| Variable rate            | 316.7  |       |       |       |         | 315.1      | 631.8   | 631.8      |
| Average weighted rate(1) | 1.78   |       |       |       |         | 1.13       |         |            |
| Sub-total                | 421.6  | 12.2  | 12.2  | 647.2 | 1,055.7 | 773.4      | 2,922.3 | 2,966.1    |
| Total                    | 1,299.4  | 579.0 | 597.1 | 869.9 | 1,250.7 | 1,719.8    | 6,315.9 | 6,441.9    |

(1) Weighted average rates of the portfolio at the period end.

A 1.0% point change in interest rates would result in a change of approximately 15.2% in the fair value of our liabilities resulting in a Won 979.4 billion change in their value as of December 31, 2013 and a Won 3.2 billion annualized change in interest expenses. For a further discussion of our interest rate risk exposures, see note 31(1) of the notes to our consolidated financial statements.

**Equity Price Risk**

We are also subject to market risk exposure arising from changes in the equity securities market, which affect the fair value of our equity portfolio. As of December 31, 2013, 2012 and 2011, a 10.0% increase in the equity indices where our available-for-sale equity instruments are listed, with all other variables held constant, would have increased our total equity by Won 63.4 billion, Won 58.4 billion and Won 119.2 billion, respectively, with a 10.0% decrease in the equity index having the opposite effect. The foregoing sensitivity analysis assumes that all variables other than changes in the equity index are held constant, and that our available-for-sale equity instruments had moved according to the historical correlation to the index, and as such, does not reflect any correlation between the equity index and other variables. For a further discussion of our equity price risk exposures, see note 31(1) of the notes to our consolidated financial statements.

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**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**Item 12.A. Debt Securities**

Not applicable.

**Item 12.B. Warrants and Rights**

Not applicable.

**Item 12.C. Other Securities**

Not applicable.

**Item 12.D. American Depositary Shares  
Fees and Charges under Deposit Agreement**

The ADR depository will charge the party receiving ADSs up to \$5.00 per 100 ADSs (or fraction thereof), provided that the ADR depository has agreed to waive such fee as would have been payable by us in the case of (1) an offering of ADSs by us or (2) any distribution of shares of common stock or any rights to subscribe for additional shares of common stock. The ADR depository will not charge the party to whom ADSs are delivered against deposits. The ADR depository will charge the party surrendering ADSs for delivery of deposited securities up to \$5.00 per 100 ADSs (or fraction thereof) surrendered. The ADR depository will also charge the party to whom any cash distribution, or for whom the sale or exercise of rights or other corporate action involving distributions to shareholders, is made with respect to ADSs up to \$0.02 per ADS held plus the expenses of the ADR depository on a per-ADS basis. We will pay the expenses of the ADR depository and any entity acting as registrar for the shares only as specified in the deposit agreement. The ADR depository will pay any other charges and expenses of the ADR depository and the entity acting as registrar for the shares.

Holders of ADRs must pay (1) taxes and other governmental charges, (2) share transfer registration fees on deposits of shares of common stock, (3) such cable, telex, facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of persons depositing shares of common stock or holders of ADRs and (4) such reasonable expenses as are incurred by the ADR depository in the conversion of foreign currency into United States dollars.

Notwithstanding any other provision of the deposit agreement, in the event that the ADR depository determines that any distribution in property (including shares or rights to subscribe therefor or other securities) is subject to any tax or governmental charges which the ADR depository is obligated to withhold, the ADR depository may dispose of all or a portion of such property (including shares and rights to subscribe therefor) in such amounts and in such manner as the ADR depository deems necessary and practicable to pay such taxes or governmental charges, including by public or private sale, and the ADR depository will distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes or governmental charges to the holders of ADSs entitled thereto in proportion to the number of ADSs held by them respectively.

All such charges may be changed by agreement between the ADR depository and us at any time and from time to time, subject to the deposit agreement. The right of the ADR depository to receive payment of fees, charges and expenses shall survive the termination of this deposit agreement and, as to any depository, the resignation or removal of such depository pursuant to the deposit agreement.

For a detailed summary of the deposit agreement, see Item 10.B. Memorandum and Articles of Incorporation Description of American Depositary Shares.

**Table of Contents****Payments made by ADS Depositary**

All fees and other direct and indirect payments reimbursed by the depositary are as following:

|   | <b>Year Ended<br/>December 31,<br/>2013<br/>(In Dollars)</b> |
|---|--|
| Expenses for preparation of SEC filing and submission | \$ 843,100   |
| Listing Fees  | \$ 508,597   |
| Education/Training                                    | \$ 396,288   |
| Corporate Action                                      | \$ 746,969   |
| Miscellaneous   | \$ 748,138   |
| <br>Total   | <br>\$ 3,243,091   |

**PART II****Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**Item 15. CONTROLS AND PROCEDURES**

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2013. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as of December 31, 2013. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial

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statements for external purposes in accordance with IFRS as issued by the IASB. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

**Table of Contents****Report of the Independent Registered Public Accounting Firm on the Effectiveness of our Internal Control Over Financial Reporting**

The report of our independent registered public accounting firm, KPMG Samjong Accounting Corp. ( KPMG Samjong ), on the effectiveness of our internal control over financial reporting as of December 31, 2013 is included in Item 18 of this Form 20-F.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. RESERVED****Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

At our annual shareholders meeting in March 2014, our shareholders elected Jae Hyeon Ahn as a new member of our audit committee, replacing the resigned director and member of our audit committee, Jae Ho Cho and the resigned member of our audit committee, Jay Young Chung. The board of directors have approved this newly elected member of our audit committee. Dae Shick Oh is the chairman of our audit committee and was elected and designated an audit committee financial expert within the meaning of this Item 16A at a meeting of the board of directors in April 2014. The board of directors have further determined that Dae Shick Oh is independent within the meaning of applicable SEC rules and the listing standards of the NYSE. See Item 6.C. Board Practices Audit Committee for additional information regarding our audit committee.

**Item 16B. CODE OF ETHICS****Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller**

We have a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, senior accounting officers and employees. We also have internal control and disclosure policy designed to promote full, fair, accurate, timely and understandable disclosure in all of our reports and publicly filed documents. A copy of our code of ethics is available on our website at [www.sktelecom.com](http://www.sktelecom.com). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website.

**Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The table sets forth the fees we paid to our independent registered public accounting firm KPMG Samjong and its affiliates for the years ended December 31, 2013 and 2012:

|                    | Year Ended December 31, |                |
|--------------------|-------------------------|----------------|
|                    | 2013                    | 2012           |
|                    | (In millions of Won)    |                |
| Audit Fees         | 2,102.0                 | 1,516.2        |
| Audit-Related Fees | 4.0                     | 83.0           |
| Tax Fees           | 181.8                   | 29.6           |
| All Other Fees     | 9.0                     | 35.0           |
| <b>Total</b>       | <b>2,296.8</b>          | <b>1,663.8</b> |

*Audit Fees* are the aggregate fees billed by KPMG Samjong for the audit of our consolidated annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

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*Audit-Related Fees* are fees charged by KPMG Samjong for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under *Audit Fees*. This category comprises fees billed for advisory services associated with our financial reporting.

*Tax Fees* are fees for professional services rendered by KPMG Samjong for tax compliance, tax advice on actual or contemplated transactions and tax planning services.



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Fees disclosed under the category *All Other Fees* are fees for professional services rendered by KPMG Samjong, primarily for business consulting in connection with our internal control over financial reporting.

**Pre-Approval of Audit and Non-Audit Services Provided by Independent Registered Public Accounting Firm**

Our audit committee pre-approves all audit services to be provided by KPMG Samjong, our independent registered public accounting firm. Our audit committee's policy regarding the pre-approval of non-audit services to be provided to us by our independent auditors is that all such services shall be pre-approved by our audit committee. Non-audit services that are prohibited to be provided to us by our independent auditors under the rules of the SEC and applicable law may not be pre-approved. In addition, prior to the granting of any pre-approval, our audit committee must be satisfied that the performance of the services in question will not compromise the independence of our independent registered public accounting firm.

Our audit committee did not pre-approve any non-audit services under the *de minimis* exception of Rule 2-01 (c)(7)(i)(C) of Regulation S-X as promulgated by the SEC.

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

**Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**Item 16G. CORPORATE GOVERNANCE**

The following is a summary of the significant differences between the NYSE's corporate governance standards and those that we follow under Korean law.

**NYSE Corporate Governance Standards**

**Director Independence**

Listed companies must have a majority of independent directors.

**Executive Session**

Listed companies must hold meetings solely attended by independent directors to more effectively check and balance management directors.

**Nomination/Corporate Governance Committee**

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.

**Audit Committee**

**Our Corporate Governance Practice**

Of the eight members of our board of directors, five are independent directors.

Our audit committee, which is comprised solely of four independent directors, holds meetings whenever there are matters related to management directors, and such meetings are generally held once every month.

Although we do not have a separate nomination/ corporate governance committee, we maintain an independent director nomination committee composed of independent directors and management directors.

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Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

We maintain an audit committee comprised solely of four independent directors.

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**NYSE Corporate Governance Standards**

**Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of more than three directors.

**Shareholder Approval of Equity Compensation Plan**

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers.

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**Our Corporate Governance Practice**

Our audit committee has four independent directors.

We currently have two equity compensation plans: a stock option plan for officers and directors and employee stock ownership plan for employees ( ESOP ). We manage such compensation plans in compliance with the applicable laws and our articles of incorporation, provided that, under certain limited circumstances, the grant of stock options or matters relating to ESOP are not subject to shareholders' approval under Korean law.

Although we do not maintain separate corporate governance guidelines, we are in compliance with the Korean Commercial Code in connection with such matters, including the governance of the board of directors.

We have adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees, and such code is also available on our website at [www.sktelecom.com](http://www.sktelecom.com).

**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

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**Item 19. EXHIBITS**

| <b>Number</b> | <b>Description</b>   |
|---------------|--|
| 1.1           | Articles of Incorporation  |
| 2.1           | Deposit Agreement dated as of May 31, 1996, as amended by Amendment No. 1 dated as of March 15, 1999, Amendment No. 2 dated as of April 24, 2000 and Amendment No. 3 dated as of July 24, 2002, entered into among SK Telecom Co., Ltd., Citibank, N.A., as Depository, and all Holders and Beneficial Owners of American Depositary Shares (incorporated by reference to Exhibit 2.1 to the Registrant's Annual Report on Form 20-F filed on June 30, 2006) |
| 8.1           | List of Subsidiaries of SK Telecom Co., Ltd.   |
| 12.1          | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 12.2          | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 13.1          | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 13.2          | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 15.1          | Framework Act on Telecommunications, as amended (English translation) (incorporated by reference to Exhibit 15.1 to the Registrant's Annual Report on Form 20-F filed on April 30, 2013)   |
| 15.2          | Enforcement Decree of the Framework Act on Telecommunications, as amended (English translation) (incorporated by reference to Exhibit 15.2 to the Registrant's Annual Report on Form 20-F filed on June 30, 2011)  |
| 15.3          | Telecommunications Business Act, as amended (English translation)  |
| 15.4          | Enforcement Decree of the Telecommunications Business Act, as amended (English translation)  |
| 15.5          | Government Organization Act, as amended (English translation)  |



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**Report of Independent Registered Public Accounting Firm**

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of SK Telecom Co., Ltd. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of SK Telecom Co., Ltd.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated financial statements of SK Telecom Co., Ltd. and subsidiaries for the year ended December 31, 2011, were audited by other auditors whose report thereon dated March 13, 2012 (April 30, 2013, as to the effects of the retrospective adjustments of the broadcasting business of SK Telink Co., Ltd, as a discontinued operation as described in note 37 and the related retrospective segment presentation described in note 5), expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SK Telecom Co., Ltd. and subsidiaries as of December 31, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As further described in note 37 (1)(a) to the consolidated financial statements, SK Telecom Co., Ltd. disposed of a controlling equity interest in Loen Entertainment, Inc., during the year ended December 31, 2013. SK Telecom Co., Ltd. presented the results of operations of Loen Entertainment, Inc. as a discontinued operation in its consolidated financial statements for the year ended December 31, 2013. The comparative information in the consolidated financial statements for the years ended December 31, 2012 and 2011 has been restated to present Loen Entertainment as a discontinued operation. We have audited the retrospective presentation of Loen Entertainment, Inc. as a discontinued operation in 2011, as described in note 37(1)(a), and the related retrospective segment presentation as described in note 5. In our opinion, such retrospective presentations are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2011 consolidated financial statements of SK Telecom Co., Ltd. and subsidiaries other than with respect to the retrospective discontinued operation presentation of Loen Entertainment, Inc. and the related retrospective segment presentation, and, accordingly, we do not express an opinion or any other form of assurance on the 2011 consolidated financial statements of SK Telecom Co., Ltd. and subsidiaries taken as a whole.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of SK Telecom Co., Ltd.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992) and our report dated April 30, 2014, expressed an unqualified opinion on SK Telecom Co., Ltd.'s internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 30, 2014

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of

SK Telecom Co., Ltd.

We have audited, before effects of the retrospective adjustments for the discontinued operations of Loen Entertainment, Inc. as described in note 37(1)(a) to the consolidated financial statements and the related retrospective adjustment to the segment disclosure described in note 5 to the consolidated financial statements, the accompanying consolidated statement of financial position of SK Telecom Co., Ltd. and subsidiaries (the Company) as of December 31, 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SK Telecom Co. Ltd. and subsidiaries as of December 31, 2011 and the results of their operations and their cash flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations of Loen Entertainment, Inc. as described in note 37(1)(a) to the consolidated financial statements and the related retrospective adjustment to the segment disclosure described in note 5 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective presentations were audited by other auditors.

/s/ Deloitte Anjin LLC

Seoul, Korea

March 13, 2012 (April 30, 2013 as to the effects of the retrospective adjustment of the broadcasting business of SK Telink Co., Ltd., as a discontinued operation as described in note 37 to the consolidated financial statements and the related retrospective segment presentation described in note 5 to the consolidated financial statements)



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**Report of Independent Registered Public Accounting Firm**

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the internal control over financial reporting of SK Telecom Co., Ltd. as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992). SK Telecom Co., Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on SK Telecom Co., Ltd.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, SK Telecom Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), consolidated statements of financial position of SK Telecom Co., Ltd. and its subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and our report dated April 30, 2014, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 30, 2014

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2013 and 2012**

|  | <i>Note</i>   | December 31,<br>2013 | December 31,<br>2012 |
|--|---------------|----------------------|----------------------|
| (In millions of won)                         |               |                      |                      |
| <b>Assets</b>                                |               |                      |                      |
| <b>Current Assets:</b>                       |               |                      |                      |
| Cash and cash equivalents                    | 33,34         | 1,398,639            | 920,125              |
| Short-term financial instruments             | 6,33,34,35,36 | 311,474              | 514,417              |
| Short-term investment securities             | 9,33,34       | 106,068              | 60,127               |
| Accounts receivable trade, net               | 7,33,34,35    | 2,257,316            | 1,954,920            |
| Short-term loans, net                        | 7,33,34,35    | 79,395               | 84,908               |
| Accounts receivable other, net               | 7,33,34,35    | 643,603              | 582,098              |
| Prepaid expenses                             |               | 108,909              | 102,572              |
| Derivative financial assets                  | 22,33,34      | 10                   | 9,656                |
| Inventories, net                             | 8,36          | 177,120              | 242,146              |
| Assets classified as held for sale           | 10            | 3,667                | 775,556              |
| Advanced payments and other                  | 7,9,33,34     | 37,214               | 47,896               |
| <b>Total Current Assets</b>                  |               | <b>5,123,415</b>     | <b>5,294,421</b>     |
| <b>Non-Current Assets:</b>                   |               |                      |                      |
| Long-term financial instruments              | 6,33,34       | 8,142                | 144                  |
| Long-term investment securities              | 9,33,34       | 968,527              | 953,712              |
| Investments in associates and joint ventures | 12            | 5,325,297            | 4,632,477            |
| Property and equipment, net                  | 13,35,36      | 10,196,607           | 9,712,719            |
| Investment property, net                     | 14            | 15,811               | 27,479               |
| Goodwill                                     | 15            | 1,733,261            | 1,744,483            |
| Intangible assets, net                       | 16            | 2,750,782            | 2,689,658            |
| Long-term loans, net                         | 7,33,34,35    | 57,442               | 69,299               |
| Long-term prepaid expenses                   | 36            | 32,008               | 31,341               |
| Guarantee deposits                           | 6,7,33,34,35  | 249,600              | 236,242              |
| Long-term derivative financial assets        | 22,33,34      | 41,712               | 52,992               |
| Deferred tax assets                          | 30            | 26,322               | 124,098              |
| Other non-current assets                     | 7,33,34       | 47,589               | 26,494               |
| <b>Total Non-Current Assets</b>              |               | <b>21,453,100</b>    | <b>20,301,138</b>    |
| <b>Total Assets</b>                          |               | <b>26,576,515</b>    | <b>25,595,559</b>    |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Financial Position (Continued)**

As of December 31, 2013 and 2012

|  | <i>Note</i>           | December 31,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|----------------------|
| (In millions of won)                                       |                       |                      |                      |
| <b>Liabilities and Equity</b>                              |                       |                      |                      |
| <b>Current Liabilities:</b>                                |                       |                      |                      |
| Short-term borrowings                                      | <i>17,33,34</i>       | 260,000              | 600,245              |
| Current portion of long-term debt, net                     | <i>17,18,20,33,34</i> | 1,268,427            | 892,867              |
| Accounts payable trade                                     | <i>33,34,35</i>       | 214,716              | 253,884              |
| Accounts payable other                                     | <i>33,34,35</i>       | 1,864,024            | 1,811,038            |
| Withholdings   | <i>33,34,35</i>       | 728,936              | 717,170              |
| Accrued expenses   | <i>33,34</i>          | 988,193              | 890,863              |
| Income tax payable   | <i>30</i>             | 112,316              | 60,253               |
| Unearned revenue   |                       | 441,731              | 258,691              |
| Derivative financial liabilities                           | <i>22,33,34</i>       | 21,171               |                      |
| Provisions   | <i>19</i>             | 66,775               | 287,307              |
| Advanced receipts and other                                | <i>33,34</i>          | 102,931              | 108,272              |
| Liabilities classified as held for sale                    | <i>10</i>             |                      | 294,305              |
| <b>Total Current Liabilities</b>                           |                       | <b>6,069,220</b>     | <b>6,174,895</b>     |
| <b>Non-Current Liabilities:</b>                            |                       |                      |                      |
| Debentures, net, excluding current portion                 | <i>17,33,34</i>       | 4,905,579            | 4,979,220            |
| Long-term borrowings, excluding current portion            | <i>17,33,34</i>       | 104,808              | 369,237              |
| Long-term payables other                                   | <i>18,33,34</i>       | 838,585              | 715,508              |
| Long-term unearned revenue                                 |                       | 50,894               | 160,821              |
| Finance lease liabilities                                  | <i>20,33,34</i>       | 3,867                | 22,036               |
| Defined benefit obligations                                | <i>21</i>             | 74,201               | 86,521               |
| Long-term derivative financial liabilities                 | <i>22,33,34</i>       | 103,168              | 63,599               |
| Long-term provisions                                       | <i>19</i>             | 28,106               | 106,561              |
| Deferred tax liabilities                                   | <i>30</i>             | 168,825              |                      |
| Other non-current liabilities                              | <i>33,34</i>          | 62,705               | 62,379               |
| <b>Total Non-Current Liabilities</b>                       |                       | <b>6,340,738</b>     | <b>6,565,882</b>     |
| <b>Total Liabilities</b>                                   |                       | <b>12,409,958</b>    | <b>12,740,777</b>    |
| <b>Equity</b>  |                       |                      |                      |
| Share capital  | <i>1,23</i>           | 44,639               | 44,639               |
| Capital surplus (deficit) and other capital adjustments    | <i>23</i>             | (81,010)             | (288,883)            |
| Hybrid bonds   | <i>25</i>             | 398,518              |                      |
| Retained earnings  | <i>26</i>             | 13,102,495           | 12,124,657           |
| Reserves   | <i>27</i>             | (12,270)             | (25,636)             |
| <b>Equity attributable to owners of the Parent Company</b> |                       | <b>13,452,372</b>    | <b>11,854,777</b>    |
| <b>Non-controlling interests</b>                           |                       | <b>714,185</b>       | <b>1,000,005</b>     |
| <b>Total Equity</b>  |                       | <b>14,166,557</b>    | <b>12,854,782</b>    |

**Total Liabilities and Equity**

**26,576,515**

**25,595,559**

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Income**

For the years ended December 31, 2013, 2012 and 2011

|  | <i>Note</i>  | <b>2013</b>                                    | <b>2012</b>      | <b>2011</b>      |
|--|--------------|--|------------------|------------------|
|  |              | (In millions of won except for per share data) |                  |                  |
| <b>Continuing operations</b>   |              |  |                  |                  |
| <b>Operating revenue and other income:</b>   | <i>5,35</i>  |  |                  |                  |
| Revenue  |              | 16,602,054                                     | 16,141,409       | 15,803,174       |
| Other income   | <i>20,28</i> | 74,954   | 201,844          | 49,631           |
|  |              | 16,677,008                                     | 16,343,253       | 15,852,805       |
| <b>Operating expense:</b>  | <i>35</i>    |  |                  |                  |
| Labor cost   | <i>21</i>    | 1,561,358                                      | 1,267,928        | 1,160,654        |
| Commissions paid   |              | 5,498,695                                      | 5,949,542        | 5,560,147        |
| Depreciation and amortization  | <i>5</i>     | 2,661,623                                      | 2,421,128        | 2,286,566        |
| Network interconnection  |              | 1,043,733                                      | 1,057,145        | 1,264,109        |
| Leased line  |              | 448,833  | 468,785          | 474,018          |
| Advertising  |              | 394,066  | 384,353          | 360,972          |
| Rent   |              | 443,639  | 422,388          | 400,112          |
| Cost of products that have been resold   |              | 1,300,375                                      | 1,292,304        | 957,086          |
| Other operating expenses   | <i>28</i>    | 1,746,283                                      | 1,342,025        | 1,226,412        |
| Sub-total  |              | 15,098,605                                     | 14,605,598       | 13,690,076       |
| <b>Operating income from continuing operations</b>                                     | <i>5</i>     | <b>1,578,403</b>                               | <b>1,737,655</b> | <b>2,162,729</b> |
| Finance income   | <i>5,29</i>  | 113,392  | 444,558          | 440,212          |
| Finance costs  | <i>5,29</i>  | (571,203)                                      | (638,285)        | (343,771)        |
| Gain (loss) related to investments in subsidiaries, associates and joint ventures, net | <i>5,12</i>  | 706,509  | (24,560)         | (46,897)         |
| <b>Profit before income tax</b>  |              | <b>1,827,101</b>                               | <b>1,519,368</b> | <b>2,212,273</b> |
| Income tax expense from continuing operations  | <i>30</i>    | 400,797  | 288,207          | 601,937          |
| <b>Profit from continuing operations</b>   |              | <b>1,426,304</b>                               | <b>1,231,161</b> | <b>1,610,336</b> |
| <b>Discontinued operation</b>  |              |  |                  |                  |
| Profit (loss) from discontinued operations, net of income taxes                        | <i>37</i>    | 183,245  | (115,498)        | (28,263)         |
| <b>Profit for the year</b>   |              | <b>1,609,549</b>                               | <b>1,115,663</b> | <b>1,582,073</b> |
| Attributable to:   |              |  |                  |                  |
| Owners of the Parent Company   |              | 1,638,964                                      | 1,151,705        | 1,612,889        |
| Non-controlling interests  |              | (29,415)                                       | (36,042)         | (30,816)         |
| <b>Earnings per share</b>  | <i>31</i>    |  |                  |                  |
| Basic earnings per share   |              | 23,211   | 16,525           | 22,848           |
| Diluted earnings per share   |              | 23,211   | 16,141           | 22,223           |

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| <b>Earnings per share</b>  | <b>Continuing operations</b> | <i>31</i> |        |        |        |
|----------------------------|------------------------------|-----------|--------|--------|--------|
| Basic earnings per share   |                              |           | 20,708 | 18,015 | 23,339 |
| Diluted earnings per share |                              |           | 20,708 | 17,583 | 22,699 |

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2013, 2012 and 2011

|  | <i>Note</i>  | 2013                 | 2012             | 2011             |
|--|--|----------------------|------------------|------------------|
|  |  | (In millions of won) |                  |                  |
| <b>Profit for the year</b>   |  | <b>1,609,549</b>     | <b>1,115,663</b> | <b>1,582,073</b> |
| <b>Other comprehensive income (loss)</b>   |  |                      |                  |                  |
| <b>Items that will not be reclassified to profit or loss, net of taxes:</b>              |  |                      |                  |                  |
| Remeasurement of defined benefit obligations   | 3,21   | 5,946                | (15,048)         | (25,275)         |
| <b>Items that may be reclassified subsequently to profit or loss, net of taxes:</b>      |  |                      |                  |                  |
| Net change in unrealized fair value of available-for-sale financial assets               | 3,27,29  | 2,009                | (149,082)        | (433,546)        |
| Net change in other comprehensive income of investments in associates and joint ventures | 3,12,27  | 3,034                | (82,513)         | (2,173)          |
| Net change in unrealized fair value of derivatives                                       | 3,22,27,29   | 11,222               | (23,361)         | 29,236           |
| Foreign currency translation differences for foreign operations                          | 3,27   | (3,714)              | (49,538)         | 40,673           |
|  |  | 18,497               | (319,542)        | (391,085)        |
| <b>Total comprehensive income</b>  |  | <b>1,628,046</b>     | <b>796,121</b>   | <b>1,190,988</b> |
| Total comprehensive income attributable to:  |  |                      |                  |                  |
| Owners of the Parent Company   |  | 1,655,570            | 851,565          | 1,206,577        |
| Non-controlling interests  |  | (27,524)             | (55,444)         | (15,589)         |
|  | See accompanying notes to the consolidated financial statements. |                      |                  |                  |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Changes in Equity**

For the years ended December 31, 2013, 2012 and 2011

|                                      | Share capital        | Capital surplus<br>(deficit) and<br>other capital<br>adjustments | Controlling interest |                 | Sub-total         | Non-<br>controlling<br>interests | Total equity      |
|--------------------------------------|----------------------|--|----------------------|-----------------|-------------------|----------------------------------|-------------------|
|                                      |                      |  | Retained<br>earnings | Reserves        |                   |                                  |                   |
|                                      | (In millions of won) |  |                      |                 |                   |                                  |                   |
| <b>Balance, January 1, 2011</b>      | <b>44,639</b>        | <b>(78,953)</b>  | <b>10,721,249</b>    | <b>643,056</b>  | <b>11,329,991</b> | <b>1,078,008</b>                 | <b>12,407,999</b> |
| Cash dividends                       |                      |  | (668,293)            |                 | (668,293)         | (2,226)                          | (670,519)         |
| Treasury stock                       |                      | (208,012)  |                      |                 | (208,012)         |                                  | (208,012)         |
| Total comprehensive income           |                      |  |                      |                 |                   |                                  |                   |
| Profit (loss)                        |                      |  | 1,612,889            |                 | 1,612,889         | (30,816)                         | 1,582,073         |
| Other comprehensive income (loss)    |                      |  | (23,320)             | (382,992)       | (406,312)         | 15,227                           | (391,085)         |
|                                      |                      |  | 1,589,569            | (382,992)       | 1,206,577         | (15,589)                         | 1,190,988         |
| Effect of change in income tax rate  |                      | (2,980)  |                      |                 | (2,980)           |                                  | (2,980)           |
| Changes in ownership in subsidiaries |                      | 4,598  |                      |                 | 4,598             | 10,635                           | 15,233            |
| <b>Balance, December 31, 2011</b>    | <b>44,639</b>        | <b>(285,347)</b>   | <b>11,642,525</b>    | <b>260,064</b>  | <b>11,661,881</b> | <b>1,070,828</b>                 | <b>12,732,709</b> |
| <b>Balance, January 1, 2012</b>      | <b>44,639</b>        | <b>(285,347)</b>   | <b>11,642,525</b>    | <b>260,064</b>  | <b>11,661,881</b> | <b>1,070,828</b>                 | <b>12,732,709</b> |
| Cash dividends                       |                      |  | (655,133)            |                 | (655,133)         | (2,133)                          | (657,266)         |
| Total comprehensive income           |                      |  |                      |                 |                   |                                  |                   |
| Profit (loss)                        |                      |  | 1,151,705            |                 | 1,151,705         | (36,042)                         | 1,115,663         |
| Other comprehensive loss             |                      |  | (14,440)             | (285,700)       | (300,140)         | (19,402)                         | (319,542)         |
|                                      |                      |  | 1,137,265            | (285,700)       | 851,565           | (55,444)                         | 796,121           |
| Changes in ownership in subsidiaries |                      | (3,536)  |                      |                 | (3,536)           | (13,246)                         | (16,782)          |
| <b>Balance, December 31, 2012</b>    | <b>44,639</b>        | <b>(288,883)</b>   | <b>12,124,657</b>    | <b>(25,636)</b> | <b>11,854,777</b> | <b>1,000,005</b>                 | <b>12,854,782</b> |

See accompanying notes to the consolidated financial statements.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Changes in Equity (Continued)**

For the years ended December 31, 2013, 2012 and 2011

|   | Share capital        | Capital surplus<br>(deficit) and<br>other capital<br>adjustments | Controlling interest |                      |                 | Sub-total         | Non-<br>controlling<br>interests | Total equity      |
|---|----------------------|--|----------------------|----------------------|-----------------|-------------------|----------------------------------|-------------------|
|   |                      |  | Hybrid bonds         | Retained<br>earnings | Reserves        |                   |                                  |                   |
|   | (In millions of won) |  |                      |                      |                 |                   |                                  |                   |
| <b>Balance, January 1, 2013</b>           | <b>44,639</b>        | <b>(288,883)</b>   |                      | <b>12,124,657</b>    | <b>(25,636)</b> | <b>11,854,777</b> | <b>1,000,005</b>                 | <b>12,854,782</b> |
| Cash dividends                            |                      |  |                      | (655,946)            |                 | (655,946)         | (2,242)                          | (658,188)         |
| Total comprehensive income                |                      |  |                      |                      |                 |                   |                                  |                   |
| Profit (loss)                             |                      |  |                      | 1,638,964            |                 | 1,638,964         | (29,415)                         | 1,609,549         |
| Other comprehensive income                |                      |  |                      | 3,240                | 13,366          | 16,606            | 1,891                            | 18,497            |
|   |                      |  |                      | 1,642,204            | 13,366          | 1,655,570         | (27,524)                         | 1,628,046         |
| Issuance of hybrid bonds                  |                      |  | 398,518              |                      |                 | 398,518           |                                  | 398,518           |
| Interest on hybrid bonds                  |                      |  |                      | (8,420)              |                 | (8,420)           |                                  | (8,420)           |
| Treasury stock                            |                      | 271,536  |                      |                      |                 | 271,536           |                                  | 271,536           |
| Business combination under common control |                      | (61,854)   |                      |                      |                 | (61,854)          |                                  | (61,854)          |
| Changes in ownership in subsidiaries      |                      | (1,809)  |                      |                      |                 | (1,809)           | (256,054)                        | (257,863)         |
| <b>Balance, December 31, 2013</b>         | <b>44,639</b>        | <b>(81,010)</b>  | <b>398,518</b>       | <b>13,102,495</b>    | <b>(12,270)</b> | <b>13,452,372</b> | <b>714,185</b>                   | <b>14,166,557</b> |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2013, 2012 and 2011**

|   | 2013                 | 2012             | 2011             |
|---|----------------------|------------------|------------------|
|   | (In millions of won) |                  |                  |
| <b>Cash flows from operating activities:</b>                                |                      |                  |                  |
| Cash generated from operating activities                                    |                      |                  |                  |
| Profit for the year   | 1,609,549            | 1,115,663        | 1,582,073        |
| Adjustments for income and expenses (Note 38)                               | 3,275,376            | 3,289,861        | 3,225,682        |
| Changes in assets and liabilities related to operating activities (Note 38) | (969,870)            | 204,308          | 2,180,223        |
| Sub-total   | 3,915,055            | 4,609,832        | 6,987,978        |
| Interest received   | 64,078               | 88,711           | 156,745          |
| Dividends received  | 10,197               | 27,732           | 34,521           |
| Interest paid   | (300,104)            | (363,685)        | (301,632)        |
| Income tax paid   | (130,656)            | (362,926)        | (571,217)        |
| <b>Net cash provided by operating activities</b>                            | <b>3,558,570</b>     | <b>3,999,664</b> | <b>6,306,395</b> |
| <b>Cash flows from investing activities:</b>                                |                      |                  |                  |
| Cash inflows from investing activities:                                     |                      |                  |                  |
| Decrease in short-term financial instruments, net                           | 186,425              | 464,531          |                  |
| Decrease in short-term investment securities, net                           |                      | 65,000           | 125,000          |
| Collection of short-term loans  | 290,856              | 282,658          | 194,561          |
| Proceeds from disposals of long-term financial instruments                  | 16                   | 23               | 5                |
| Proceeds from disposals of long-term investment securities                  | 287,777              | 511,417          | 256,666          |
| Proceeds from disposals of investments in associates and joint ventures     | 43,249               | 1,518            | 6,381            |
| Proceeds from disposals of property and equipment                           | 12,579               | 271,122          | 35,197           |
| Proceeds from disposals of investment property                              |                      | 43,093           |                  |
| Proceeds from disposals of intangible assets                                | 2,256                | 21,048           | 3,833            |
| Net proceeds from the disposition of non-current assets held for sale       | 190,393              |                  |                  |
| Collection of long-term loans   | 13,104               | 11,525           | 33,824           |
| Decrease of deposits  | 8,509                | 41,785           |                  |
| Proceeds from disposals of other non-current assets                         | 683                  | 1,853            | 4,122            |
| Proceeds from disposals of subsidiaries                                     | 215,939              | 89,002           |                  |
| Increase in cash due to acquisitions of subsidiaries                        |                      | 26,651           | 66,277           |
| Sub-total   | 1,251,786            | 1,831,226        | 725,866          |
| Cash outflows for investing activities:                                     |                      |                  |                  |
| Increase in short-term financial instruments, net                           |                      |                  | (412,256)        |
| Increase in short-term investment securities, net                           | (45,032)             |                  |                  |
| Increase in short-term loans  | (279,926)            | (245,465)        | (233,189)        |
| Increase in long-term loans   | (4,050)              | (3,464)          | (13,856)         |
| Increase in long-term financial instruments                                 | (7,510)              | (16)             | (7,516)          |
| Acquisitions of long-term investment securities                             | (22,141)             | (92,929)         | (323,246)        |
| Acquisitions of investments in associates                                   | (97,366)             | (3,098,833)      | (239,975)        |
| Acquisitions of property and equipment                                      | (2,879,126)          | (3,394,349)      | (2,960,556)      |
| Acquisitions of investment property   |                      | (129)            | (86,285)         |
| Acquisitions of intangible assets   | (243,163)            | (146,249)        | (598,437)        |
| Increase in asset held for sale   |                      | (51,831)         |                  |

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|   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| Increase in deposits                                | (83,314)           | (43,534)           |                    |
| Increase in other non-current assets                | (1,830)            | (8,619)            | (3,071)            |
| Acquisition of businesses, net of cash acquired     | (94,805)           | (43,389)           |                    |
| Decrease in cash due to disposals of a subsidiaries |                    | (12,003)           | (82,533)           |
| Cash outflows from transaction of derivatives       |                    |                    | (4,007)            |
| <b>Sub-total</b>                                    | <b>(3,758,263)</b> | <b>(7,140,810)</b> | <b>(4,964,927)</b> |
| <b>Net cash used in investing activities</b>        | <b>(2,506,477)</b> | <b>(5,309,584)</b> | <b>(4,239,061)</b> |

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Cash Flows (Continued)****For the years ended December 31, 2013, 2012 and 2011**

|   | 2013                 | 2012             | 2011               |
|---|----------------------|------------------|--------------------|
|   | (In millions of won) |                  |                    |
| <b>Cash flows from financing activities:</b>                  |                      |                  |                    |
| Cash inflows from financing activities:                       |                      |                  |                    |
| Proceeds from short-term borrowings                           |                      |                  | 174,222            |
| Proceeds from issuance of debentures                          | 1,328,694            | 2,098,351        | 1,129,533          |
| Proceeds from long-term borrowings                            | 105,055              | 2,059,004        | 92,367             |
| Proceeds from issuance of hybrid bond                         | 398,518              |                  |                    |
| Cash inflows from transaction of derivatives                  | 19,970               | 87,899           |                    |
| Increase in cash from the consolidated capital transaction    |                      |                  | 5,769              |
| Sub-total   | 1,852,237            | 4,245,254        | 1,401,891          |
| Cash outflows for financing activities:                       |                      |                  |                    |
| Decrease in short-term borrowings, net                        | (340,245)            | (61,401)         |                    |
| Repayments of current portion of long-term debt               | (161,575)            | (102,672)        | (224,581)          |
| Repayments of debentures                                      | (771,976)            | (1,145,691)      | (842,160)          |
| Repayments of long-term borrowings                            | (467,217)            | (1,660,509)      | (512,377)          |
| Cash outflows from transactions of derivatives                |                      | (5,415)          | (25,783)           |
| Repayments of finance lease liabilities                       | (20,342)             | (20,794)         |                    |
| Payments of dividends   | (655,946)            | (655,133)        | (668,293)          |
| Acquisition of treasury stock                                 |                      |                  | (208,012)          |
| Decrease in cash from the consolidated capital transaction    | (8,093)              | (8,372)          |                    |
| Sub-total   | (2,425,394)          | (3,659,987)      | (2,481,206)        |
| <b>Net cash provided by (used in) financing activities</b>    | <b>(573,157)</b>     | <b>585,267</b>   | <b>(1,079,315)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>478,936</b>       | <b>(724,653)</b> | <b>988,019</b>     |
| Cash and cash equivalents at beginning of the year            | 920,125              | 1,650,794        | 659,405            |
| Effects of exchange rate changes on cash and cash equivalents | (422)                | (6,016)          | 3,370              |
| <b>Cash and cash equivalents at end of the year</b>           | <b>1,398,639</b>     | <b>920,125</b>   | <b>1,650,794</b>   |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013, 2012 and 2011****1. Reporting Entity****(1) General**

SK Telecom Co., Ltd. ( the Parent Company ) was incorporated in March 1984 under the laws of Republic of Korea ( Korea ) to engage in providing cellular telephone communication services in Korea. The Parent Company mainly provides wireless telecommunications in Korea. The Parent Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2013, the Parent Company's total issued shares are held by the following:

|   | Number of<br>shares | Percentage of<br>total shares issued (%) |
|---|---------------------|--|
| SK Holdings Co., Ltd.                                   | 20,363,452          | 25.22                                    |
| National Pension Service                                | 4,760,489           | 5.90                                     |
| Institutional investors and other minority stockholders | 45,812,395          | 56.73                                    |
| Treasury stock  | 9,809,375           | 12.15                                    |
| <b>Total number of shares</b>                           | <b>80,745,711</b>   | <b>100.00</b>                            |

These consolidated financial statements comprise the Parent Company and its subsidiaries (together referred to as the Group and individually as Group entities ). SK Holdings Co, Ltd. is the ultimate controlling entity of the Parent Company.

**(2) List of subsidiaries**

The list of subsidiaries as of December 31, 2013 and 2012 is as follows:

| Subsidiary                              | Location | Primary business                          | Ownership (%)    |                  |
|---|----------|---|------------------|------------------|
|   |          |   | Dec. 31,<br>2013 | Dec. 31,<br>2012 |
| SK Telink Co., Ltd.                     | Korea    | Telecommunication service                 | 83.5             | 83.5             |
| M&Service Co., Ltd.(*)                  | Korea    | Data base and online information services | 100.0            |                  |
| SK Communications Co., Ltd.             | Korea    | Internet website services                 | 64.6             | 64.6             |
| PAXNet Co., Ltd.(*)                     | Korea    | Internet website services                 |                  | 59.7             |
| Loen Entertainment, Inc.(*)             | Korea    | Release of music disc.                    |                  | 67.6             |
| Stonebridge Cinema Fund                 | Korea    | Investment association                    | 56.0             | 57.0             |
| Commerce Planet Co., Ltd.               | Korea    | Online shopping mall operation agency     | 100.0            | 100.0            |
| SK Broadband Co., Ltd.                  | Korea    | Telecommunication services                | 50.6             | 50.6             |
| Broadband Media Co., Ltd.(*)            | Korea    | Multimedia TV portal services             |                  | 100.0            |
| K-net Culture and Contents Venture Fund | Korea    | Investment association                    | 59.0             | 59.0             |
| Fitech Focus Limited Partnership II     | Korea    | Investment association                    | 66.7             | 66.7             |
| Open Innovation Fund                    | Korea    | Investment association                    | 98.9             | 98.9             |
| PS&Marketing Corporation                | Korea    | Communications device retail business     | 100.0            | 100.0            |
| Service Ace Co., Ltd.                   | Korea    | Customer center management service        | 100.0            | 100.0            |
| Service Top Co., Ltd.                   | Korea    | Customer center management service        | 100.0            | 100.0            |
| Network O&S Co., Ltd.                   | Korea    | Base station maintenance service          | 100.0            | 100.0            |

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|  |               |                                 |       |       |
|--|---------------|---------------------------------|-------|-------|
| BNCP Co., Ltd.                             | Korea         | Internet website services       | 100.0 | 100.0 |
| SK Planet Co., Ltd.                        | Korea         | Telecommunication service       | 100.0 | 100.0 |
| Madsmart, Inc.(*)                          | Korea         | Application software production |       | 100.0 |
| SK Telecom China Holdings Co., Ltd.        | China         | Investment association          | 100.0 | 100.0 |
| SKY Property Mgmt. Ltd.(*)                 | Virgin Island | Real estate investment          |       | 60.0  |
| Shenzhen E-eye High Tech Co., Ltd.         | China         | Manufacturing                   | 65.5  | 65.5  |
| SK Global Healthcare Business Group., Ltd. | Hong Kong     | Investment association          | 100.0 | 100.0 |
| SK China Real Estate Co., Ltd.(*)          | Hong Kong     | Real estate investment          |       | 99.4  |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

| Subsidiary                          | Location  | Primary business                     | Ownership (%) |               |
|-------------------------------------|-----------|--------------------------------------|---------------|---------------|
|                                     |           |                                      | Dec. 31, 2013 | Dec. 31, 2012 |
| SK Planet Japan                     | Japan     | Digital contents sourcing service    | 100.0         | 100.0         |
| SKT Vietnam PTE. Ltd.               | Singapore | Telecommunication service            | 73.3          | 73.3          |
| SK Planet Global PTE. Ltd.          | Singapore | Digital contents sourcing service    | 100.0         | 100.0         |
| SKP GLOBAL HOLDINGS PTE. LTD.(*)    | Singapore | Investment association               | 100.0         |               |
| SKT Americas, Inc.                  | USA       | Information gathering and consulting | 100.0         | 100.0         |
| SKP America LLC.                    | USA       | Digital contents sourcing service    | 100.0         | 100.0         |
| YTK Investment Ltd.                 | Cayman    | Investment association               | 100.0         | 100.0         |
| Atlas Investment                    | Cayman    | Investment association               | 100.0         | 100.0         |
| Technology Innovation Partners, LP. | USA       | Investment association               | 100.0         | 100.0         |
| SK Telecom China Fund I L.P.        | Cayman    | Investment association               | 100.0         | 100.0         |

(\* ) Changes in subsidiaries are explained in note 1-(4).

In accordance with the Group's accounting policy relating to the scope of consolidation, small-sized subsidiaries including IM Shopping Inc. were excluded from the list of subsidiaries as the effects on the Group's consolidated financial statements are not material considering both individual and overall quantitative and qualitative effects.

**(3) Condensed financial information of subsidiaries**

Condensed financial information of subsidiaries as of and for the year ended December 31, 2013 is as follows:

| Subsidiary                              | Total assets         | Total liabilities | Total equity | Revenue   | Profit (loss) |
|---|----------------------|-------------------|--------------|-----------|---------------|
|   | (In millions of won) |                   |              |           |               |
| SK Telink Co., Ltd.                     | 252,475              | 125,807           | 126,668      | 433,276   | 16,024        |
| M&Service Co., Ltd.(*1)                 | 68,587               | 32,626            | 35,961       | 130,178   | 4,176         |
| SK Communications Co., Ltd.             | 205,792              | 53,755            | 152,037      | 128,272   | (41,893)      |
| Stonebridge Cinema Fund                 | 11,974               | 377               | 11,597       | 1         | 1,320         |
| Commerce Planet Co., Ltd.               | 26,237               | 27,333            | (1,096)      | 56,565    | 587           |
| SK Broadband Co., Ltd.                  | 3,044,349            | 1,916,721         | 1,127,628    | 2,539,366 | 12,306        |
| K-net Culture and Contents Venture Fund | 16,181               | 12                | 16,169       |           | (16,595)      |
| Fitech Focus Limited Partnership II     | 21,446               |                   | 21,446       |           | (1,179)       |
| Open Innovation Fund                    | 27,996               |                   | 27,996       |           | (15,408)      |
| PS&Marketing Corporation                | 277,300              | 141,356           | 135,944      | 1,095,647 | 1,369         |
| Service Ace Co., Ltd.                   | 56,276               | 30,667            | 25,609       | 187,961   | 2,995         |
| Service Top Co., Ltd.                   | 48,369               | 30,634            | 17,735       | 159,364   | 3,484         |
| Network O&S Co., Ltd.                   | 56,677               | 32,353            | 24,324       | 198,664   | 2,060         |
| BNCP Co., Ltd.                          | 12,108               | 6,433             | 5,675        | 14,819    | (9,019)       |
| SK Planet Co., Ltd.                     | 2,528,054            | 766,841           | 1,761,213    | 1,378,211 | 201,556       |
| SK Telecom China Holdings Co., Ltd.     | 36,261               | 2,052             | 34,209       | 17,025    | 613           |
| Shenzhen E-eye High Tech Co., Ltd.      | 17,894               | 1,841             | 16,053       | 7,703     | (789)         |

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|  |        |       |        |       |          |
|--|--------|-------|--------|-------|----------|
| SK Global Healthcare Business Group., Ltd. | 27,625 |       | 27,625 |       | 831      |
| SK Planet Japan                            | 1,793  | 280   | 1,513  | 394   | (1,635)  |
| SKT Vietnam PTE. Ltd.                      | 11,773 | 8,862 | 2,911  |       | (28,086) |
| SK Planet Global PTE. Ltd.                 | 697    | 149   | 548    | 331   | (1,420)  |
| SKP GLOBAL HOLDINGS PTE. LTD.(*1)          | 20,713 | 9     | 20,704 |       | 1,542    |
| SKT Americas, Inc.                         | 33,876 | 1,315 | 32,561 | 9,207 | (6,544)  |
| SKP America LLC.                           | 22,399 | 12    | 22,387 |       |          |
| YTK Investment Ltd.                        | 42,118 |       | 42,118 |       | (21,764) |
| Atlas Investment(*2)                       | 40,218 | 101   | 40,117 |       | (8,248)  |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(\*1) Changes in subsidiaries are explained in note 1-(4).

(\*2) The financial information of Atlas Investment includes financial information of Technology Innovation Partners, L.P. and SK Telecom China Fund I L.P., subsidiaries of Atlas Investment.

Condensed financial information of subsidiaries as of and for the year ended December 31, 2012 is as follows:

| Subsidiary                                 | Total assets         | Total liabilities | Total equity | Revenue   | Profit (loss) |
|--|----------------------|-------------------|--------------|-----------|---------------|
|  | (In millions of won) |                   |              |           |               |
| SK Telink Co., Ltd.                        | 241,977              | 128,191           | 113,786      | 341,084   | (74,951)      |
| SK Communications Co., Ltd.                | 265,819              | 70,483            | 195,336      | 197,153   | (35,334)      |
| PAXNet Co., Ltd.                           | 31,400               | 9,173             | 22,227       | 34,237    | (156)         |
| Loen Entertainment, Inc.                   | 173,079              | 44,998            | 128,081      | 185,016   | 23,839        |
| Stonebridge Cinema Fund                    | 10,965               | 903               | 10,062       | 509       | 5,707         |
| Commerce Planet Co., Ltd.                  | 34,007               | 35,351            | (1,344)      | 52,507    | 655           |
| SK Broadband Co., Ltd.                     | 3,035,657            | 1,656,923         | 1,378,734    | 2,486,317 | 26,412        |
| Broadband media Co., Ltd.                  | 50,574               | 320,727           | (270,153)    | 90,602    | (3,396)       |
| K-net Culture and Contents Venture Fund    | 43,779               | 15                | 43,764       |           | (1,778)       |
| Fitech Focus Limited Partnership II        | 22,547               |                   | 22,547       |           | (3,934)       |
| Open Innovation Fund                       | 43,394               |                   | 43,394       |           | (788)         |
| PS&Marketing Corporation                   | 317,613              | 181,737           | 135,876      | 1,484,492 | (9,662)       |
| Service Ace Co., Ltd.                      | 48,956               | 24,461            | 24,495       | 146,554   | 3,418         |
| Service Top Co., Ltd.                      | 43,332               | 25,963            | 17,369       | 133,705   | 4,198         |
| Network O&S Co., Ltd.                      | 165,818              | 140,853           | 24,965       | 377,909   | 7,970         |
| BNCP Co., Ltd.                             | 24,000               | 9,367             | 14,633       | 26,167    | (2,463)       |
| SK Planet Co., Ltd.                        | 1,647,965            | 381,620           | 1,266,345    | 1,034,697 | 11,977        |
| Madmart, Inc.                              | 1,591                | 724               | 867          | 635       | (2,756)       |
| SK Telecom China Holdings Co., Ltd.        | 35,233               | 1,782             | 33,451       | 25,755    | (151)         |
| SKY Property Mgmt. Ltd.(*1)                | 773,413              | 294,305           | 479,108      | 70,808    | 10,390        |
| Shenzhen E-eye High Tech Co., Ltd.         | 18,915               | 1,788             | 17,127       | 9,590     | (1,068)       |
| SK Global Healthcare Business Group., Ltd. | 25,784               |                   | 25,784       |           |               |
| SK Planet Japan                            | 47                   | 4                 | 43           |           | (63)          |
| SKT Vietnam PTE. Ltd.                      | 38,331               | 7,904             | 30,427       | 990       | (8)           |
| SK Planet Global PTE. Ltd.                 | 636                  | 130               | 506          |           | (526)         |
| SKT Americas, Inc.                         | 36,378               | 784               | 35,594       | 10,712    | (10,837)      |
| SKP America LLC.                           | 6,669                | 2,431             | 4,238        | 109       | (3,301)       |
| YTK Investment Ltd.                        | 64,036               |                   | 64,036       |           |               |
| Atlas Investment(*2)                       | 51,065               | 205               | 50,860       |           | (4,324)       |

- (\*1) The financial information of SKY Property Mgmt. Ltd. includes the financial information of SK China Real Estate Co., Ltd., a subsidiary of Sky Property Mgmt. Ltd.
  
- (\*2) The financial information of Atlas Investment includes financial information of Technology Innovation Partners, L.P. and SK Telecom China Fund I L.P., subsidiaries of Atlas Investment.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

Condensed financial information of subsidiaries as of and for the year ended December 31, 2011 is as follows:

| Subsidiary                              | Total assets | Total liabilities | Total equity<br>(In millions of won) | Revenue   | Profit (loss) |
|---|--------------|-------------------|--------------------------------------|-----------|---------------|
| SK Telink Co., Ltd.                     | 420,829      | 228,687           | 192,142                              | 419,131   | 35,269        |
| SK Communications Co., Ltd.             | 319,948      | 84,282            | 235,666                              | 262,140   | (5,041)       |
| PAXNet Co., Ltd.                        | 33,949       | 11,461            | 22,488                               | 33,004    | (2,347)       |
| Loen Entertainment, Inc.                | 157,104      | 48,386            | 108,718                              | 167,273   | 21,398        |
| Stonebridge Cinema Fund                 | 18,506       | 196               | 18,310                               | 21        | 1,069         |
| Ntreev Soft Co., Ltd.                   | 37,529       | 17,304            | 20,225                               | 56,029    | 8,707         |
| Commerce Planet Co., Ltd.               | 49,729       | 51,057            | (1,328)                              | 75,038    | (556)         |
| SK Broadband Co., Ltd.                  | 3,318,699    | 1,945,825         | 1,372,874                            | 2,302,563 | 19,272        |
| Broadband D&M Co., Ltd.                 | 11,872       | 7,399             | 4,473                                | 46,433    | (49)          |
| Broadband media Co., Ltd.               | 89,915       | 356,816           | (266,901)                            | 66,526    | (32,214)      |
| Broadband CS Co., Ltd.                  | 6,948        | 18,744            | (11,796)                             | 74,104    | 63            |
| K-net Culture and Contents Venture Fund | 48,057       | 16                | 48,041                               |           | (113)         |
| Fitech Focus Limited Partnership II     | 21,663       | 285               | 21,378                               |           | (10,358)      |
| Open Innovation Fund                    | 44,716       | 432               | 44,284                               |           | (427)         |
| PS&Marketing Co., Ltd.                  | 289,062      | 143,883           | 145,179                              | 1,078,925 | (31,820)      |
| Service Ace Co., Ltd.                   | 43,447       | 21,669            | 21,778                               | 130,102   | 1,365         |
| Service Top Co., Ltd.                   | 37,165       | 23,255            | 13,910                               | 123,366   | 1,829         |
| Network O&S Co., Ltd.                   | 80,249       | 61,555            | 18,694                               | 199,653   | 5,646         |
| BNCP Co., Ltd.                          | 28,631       | 11,397            | 17,234                               | 17,860    | 1,877         |
| Service-In Co., Ltd.                    | 3,247        | 759               | 2,488                                | 6,225     | (12)          |
| SK Planet Co., Ltd.                     | 1,677,730    | 423,903           | 1,253,827                            | 280,722   | 11,014        |
| SK Telecom China Holdings Co., Ltd.     | 36,810       | 2,442             | 34,368                               | 26,944    | (232)         |
| SKY Property Mgmt. Ltd.(*1)             | 820,639      | 317,038           | 503,601                              | 51,204    | 6,386         |
| Shenzhen E-eye High Tech Co., Ltd.      | 23,569       | 3,744             | 19,825                               | 14,703    | 2,007         |
| SKT Vietnam PTE. Ltd.                   | 42,539       | 9,769             | 32,770                               | 5,519     | 205           |
| SKT Americas, Inc.                      | 42,681       | 1,280             | 41,401                               | 18,468    | (14,604)      |
| YTK Investment Ltd.                     | 51,218       |                   | 51,218                               |           |               |
| Atlas Investment(*2)                    | 50,643       | 530               | 50,113                               |           | (2,056)       |

(\*1) The financial information of Sky Property Mgmt. Ltd. includes the financial information of SK China Real Estate Co., Ltd., a subsidiary of Sky Property Mgmt. Ltd.

(\*2) The financial information of Atlas Investment includes financial information of Technology Innovation Partners, L.P. and SK Telecom China Fund I L.P., subsidiaries of Atlas Investment.

**(4) Changes in subsidiaries**

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The list of subsidiaries that were newly included or excluded from consolidation during the year ended December 31, 2013 is as follows:

1) *Newly included subsidiaries*

| <b>Subsidiary</b>             | <b>Reason</b>  |
|-------------------------------|--|
| M&Service Co., Ltd.           | SK Planet Co., Ltd. acquired ownership interest in M&Service Co., Ltd. |
| SKP GLOBAL HOLDINGS PTE. LTD. | SK Planet Co., Ltd. established SKP GLOBAL HOLDINGS PTE. LTD.          |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**2) *Excluded subsidiaries*

| Subsidiary                     | Reason  |
|--------------------------------|---|
| PAXNet Co., Ltd.               | The Parent Company sold its investment during the year. |
| Broadband media Co., Ltd.      | Merged into SK Broadband Co., Ltd. during the year.     |
| Madsmart, Inc.                 | Merged into SK Planet Co., Ltd. during the year.        |
| SKY Property Mgmt. Ltd.        | The Parent Company sold its investment during the year. |
| SK China Real Estate Co., Ltd. | The Parent Company sold its investment during the year. |
| Loen Entertainment, Inc.       | The Parent Company sold its investment during the year. |

(5) *Significant non-controlling interests of the Group for the years ended December 31, 2013 and 2012 are as follows. There were no dividends paid during the years ended December 31, 2013 and 2012 by subsidiaries of which non-controlling interests are significant.*

|  | December 31, 2013           |                        |
|--|-----------------------------|------------------------|
|  | SK Communications Co., Ltd. | SK Broadband Co., Ltd. |
|  | (In millions of won)        |                        |
| Ownership of non-controlling interests (%)           | 35.4                        | 49.4                   |
| Current assets                                       | 108,100                     | 533,597                |
| Non-current assets                                   | 97,692                      | 2,510,752              |
| Current liabilities                                  | (51,868)                    | (938,385)              |
| Non-current liabilities                              | (1,887)                     | (978,336)              |
| Net assets   | 152,037                     | 1,127,628              |
| Adjustment for fair value                            |                             | 113,478                |
| Net assets of consolidated entities                  | 152,037                     | 1,241,106              |
| Carrying amount of non-controlling interests         | 53,856                      | 613,560                |
| Revenue  | 128,272                     | 2,539,366              |
| Profit (loss) for the period                         | (41,893)                    | 12,306                 |
| Amortization of adjustment for fair value            |                             | (30,977)               |
| Loss of the consolidated entities                    | (41,893)                    | (18,671)               |
| Total comprehensive loss                             | (43,318)                    | (13,059)               |
| Loss attributable to non-controlling interests       | (14,853)                    | (9,231)                |
| Net cash provided by (used in) operating activities  | (22,867)                    | 440,036                |
| Net cash provided by (used in) investing activities  | 41,788                      | (329,346)              |
| Net cash provided by (used in) financing activities  | 19                          | (129,181)              |
| Net increase (decrease) in cash and cash equivalents | 18,940                      | (18,491)               |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

|  | SK<br>Communications<br>Co., Ltd. | December 31, 2012<br>SK<br>Broadband<br>Co.,<br>Ltd.(*1)<br>(In millions of won) | SKY<br>Property<br>Mgmt.<br>Ltd.(*2) |
|--|-----------------------------------|--|--------------------------------------|
| Ownership of non-controlling interests (%)           | 35.4                              | 49.4   | 40.0                                 |
| Current assets                                       | 99,599                            | 684,804  | 69,093                               |
| Non-current assets                                   | 166,220                           | 2,394,352  | 704,319                              |
| Current liabilities                                  | (64,811)                          | (907,000)  | (51,068)                             |
| Non-current liabilities                              | (5,672)                           | (1,061,608)  | (243,236)                            |
| Net assets   | 195,336                           | 1,110,548  | 479,108                              |
| Adjustment for fair value                            |                                   | 144,455  |                                      |
| Net assets of consolidated entities                  | 195,336                           | 1,255,003  | 479,108                              |
| Carrying amount of non-controlling interests         | 69,222                            | 621,055  | 195,907                              |
| Revenue  | 197,153                           | 2,492,160  | 70,808                               |
| Profit (loss) for the period                         | (35,334)                          | 22,499   | 10,390                               |
| Amortization of adjustment for fair value            |                                   | (72,192)   |                                      |
| Profit (loss) of the consolidated entities           | (35,334)                          | (49,693)   | 10,390                               |
| Total comprehensive Income (loss)                    | (36,785)                          | 17,397   | (23,948)                             |
| Profit (loss) attribute to non-controlling interests | (12,525)                          | (24,595)   | 4,156                                |
| Net cash provided by (used in) operating activities  | (14,925)                          | 375,848  | 16,258                               |
| Net cash provided by (used in) Investing activities  | 5,319                             | (287,975)  | (396)                                |
| Net cash provided by (used in) financing activities  | 92                                | (224,837)  | (1,405)                              |
| Net increase (decrease) in cash and cash equivalents | (9,514)                           | (136,964)  | 14,457                               |

(\*1) The financial information of SK Broadband Co., Ltd. includes the financial information of Broadband media Co., Ltd., a subsidiary of SK Broadband Co., Ltd.

(\*2) The financial information of SKY Property Mgmt. Ltd. includes the financial information of SK China Real Estate Co., Ltd., a subsidiary of Sky Property Mgmt. Ltd.

**2. Basis of Presentation****(1) Statement of compliance**

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the IASB.

The consolidated financial statements were authorized for issuance by the Board of Directors on February 6, 2014.

**(2) Basis of measurement**

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The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

derivative financial instruments are measured at fair value

financial instruments at fair value through profit or loss are measured at fair value

available-for-sale financial assets are measured at fair value

liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

**(3) *Functional and presentation currency***

Financial statements of Group entities within the Group are presented in functional currency and the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

**(4) *Use of estimates and judgments***

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**1) *Critical judgments***

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes: revenue and classification of investment property.

**2) *Assumptions and estimation uncertainties***

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: allowance for doubtful accounts, estimated useful lives of property and equipments and intangible assets, impairment of goodwill, measurement of defined benefit obligation, recognition of deferred tax assets (liabilities), and commitments and contingencies.

**3) *Fair value measurement***

Management establishes fair value measurement policies and procedures as the Group's accounting policies and disclosures require fair value measurements for the majority of financial and non-financial assets and liabilities. Such policies and procedures are executed by the valuation division, which is responsible for the review of significant fair value measurements including fair values classified as level 3 in the fair value hierarchy, and the results of which are directly reported to the finance executive.

Management regularly reviews unobservable significant inputs and valuation adjustments. If third party information such as prices available from an exchange, dealer, broker, industry group, pricing service or regulatory agency is used for fair value measurements, the valuation division reviews whether the valuation based on third party information includes classifications by levels within the fair value hierarchy and meets the requirements for the relevant standards.

Management uses the best observable inputs in market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation methods, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities



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Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

If various inputs used to measure fair value of assets or liabilities are transferred between levels of the fair value hierarchy, the Group classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value and recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

Information about assumptions used for fair value measurements are included in note 34.

**(5) Common control transactions**

SK Holdings Co., Ltd. ( the Ultimate Controlling Entity ) is the Ultimate Controlling Entity of the Parent Company because it controls the Parent Company. Accordingly, gains and losses from business acquisitions and dispositions involving entities that are under the control of the Ultimate Controlling Entity are accounted for as common control transactions within equity.

**3. Changes in Accounting Policies**

The accounting policies have been applied consistently to all periods presented in these consolidated financial statements except for the following new standards, interpretations and amendments to existing standards mandatory for the Group for annual periods beginning on or after January 1, 2013:

IFRS 10, Consolidated Financial Statements

IFRS 11, Joint Arrangements

IFRS 12, Disclosure of Interests in Other Entities

IFRS 13, Fair Value Measurement

IAS 19, Employee Benefits

Amendments to IAS 1, Presentation of Items of Other Comprehensive Income ( OCI )

Amendments to IFRS 7, Disclosure of offsetting financial assets and financial liabilities

Amendments to IAS 36, Disclosure of recoverable amount of non-financial assets

**(1) Subsidiaries**

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As a result of IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provision of IFRS 10, the Group reassessed the control conclusion for its investees at January 1, 2013, and there were no changes in the Group's subsidiaries as a result of adopting this standard.

### **(2) *Joint arrangements***

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

Management has re-evaluated the Group's involvement in its only joint arrangement and has reclassified the investment from a jointly controlled entity to a joint venture. Notwithstanding the reclassification, the investment continues to be recognized by applying the equity method and there has been no impact on the recognized assets, liabilities and comprehensive income of the Group.

**(3) *Disclosure of interests in other entities***

As a result of IFRS 12, the Group has expanded its disclosures about its interests in subsidiaries (see note 1) and equity-accounted investees (see note 12).

**(4) *Fair value measurement***

IFRS 13 has been amended to provide a single framework for fair value and information of fair value measurements when other standards requires or permits fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard replaces disclosures relating to fair value measurements required by other standards including IFRS 7, and requires additional disclosures. The required disclosures are included in note 34.

**(5) *Defined benefit pension plans***

The Group changed its accounting policy for recognition of gains and losses relating to defined benefit pension plans in accordance with the amendments to IAS 19, *Employee Benefits*. The Group determines net interest costs for net defined benefit liabilities using the discount rates used for the measurement of defined benefit obligations at the beginning of the reporting period and considers changes in net defined benefit liabilities due to contributions and retirement benefit payments. Accordingly, net interests on net defined benefits liabilities consist of interest costs on defined benefits obligations, interest income on plan assets and, if applicable, interest on the effects of limitations on asset recognition. Prior to the amendments, the Group determined interest income on plan assets based on the long-term expected return rate. The adoption of this amendment did not have significant impact on the consolidated financial statements.

**(6) *Presentation of other comprehensive income items***

In accordance with the amendments, the Group classifies other comprehensive income items by nature and presents items as items that will never be reclassified to profit or loss and items that are or may be reclassified to profit or loss. Accordingly, the consolidated statements of comprehensive income for the years ended December 31, 2012 and 2011 have been re-presented.

**(7) *Offsetting financial assets and liabilities***

As described in note 34, the Group provides disclosures relating to offsetting financial assets and financial liabilities in accordance with the amendments to IFRS 7.

**(8) *Disclosure of recoverable amount of non-financial assets***

The Group early adopted the amendments to IAS 36. Accordingly, the Group makes the additional disclosures on required by the amendment when impairment losses are recognized and recoverable amounts are based on net fair value (see note 15).

**4. Significant Accounting Policies**

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The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for those as described in note 3.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

**(1) Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's operating segments have been determined to be each business unit, for which the Group generates separately identifiable financial information that is regularly reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance. The Group has three reportable segments which consist of cellular services, fixed-line telecommunication services and others, as described in note 5. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The group's chief operating decision maker receives and reviews operating income based on Korean IFRS as the measure of segment profit and loss for each operating segment. Segment operating income differs from consolidated operating income from continuing operations used in the Group's consolidated statements of income. Segment operating income does not include certain items such as fee revenues, gain/loss from disposal of property, plant, equipment and intangible assets, impairment losses on property, plant, equipment and intangible assets, donations, bad debt expense and penalties. The chief operating decision maker does not receive any information about segment assets and liabilities. Segment information does not include the Group's discontinued operations information. Refer to note 37 for details on discontinued operations.

**(2) Basis of consolidation**

**(i) Business combination**

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Consideration transferred is generally measured at fair value, identical to the measurement of identifiable net assets acquired at fair value. If goodwill incurs as a result of business combination, the Group performs impairment test on an annual basis and recognizes gain from bargain purchases through profit or loss. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received excluding costs to issue debt or equity securities recognized based on IAS 32 and 39.

Consideration transferred does not include the amount settled in relation to the pre-existing relationship and the amount settled in relation to the pre-existing relationship is generally recognized through profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. If contingent consideration is not classified as equity, the Group subsequently recognizes changes in fair value of contingent consideration and recognizes through profit or loss.

Entire or certain portion of market-based measure of replacement award for share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer is included in measurement of contingent considerations. Portion of a replacement award that is part of the consideration transferred for the acquiree and the portion that is remuneration for post-combination service is determined by comparing market-based measure of the awards of acquiree and replacement awards that is attributable to pre-combination service.

**(ii) Non-controlling interests**

The Group measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets.

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Changes in a Controlling Company's ownership interest in a subsidiary that do not result in the Controlling Company losing control of the subsidiary are accounted for as equity transactions.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

*(iii) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of an investee begins from the date the Group obtains control of the investee and cease when the Group loses control of the investee.

*(iv) Loss of control*

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

*(v) Interest in investees accounted for using the equity method*

Interest in investees accounted for using the equity method composed of interest in associates and joint ventures. An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement have rights to the net assets of the arrangement.

The investment in an associate and a joint venture is initially recognized at cost including transaction costs and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture after the date of acquisition.

*(vi) Intra-group transactions*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with investees accounted for using the equity method are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

*(vii) Business combinations under common control*

The assets and liabilities acquired from the combination of entities or business under common control are recognized at the carrying amounts in the ultimate controlling shareholder's consolidated financial statements. The difference between consideration and carrying amount of net assets acquired is added to or subtracted from other capital adjustments.

**(3) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

**(4) Inventories**

Inventories are stated at the acquisition cost using the average method. During the period, a perpetual inventory system is used to value inventories, which is adjusted to the physical inventory counts performed at the period end. When the net realizable value of inventories is less than the acquisition cost, the carrying amount is reduced to the net realizable value and any difference is charged to current operations as operating expenses. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.





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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

**(5) *Non-derivative financial assets***

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

**(i) *Financial assets at fair value through profit or loss***

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

**(ii) *Held-to-maturity investments***

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

**(iii) *Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

**(iv) *Available-for-sale financial assets***

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

**(v) *De-recognition of financial assets***

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

**(vi) *Offsetting between financial assets and financial liabilities***

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Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

***(6) Derivative financial instruments, including hedge accounting***

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

***(i) Hedge accounting***

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

***Fair value hedge***

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

***Cash flow hedge***

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

***(ii) Separable embedded derivatives***

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

*(iii) Other derivative financial instruments*

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

*(7) Impairment of financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes following loss events:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

*(i) Financial assets measured at amortized cost*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the

instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

*(ii) Financial assets carried at cost*

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(iii) Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

*(8) Property, plant and equipment*

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other non-operating income (loss).

The estimated useful lives of the Group's property, plant and equipment are as follows:

|  | Useful lives (years) |
|--|----------------------|
| Buildings and structures                           | 15 ~ 40              |
| Machinery  | 3 ~ 15               |
| Other property, plant and equipment ( Other PP&E ) | 4 ~ 10               |

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

*(9) Borrowing costs*



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The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

**(10) Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Group's intangible assets are as follows:

|                       | Useful lives (years) |
|-----------------------|----------------------|
| Frequency use rights  | 6 ~ 13               |
| Land use rights       | 5                    |
| Industrial rights     | 5, 10                |
| Development costs     | 5                    |
| Facility usage rights | 10, 20               |
| Customer relations    | 3 ~ 7                |
| Other                 | 3 ~ 20               |

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

**(11) Government grants**

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.



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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

*(i) Grants related to assets*

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

*(ii) Grants related to income*

Government grants which are intended to compensate the Group for expenses incurred are deducted from the related expenses.

**(12) Investment property**

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 15~40 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**(13) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

Management estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then management estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is



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**SK TELECOM CO., LTD. and Subsidiaries**

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reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(14) Leases**

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

*(i) Finance leases*

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

*(ii) Operating leases*

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

*(iii) Determining whether an arrangement contains a lease*

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

**(15) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for

immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are

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**SK TELECOM CO., LTD. and Subsidiaries**

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**For the years ended December 31, 2013, 2012 and 2011**

measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS 36, Impairment of Assets .

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

**(16) *Non-derivative financial liabilities***

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

**(i) *Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

**(ii) *Other financial liabilities***

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**(17) *Employee benefits***

**(i) *Short-term employee benefits***

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

**(ii) *Other long-term employee benefits***

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.

**(iii) *Retirement benefits: defined contribution plans***



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When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

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**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

*(iv) Retirement benefits: defined benefit plans*

As of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized as present value of defined benefit obligations net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability comprise of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit liability, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and recognized in other comprehensive income. The Group determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Group recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

*(v) Termination benefits*

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(18) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

**(19) Foreign currencies**

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are

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**SK TELECOM CO., LTD. and Subsidiaries**

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retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

*(ii) Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

**(20) Equity capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

**(21) Hybrid bond**

The Group recognizes a financial instrument issued by the Group as an equity instrument if it does not include contractual obligation to deliver financial assets including cash to the counter party.

**(22) Revenue**

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable. Returns, trade discounts and volume rebates are recognized as a reduction of revenue.



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**SK TELECOM CO., LTD. and Subsidiaries**

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*(i) Services*

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed. Revenues received for the activation of service are deferred and recognized over the average customer retention period.

Revenue from fixed-line services includes domestic short and long distance charges, international phone connection charges, and broadband internet services. Such revenues are recognized as the related services are performed.

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

*(ii) Goods sold*

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

*(iii) Customer loyalty programmes*

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programmes is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Group performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

*(iv) Bundled arrangements*

When the Group sells both handsets and wireless services to subscribers, the Group recognizes these transactions separately as sales for handset sales and wireless telecommunication services.

**(23) Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

**(24) *Income taxes***

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(i) Current tax*

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

*(ii) Deferred tax*

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

*(25) Earnings per share*

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

*(26) Discontinued operations*

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.



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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

***(27) Recent accounting pronouncements, not yet adopted***

The following accounting standards, interpretations and amendments are issued and will be effective for annual periods beginning on or after January 1, 2014 and have not been adopted early in preparing these consolidated financial statements.

*(i) IAS 32, Financial Instruments: Presentation (Amendments to IAS 32)*

IAS 32, Financial Instruments has been amended to clarify requirements for offsetting financial assets and financial liabilities by adding application guidance. The amendment is mandatorily effective for annual periods beginning on or after January 1, 2014. Management is in process of reviewing the impact on the adoption of the amendment.

*(ii) IAS 39, Financial Instruments: Recognition and Measurement (Amendments to IAS 39 and IFRS 9)*

Amendments to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting allows continuation of hedge accounting when derivative instruments designated as hedging instruments are novated to the central counter party as a result of laws or regulations. The amendment is effective for annual periods beginning on or after January 1, 2014 and early adoption is permitted. Management believes the initial adoption of this standard will not have a significant impact on the Group's consolidated financial condition and results of operations.

*(iii) IFRS 9, Financial Instrument*

This standard introduces certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the scope of IAS 39 into two classifications, those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, and de-recognition of financial instruments, impairment, and hedge accounting is effective from annual reporting periods beginning on or after January 1, 2015 although entities are permitted to adopt earlier. Management is in process of reviewing the impact on the adoption of the new requirements.

*(iv) IFRIC 21, Levies*

Liability to pay a levy imposed by governments on entities in accordance with legislation shall be recognized when the obligating event that gives rise to the recognition of a liability to pay a levy occurs. The interpretation is effective for annual periods beginning on or after January 1, 2014 and early adoption is permitted. Management is in process of reviewing the impact on the adoption of the interpretation.

**5. Operating Segments**

The Group's operating segments have been determined to be each business unit, for which the Group provides independent services and merchandise. The Group's reportable segments are: 1) cellular services, which include cellular voice service, wireless data service and wireless internet services, and 2) fixed-line telecommunication services, which include telephone services, internet services, and leased line services. All other operating segments, which include the Group's Internet portal services and other operations, do not meet the quantitative thresholds to be considered reportable segments and are presented as Others.

Cellular services include cellular voice service, wireless data service and wireless internet services. Fixed-line telecommunication services include telephone services, internet services, and leased line services. Others include the Group's Internet portal services, game manufacturing and other immaterial operations.

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On October 1, 2011, in accordance with the Parent Company's Board of Directors resolution on July 19, 2011 and the shareholder's general meeting held on August 31, 2011, the Parent Company spun off its platform business into a new wholly-owned subsidiary, SK Planet Co., Ltd. SK Planet operates the Group's platform business such as

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

T Store, online marketplace for mobile application, 11 Street, online shopping mall. For periods prior to October 1, 2011, the Group did not maintain separate financial information for the platform business and it is not feasible for the Group to generate such information. For the periods after October 1, 2011, the information related to new platform business segment does not meet the quantitative thresholds for separate disclosures under IFRS 8 and is included in others segment.

The segment information of the Group as of and for the years ended December 31, 2012 and 2011 have been retrospectively restated to exclude the discontinued operation related to Loen Entertainment, Inc. See note 37(1)(a).

(1) Segment information as of and for the years ended December 31, 2013, 2012 and 2011 is as follows:

|   | 2013                 |                                       |           |                | Consolidation adjustments | Consolidated amount |
|---|----------------------|---------------------------------------|-----------|----------------|---------------------------|---------------------|
|   | Cellular services    | Fixed-line telecommunication services | Others    | Total segments |                           |                     |
|   | (In millions of won) |                                       |           |                |                           |                     |
| Total revenue   | 14,501,829           | 2,972,642                             | 1,741,599 | 19,216,070     | (2,614,016)               | 16,602,054          |
| Internal revenue  | 1,186,297            | 648,253                               | 779,466   | 2,614,016      | (2,614,016)               |                     |
| External revenue  | 13,315,532           | 2,324,389                             | 962,133   | 16,602,054     |                           | 16,602,054          |
| Depreciation and amortization   | 2,019,531            | 522,155                               | 119,937   | 2,661,623      |                           | 2,661,623           |
| Operating income (loss)   | 1,986,106            | 55,625                                | (30,622)  | 2,011,109      | (432,706)                 | 1,578,403           |
| Gain related to investments in subsidiaries, associates and joint ventures, net |                      |                                       |           |                |                           | 706,509             |
| Finance income  |                      |                                       |           |                |                           | 113,392             |
| Finance costs   |                      |                                       |           |                |                           | (571,203)           |
| Profit from continuing operations before income tax                             |                      |                                       |           |                |                           | 1,827,101           |

|   | 2012                 |                                       |           |                | Consolidation adjustments | Consolidated amount |
|---|----------------------|---------------------------------------|-----------|----------------|---------------------------|---------------------|
|   | Cellular services    | Fixed-line telecommunication services | Others    | Total segments |                           |                     |
|   | (In millions of won) |                                       |           |                |                           |                     |
| Total revenue   | 14,475,379           | 3,018,156                             | 1,469,457 | 18,962,992     | (2,821,583)               | 16,141,409          |
| Internal revenue  | 1,256,475            | 824,295                               | 740,813   | 2,821,583      | (2,821,583)               |                     |
| External revenue  | 13,218,904           | 2,193,861                             | 728,644   | 16,141,409     |                           | 16,141,409          |
| Depreciation and amortization   | 1,735,193            | 578,969                               | 106,966   | 2,421,128      |                           | 2,421,128           |
| Operating income (loss)   | 1,683,431            | 53,115                                | (6,497)   | 1,730,049      | 7,606                     | 1,737,655           |
| Loss related to investments in subsidiaries, associates and joint ventures, net |                      |                                       |           |                |                           | (24,560)            |
| Finance income  |                      |                                       |           |                |                           | 444,558             |
| Finance costs   |                      |                                       |           |                |                           | (638,285)           |

Profit from continuing operations before  
income tax

1,519,368

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

|   | 2011                 |  |         |                |                           | Consolidated amount |
|---|----------------------|--|---------|----------------|---------------------------|---------------------|
|   | Cellular services    | Fixed-line telecommu-<br>nication services | Others  | Total segments | Consolidation adjustments |                     |
|   | (In millions of won) |  |         |                |                           |                     |
| Total revenue   | 14,000,833           | 2,853,562                                  | 842,460 | 17,696,855     | (1,893,681)               | 15,803,174          |
| Internal revenue  | 924,566              | 721,613                                    | 247,502 | 1,893,681      | (1,893,681)               |                     |
| External revenue  | 13,076,267           | 2,131,949                                  | 594,958 | 15,803,174     |                           | 15,803,174          |
| Depreciation and amortization   | 1,666,703            | 574,399                                    | 45,464  | 2,286,566      |                           | 2,286,566           |
| Operating income (loss)   | 2,178,070            | 66,231                                     | 21,896  | 2,266,197      | (103,468)                 | 2,162,729           |
| Loss related to investments in subsidiaries, associates and joint ventures, net |                      |  |         |                |                           | (46,897)            |
| Finance income  |                      |  |         |                |                           | 440,212             |
| Finance costs   |                      |  |         |                |                           | (343,771)           |

Profit from continuing operations before income tax 2,212,273

The following presents segment results for the years ended December 31, 2013, 2012 and 2011 based on the previous segmentation before the spin-off of the platform business since it was not possible to present the new basis of segmentation for the entire years ended December 31, 2013, 2012 and 2011.

|                               | 2013                 |  |          |                |                           | Consolidated amount |
|-------------------------------|----------------------|--|----------|----------------|---------------------------|---------------------|
|                               | Cellular services    | Fixed-line telecommu-<br>nication services | Others   | Total segments | Consolidation adjustments |                     |
|                               | (In millions of won) |  |          |                |                           |                     |
| Total revenue                 | 15,880,045           | 2,972,642                                  | 363,383  | 19,216,070     | (2,614,016)               | 16,602,054          |
| Internal revenue              | 1,794,823            | 648,253                                    | 170,940  | 2,614,016      | (2,614,016)               |                     |
| External revenue              | 14,085,222           | 2,324,389                                  | 192,443  | 16,602,054     |                           | 16,602,054          |
| Depreciation and amortization | 2,117,823            | 522,155                                    | 21,645   | 2,661,623      |                           | 2,661,623           |
| Operating income              | 1,999,159            | 55,625                                     | (43,675) | 2,011,109      | (432,706)                 | 1,578,403           |

|                               | 2012                 |  |          |                |                           | Consolidated amount |
|-------------------------------|----------------------|--|----------|----------------|---------------------------|---------------------|
|                               | Cellular services    | Fixed-line telecommu-<br>nication services | Others   | Total segments | Consolidation adjustments |                     |
|                               | (In millions of won) |  |          |                |                           |                     |
| Total revenue                 | 15,510,076           | 3,018,156                                  | 434,760  | 18,962,992     | (2,821,583)               | 16,141,409          |
| Internal revenue              | 1,852,068            | 824,295                                    | 145,220  | 2,821,583      | (2,821,583)               |                     |
| External revenue              | 13,658,008           | 2,193,861                                  | 289,540  | 16,141,409     |                           | 16,141,409          |
| Depreciation and amortization | 1,810,742            | 578,969                                    | 31,417   | 2,421,128      |                           | 2,421,128           |
| Operating income              | 1,716,942            | 53,115                                     | (40,008) | 1,730,049      | 7,606                     | 1,737,655           |



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|   | 2011                 |  |         |                      |                              |                        |
|---|----------------------|--|---------|----------------------|------------------------------|------------------------|
|   | Cellular<br>services | Fixed-line<br>telecommu-<br>nication<br>services | Others  | Total<br>segments    | Consolidation<br>adjustments | Consolidated<br>amount |
|   | (In millions of won) |  |         |                      |                              |                        |
| Total revenue   | 14,280,299           | 2,853,562  | 562,994 | 17,696,855           | (1,893,681)                  | 15,803,174             |
| Internal revenue  | 1,066,874            | 721,613  | 105,194 | 1,893,681            | (1,893,681)                  |                        |
| External revenue  | 13,213,425           | 2,131,949  | 457,800 | 15,803,174           |                              | 15,803,174             |
| Depreciation and amortization   | 1,683,254            | 574,399  | 28,913  | 2,286,566            |                              | 2,286,566              |
| Operating income  | 2,186,654            | 66,231   | 13,312  | 2,266,197            | (103,468)                    | 2,162,729              |
| Reconciliation of total segment operating income to consolidated operating income from continuing operations for the years ended December 31, 2013, 2012 and 2011 are as follows: |                      |  |         |                      |                              |                        |
|   |                      |  |         | 2013                 | 2012                         | 2011                   |
|   |                      |  |         | (In millions of won) |                              |                        |
| Total segment operating income  |                      |  |         | 2,011,109            | 1,730,049                    | 2,266,197              |
| Other operating income:   |                      |  |         |                      |                              |                        |
| Fees revenues   |                      |  |         | 7,303                | 3,982                        | 5,264                  |
| Gain on disposal of property and equipment and intangible assets  |                      |  |         | 7,991                | 162,590                      | 6,260                  |
| Others(*1)  |                      |  |         | 59,660               | 35,272                       | 38,107                 |
|   |                      |  |         | 74,954               | 201,844                      | 49,631                 |
| Other operating expenses:   |                      |  |         |                      |                              |                        |
| Impairment loss on property and equipment and intangible assets   |                      |  |         | (13,770)             | (37,007)                     | (1,237)                |
| Loss on disposal of property and equipment and intangible assets  |                      |  |         | (267,468)            | (15,117)                     | (20,659)               |
| Donations   |                      |  |         | (82,057)             | (81,330)                     | (89,976)               |
| Bad debt for accounts receivable other  |                      |  |         | (22,155)             | (30,107)                     | (12,785)               |
| Others(*2)  |                      |  |         | (122,210)            | (30,677)                     | (28,442)               |
|   |                      |  |         | (507,660)            | (194,238)                    | (153,099)              |
| Consolidated operating income from continuing operations  |                      |  |         | 1,578,403            | 1,737,655                    | 2,162,729              |

(\*1) Others for the year ended December 31, 2013, 2012 and 2011 primarily consist of 10.3 billion, 5.6 billion and 3.3 billion of VAT refund, respectively.

(\*2) Others for the year ended December 31, 2013 primarily consists of 96.5 billion of penalties. There were no such penalties in 2012 and 2011.

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Intersegment sales and purchases are conducted on an arms-length basis and eliminated on consolidation. Since there are no intersegment sales of inventory, there is no unrealized intersegment profit to be eliminated on consolidation. The Group principally operates its business in its domestic market in Korea. Domestic revenue for the years ended December 31, 2013, 2012 and 2011 amounts to 16,557 billion, 16,093 billion and 15,762 billion, respectively. Domestic non-current assets (excluding financial assets, investments in associates and joint ventures and deferred tax assets) as of December 31, 2013, 2012 and 2011 amount to 14,762 billion, 14,212 billion and 13,873 billion, and non-current assets outside of Korea amount to 1 billion, 680 billion and 751 billion, respectively.

No single customer contributed 10% or more to the Group's total sales for the years ended December 31, 2013, 2012 or 2011.

Though the Group is expanding into new geographic regions, as of December 31, 2013, the Group still principally operates in its domestic market in Korea.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

The Group's operating revenue is generated as follows:

|  | 2013              | 2012<br>(In millions of won) | 2011              |
|--|-------------------|------------------------------|-------------------|
| <b>Cellular revenue</b>                              |                   |                              |                   |
| Wireless service(*1)                                 | 11,001,123        | 10,591,489                   | 10,447,605        |
| Cellular interconnection                             | 844,977           | 860,250                      | 1,090,874         |
| Digital handset sales(*2)                            | 645,914           | 1,131,657                    | 787,237           |
| Miscellaneous(*3)                                    | 823,518           | 635,508                      | 750,551           |
|  | 13,315,532        | 13,218,904                   | 13,076,267        |
| <b>Fixed-line telecommunication services revenue</b> |                   |                              |                   |
| Fixed line telephone service(*4)                     | 474,430           | 485,941                      | 490,739           |
| Fixed line interconnection                           | 78,731            | 98,460                       | 83,804            |
| Broadband internet service(*4)                       | 1,023,156         | 864,955                      | 1,000,474         |
| International calling service(*5)                    | 127,005           | 144,073                      | 163,559           |
| Miscellaneous(*6)                                    | 621,067           | 600,432                      | 393,373           |
|  | 2,324,389         | 2,193,861                    | 2,131,949         |
| <b>Others revenue</b>                                |                   |                              |                   |
| Commerce service(*7)                                 | 742,616           | 391,894                      | 99,891            |
| Portal service(*8)                                   | 92,153            | 167,815                      | 233,832           |
| Miscellaneous(*9)                                    | 127,364           | 168,935                      | 261,235           |
|  | 962,133           | 728,644                      | 594,958           |
| <b>Consolidated operating revenue</b>                | <b>16,602,054</b> | <b>16,141,409</b>            | <b>15,803,174</b> |

(\*1) Wireless service revenue includes revenue from cellular voice service, wireless data service and initial subscription fees. Revenue from cellular voice service is primarily composed of monthly plan-based fees, usage charges for outgoing voice calls, roaming charges and value-added service fees. Revenue from wireless data service is primarily composed of usage charges for SMS and MMS and revenues from outgoing data usage.

(\*2) Digital handsets are sold by PS&Marketing Co., Ltd., a consolidated subsidiary.

(\*3) Miscellaneous cellular services revenue includes revenue from the resale of fixed-line telecommunication services, leased lines, Internet solutions business and other miscellaneous cellular services provided by the Parent Company as well as other operating revenue

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attributable to the cellular services segment. For the period from January 1, 2011 to September 30, 2011, miscellaneous cellular services revenue also includes revenue from the sale and licensing of Internet platform solutions, which business was spun-off into SK Planet in October 2011 and subsequently included in other segment.

- (\*4) Broadband Internet service (including IP TV service) and fixed-line telephone service are provided by SK Broadband, a consolidated subsidiary.
- (\*5) International calling service is provided by SK Telink, a consolidated subsidiary.
- (\*6) Miscellaneous fixed-line telecommunication services revenue includes revenues from leased line, corporate data and Internet solutions businesses provided by SK Broadband and VoIP services provided by SK Telink as well as other operating income attributable to the fixed-line telecommunications services segment.
- (\*7) Commerce service revenue includes sales from online shopping mall, such as, 11th Street. As the Parent Company acquired the ownership interests in SK Marketing & Company Co., Ltd. during 2013, commerce service revenue for the year ended December 31, 2013 include revenue from advertising and e-commerce agency.

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(\*8) Portal service revenue includes revenues from NATE, an online portal service, and Cyworld, our social networking service, each operated by SK Communications.

(\*9) Miscellaneous others revenue includes revenue from T Store, online open marketplace for mobile applications operated by SK Planet as well as other operating income attributable to the others segment.

**6. Restricted Deposits**

Deposits which are restricted in use as of December 31, 2013 and 2012 are summarized as follows:

|  | December 31, 2013    | December 31, 2012 |
|--|----------------------|-------------------|
|  | (In millions of won) |                   |
| Short-term financial instruments Charitable fund(*1)   | 76,500               | 76,500            |
| Guarantees for loans and other similar instruments(*2) |                      | 149,000           |
| Other  | 5,134                | 16,087            |
| Long-term financial instruments                        | 7,589                | 106               |
| Guarantee deposits                                     | 40                   | 40                |
|  | 89,263               | 241,733           |

(\*1) The Group established a trust fund for charitable purposes. Profits from the fund are donated to charitable institutions. As of December 31, 2013, the funds cannot be withdrawn.

(\*2) For the year ended December 31, 2012, SK Broadband Co., Ltd., a subsidiary, had guaranteed certain loans of Broadband Media Co., Ltd. and provided short-term financial instruments as collateral. As of December 31, 2013, there are no guarantees for loans and other similar instruments.

**7. Trade and Other Receivables**

(1) Details of trade and other receivables as of December 31, 2013 and 2012 are as follows:

December 31, 2013

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|                                     | Gross<br>amount | Allowances for<br>impairment<br>(In millions of won) | Carrying<br>amount |
|-------------------------------------|-----------------|--|--------------------|
| <b>Current assets:</b>              |                 |  |                    |
| Accounts receivable trade           | 2,482,001       | (224,685)  | 2,257,316          |
| Short-term loans                    | 80,129          | (734)  | 79,395             |
| Accounts receivable other           | 715,405         | (71,802)   | 643,603            |
| Accrued income                      | 11,970          | (29)   | 11,941             |
| Others                              | 2,548           |  | 2,548              |
|                                     | 3,292,053       | (297,250)  | 2,994,803          |
| <b>Non-current assets:</b>          |                 |  |                    |
| Long-term loans                     | 84,176          | (26,734)   | 57,442             |
| Guarantee deposits                  | 249,600         |  | 249,600            |
| Long-term accounts receivable trade | 13,154          |  | 13,154             |
|                                     | 346,930         | (26,734)   | 320,196            |
|                                     | 3,638,983       | (323,984)  | 3,314,999          |

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|                                     | Gross<br>amount | December 31, 2012<br>Allowances for<br>impairment<br>(In millions of won) | Carrying<br>amount |
|-------------------------------------|-----------------|---|--------------------|
| <b>Current assets:</b>              |                 |   |                    |
| Accounts receivable trade           | 2,166,293       | (211,373)   | 1,954,920          |
| Short-term loans                    | 86,789          | (1,881)   | 84,908             |
| Accounts receivable other           | 639,386         | (57,288)  | 582,098            |
| Accrued income                      | 8,857           | (142)   | 8,715              |
| Others                              | 431             |   | 431                |
|                                     | 2,901,756       | (270,684)   | 2,631,072          |
| <b>Non-current assets:</b>          |                 |   |                    |
| Long-term loans                     | 97,636          | (28,337)  | 69,299             |
| Guarantee deposits                  | 236,242         |   | 236,242            |
| Long-term accounts receivable trade | 15,024          | (1,647)   | 13,377             |
|                                     | 348,902         | (29,984)  | 318,918            |
|                                     | 3,250,658       | (300,668)   | 2,949,990          |

(2) The movements in allowances for doubtful accounts of trade and other receivables during the years ended December 31, 2013 and 2012 were as follows:

|   | 2013<br>(In millions of won) | 2012<br>(In millions of won) |
|---|------------------------------|------------------------------|
| <b>Balance at January 1</b>                                 | 300,668                      | 318,820                      |
| Increase of bad debt allowances                             | 79,330                       | 82,500                       |
| Reversal of allowances for doubtful accounts                | (359)                        | (5,902)                      |
| Write-offs  | (76,697)                     | (111,611)                    |
| Collection of receivables previously written-off            | 30,361                       | 18,169                       |
| Net exchange differences and changes in consolidation scope | (9,319)                      | (1,308)                      |
| <b>Balance at December 31</b>                               | 323,984                      | 300,668                      |

(3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2013 and 2012 are as follows:

| December 31, 2013      |                               | December 31, 2012      |                               |
|------------------------|-------------------------------|------------------------|-------------------------------|
| Accounts<br>receivable | Other<br>trade<br>receivables | Accounts<br>receivable | Other<br>trade<br>receivables |
| (In millions of won)   |                               |                        |                               |

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|                                  |           |           |           |           |
|----------------------------------|-----------|-----------|-----------|-----------|
| Neither overdue or impaired      | 1,882,607 | 938,131   | 1,589,911 | 976,882   |
| Overdue but not impaired         | 46,773    | 2,030     | 38,590    | 1,588     |
| Impaired                         | 565,775   | 203,667   | 552,816   | 90,871    |
|                                  | 2,495,155 | 1,143,828 | 2,181,317 | 1,069,341 |
| Allowances for doubtful accounts | (224,685) | (99,299)  | (213,020) | (87,648)  |
|                                  | 2,270,470 | 1,044,529 | 1,968,297 | 981,693   |

The Group establishes allowances for doubtful accounts based on the likelihood of recoverability of trade and other receivables based on their aging at the end of the period, past customer default experience, customer credit status, and economic and industrial factors.

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(4) The aging of overdue but not impaired accounts receivable as of December 31, 2013 and 2012 are as follows:

|                    | December 31, 2013    |                         | December 31, 2012   |                         |
|--------------------|----------------------|-------------------------|---------------------|-------------------------|
|                    | Accounts receivable  | Other trade receivables | Accounts receivable | Other trade receivables |
|                    | (In millions of won) |                         |                     |                         |
| Less than 1 month  | 12,036               | 20                      | 4,067               | 171                     |
| 1 ~ 3 months       | 15,686               | 1,220                   | 10,264              | 673                     |
| 3 ~ 6 months       | 3,610                | 516                     | 10,507              | 101                     |
| More than 6 months | 15,441               | 274                     | 13,752              | 643                     |
|                    | 46,773               | 2,030                   | 38,590              | 1,588                   |

**8. Inventories**

Details of inventories as of December 31, 2013 and 2012 are as follows:

|                            | December 31, 2013    |                         |                 | December 31, 2012 |                         |                 |
|----------------------------|----------------------|-------------------------|-----------------|-------------------|-------------------------|-----------------|
|                            | Acquisition cost     | Write-down of inventory | Carrying amount | Acquisition cost  | Write-down of inventory | Carrying amount |
|                            | (In millions of won) |                         |                 |                   |                         |                 |
| Merchandise                | 165,080              | (3,152)                 | 161,928         | 230,640           | (1,784)                 | 228,856         |
| Finished goods             | 1,711                | (34)                    | 1,677           | 3,525             | (962)                   | 2,563           |
| Work in process            |                      |                         |                 | 309               |                         | 309             |
| Raw materials and supplies | 13,515               |                         | 13,515          | 10,487            | (69)                    | 10,418          |
|                            | 180,306              | (3,186)                 | 177,120         | 244,961           | (2,815)                 | 242,146         |

The amount of the inventory write-downs charged to statements of income and write off of inventories are as follows:

|   | 2013                 | 2012    | 2011  |
|---|----------------------|---------|-------|
|   | (In millions of won) |         |       |
| Charged to cost of products that have been resold | 1,498                | 510     | 3,157 |
| Write-off upon sale                               | (95)                 | (2,844) | (24)  |
|   | 1,403                | (2,334) | 3,133 |

There are no significant reversals of inventory write-downs for the periods presented.

**9. Investment Securities**

(1) Details of short-term investment securities as of December 31, 2013 and 2012 are as follows:

|  | <b>December 31, 2013</b>    | <b>December 31, 2012</b> |
|--|-----------------------------|--------------------------|
|  | <b>(In millions of won)</b> |                          |
| Beneficiary certificates(*)                        | 102,828                     | 56,160                   |
| Current portion of long-term investment securities | 3,240                       | 3,967                    |
|  | <b>106,068</b>              | <b>60,127</b>            |

(\*) The distributions arising from beneficiary certificates as of December 31, 2013 were accounted for as accrued income.



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(2) Details of long-term investment securities as of December 31, 2013 and 2012 are as follows:

|   | December 31, 2013    | December 31, 2012 |
|---|----------------------|-------------------|
|   | (In millions of won) |                   |
| <b>Equity securities:</b>                               |                      |                   |
| Marketable equity securities                            | 638,445              | 584,035           |
| Unlisted equity securities(*1)                          | 47,145               | 99,643            |
| Equity investments(*2)                                  | 239,354              | 223,370           |
|   | 924,944              | 907,048           |
| <b>Debt securities:</b>                                 |                      |                   |
| Public bonds  | 356                  | 377               |
| Investment bonds(*3)                                    | 46,467               | 50,254            |
|   | 46,823               | 50,631            |
| <b>Total</b>  | 971,767              | 957,679           |
| Less current portion of long-term investment securities | (3,240)              | (3,967)           |
| <b>Long-term investment securities</b>                  | 968,527              | 953,712           |

(\*1) Unlisted equity securities whose fair value cannot be measured reliably are recorded at cost.

(\*2) Equity investments are recorded at cost.

(\*3) The Group classified convertible bonds of NanoEnTek, Inc. (carrying amount as of December 31, 2013: 20,532 million), which were acquired during the year ended December 31, 2011, as financial assets at fair value through profit or loss. The difference between acquisition cost and fair value is accounted for as finance income (loss).

**10. Assets and Liabilities Classified as Held for Sale****(1) Subsidiary**

For the year ended December 31, 2012, the Group classified assets and liabilities of a subsidiary, SKY Property Mgmt. Ltd., as held for sale as a result of the Board of Directors' December 21, 2012 decision to dispose of the Group's ownership interests of 27% in the subsidiary in order to utilize the proceeds for new business opportunities.

Non-current assets and liabilities held for sale as of December 31, 2012 are as follows:

|                               | <b>December 31,<br/>2012</b> |
|-------------------------------|------------------------------|
|                               | <b>(In millions of won)</b>  |
| Asset group held-for sale     | 773,413                      |
| Current assets(*1)            | 69,094                       |
| Non-current assets            | 704,319                      |
| Long-term prepaid expense     | 486,439                      |
| Investment property           | 186,682                      |
| Property and equipment        | 1,566                        |
| Other non-current assets      | 29,632                       |
| Liability group held-for-sale | 294,305                      |
| Current liabilities           | 51,069                       |
| Non-current liabilities       | 243,236                      |

(\*1) Cash and cash equivalents of 51,831 million which are included in current assets are recognized as cash outflows from investing activities in the statements of cashflows as the cash equivalents are expected to be recovered through the disposal of assets and liabilities held for sale.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

The assets and liabilities classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The ownership interests were disposed on January 11, 2013 to SK Innovation, Co., Ltd., a related party, and the Group recognized 140,689 thousand of a gain on disposal for the year ended December 31, 2013.

**(2) Investments in associates**

Non-current assets held for sale relating to investments in associates as of December 31, 2013 and 2012 are as follows:

|                       | December 31, 2013    | December 31, 2012 |
|-----------------------|----------------------|-------------------|
|                       | (In millions of won) |                   |
| TR Entertainment(*1)  | 2,611                |                   |
| SK Fans Co., Ltd.(*2) | 1,056                | 2,143             |
|                       | 3,667                | 2,143             |

(\*1) A disposal contract for the Group's entire ownership interests in TR Entertainment was entered into during the year ended December 31, 2013 and the investment in the associate was reclassified to non-current assets held for sale after an impairment loss of 4,019 million was recognized.

(\*2) A disposal contract for the Group's ownership interests in SK Fans Co., Ltd., an associate, was entered into during the year ended December 31, 2012. However, the contract was modified during the year ended December 31, 2013 and the difference between the contractual disposal amount and carrying amount of 1,088 million was recognized as an impairment loss.

**11. Business Combinations**

(1) In January 2013, the Parent Company acquired an additional 50% ownership interest in SK Marketing & Company Co., Ltd., advertising and e-commerce agency, from SK Innovation Co., Ltd., a related party under common control, through the additional purchase of shares and obtained control over SK Marketing & Company Co., Ltd., and its subsidiary, M&Service Co., Ltd.

Prior to the acquisition, the Parent Company owned 50% of SK Marketing & Company Co., Ltd. After obtaining control over SK Marketing & Company Co., Ltd, the Parent Company acquired the shares of SK Planet Co., Ltd. by investing its ownership interest of 100% of SK Marketing & Company Co., Ltd. as a form of investment in kind. On February 1, 2013, SK Planet Co., Ltd. merged with SK Marketing & Company Co., Ltd.

As the business combination occurred during the year ended December 31, 2013 and was a business combination between entities under common control, the difference between the consideration and book value of net assets was recognized in capital deficit and other capital

adjustments in equity.

The Group recognized the revenues and profit of SK Marketing & Company Co., Ltd. from February 1, 2013 on which SK Marketing & Company Co., Ltd. was merged with SK Planet Co., Ltd., a subsidiary of the Parent Company, and no discrete financial information related to SK Marketing & Company Co., Ltd. is available after the merger. As a result, it is impracticable for the Group to disclose the revenues and profit recorded by the Group subsequent to this acquisition date.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(2) Consideration and assets and liabilities transferred as of the acquisition date are as follows:

|  | Amount<br>(In<br>millions of<br>won) |
|--|--------------------------------------|
| Consideration paid   |                                      |
| Cash and cash equivalents  | 190,605                              |
| Investments in associates (carrying value)                       | 141,534                              |
|  | 332,139                              |
| Assets and liabilities transferred                               |                                      |
| Cash and cash equivalents  | 95,800                               |
| Accounts receivable trade  | 132,514                              |
| Inventories  | 3,472                                |
| Property and equipment, and intangible assets                    | 68,699                               |
| Other assets   | 457,431                              |
| Accounts payable trade   | (150,014)                            |
| Other liabilities  | (337,617)                            |
|  | 270,285                              |
| Amount recorded in capital surplus and other capital adjustments | 61,854                               |

**12. Investments in Associates and Joint Ventures**

(1) Investments in associates accounted for using the equity method as of December 31, 2013 and 2012 are as follows:

|   | Country   | December 31, 2013    |   | December 31, 2012    |                 |
|---|-----------|----------------------|---|----------------------|-----------------|
|   |           | Ownership percentage | Carrying amount<br>(In millions of won) | Ownership percentage | Carrying amount |
| <b>Investments in associates</b>          |           |                      |   |                      |                 |
| SK Marketing & Company Co., Ltd.(*1)      | Korea     |                      |   | 50.0                 | 145,333         |
| SK China Company Ltd.(*2)                 | China     | 9.6                  | 37,434                                  | 9.6                  | 37,628          |
| Korea IT Fund(*3)                         | Korea     | 63.3                 | 231,402                                 | 63.3                 | 230,016         |
| JYP Entertainment Corporation(*5)         | Korea     |                      |   | 25.5                 | 4,232           |
| Etoos Co., Ltd. (*2)                      | Korea     | 15.6                 | 12,029                                  | 15.6                 | 12,037          |
| HanaSK Card Co., Ltd.                     | Korea     | 49.0                 | 378,616                                 | 49.0                 | 378,457         |
| Candle Media Co., Ltd.                    | Korea     | 40.9                 | 21,241                                  | 40.9                 | 21,935          |
| NanoEnTek, Inc. (*2)                      | Korea     | 9.2                  | 9,312                                   | 9.3                  | 9,276           |
| SK Industrial Development China Co., Ltd. | Hong Kong | 21.0                 | 77,517                                  | 35.0                 | 77,967          |

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|   |               |      |           |      |           |
|---|---------------|------|-----------|------|-----------|
| Packet One Network                                  | Malaysia      | 27.0 | 60,706    | 28.2 | 88,389    |
| SK Technology Innovation Company                    | Cayman        | 49.0 | 53,874    | 49.0 | 63,559    |
| ViKi, Inc.(*6)                                      | USA           |      |           | 26.3 | 15,667    |
| HappyNarae Co., Ltd.                                | Korea         | 42.5 | 13,935    | 42.5 | 13,113    |
| SK hynix Inc.(*8)                                   | Korea         | 20.6 | 3,943,232 | 21.1 | 3,328,245 |
| SK MENA Investment B.V.                             | Netherlands   | 32.1 | 13,477    | 32.1 | 13,666    |
| SKY Property Mgmt. Ltd.(*4)                         | Virgin Island | 33.0 | 238,278   |      |           |
| Xinan Tianlong Science and Technology Co., Ltd.(*7) | China         | 49.0 | 26,562    |      |           |
| Daehan Kanggun BcN Co., Ltd. and others             |               |      | 164,976   |      | 170,747   |
| Sub-total   |               |      | 5,282,591 |      | 4,610,267 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

|                                      | Country   | December 31, 2013    |   | December 31, 2012    |                 |
|--------------------------------------|-----------|----------------------|---|----------------------|-----------------|
|                                      |           | Ownership percentage | Carrying amount<br>(In millions of won) | Ownership percentage | Carrying amount |
| <b>Investments in joint ventures</b> |           |                      |   |                      |                 |
| Dogus Planet, Inc.                   | Turkey    | 50.0                 | 10,105                                  | 50.0                 | 6,005           |
| PT. Melon Indonesia                  | Indonesia | 49.0                 | 3,230                                   | 49.0                 | 4,447           |
| Television Media Korea Ltd.          | Korea     | 51.0                 | 8,659                                   | 51.0                 | 11,758          |
| PT XL Planet Digital(*7)             | Indonesia | 50.0                 | 20,712                                  |                      |                 |
| Sub-total                            |           |                      | 42,706                                  |                      | 22,210          |
| Total                                |           |                      | 5,325,297                               |                      | 4,632,477       |

(\*1) SK Marketing & Company Co., Ltd. was merged into SK Planet Co., Ltd., a subsidiary of the Parent Company during the year ended December 31, 2013 (Refer to note 11).

(\*2) Classified as investments in associates and accounted for under the equity method as the Group can exercise significant influence through its participation on the board of directors.

(\*3) Investment in Korea IT Fund was classified as investment in associates and accounted for under the equity method as the Group has less than 50% of voting rights, and therefore does not have control over Korea IT Fund under the agreement.

(\*4) Reclassified from investment in subsidiaries to investment in associates due to the partial disposal of its shares.

(\*5) Decreased as Loen Entertainment, Inc., which holds ownership interests in JYP Entertainment Corporation, has been classified as non-current assets held for sale.

(\*6) De-recognized during the year ended December 31, 2013 upon disposal.

(\*7) Newly acquired investment during the year ended December 31, 2013.

(\*8) The Group's ownership interests in SK hynix Inc. decreased as investors of convertible bonds issued by SK hynix Inc. exercised their convertible rights during the year ended December 31, 2013.

(2) The market price of investments in listed associates as of December 31, 2013 and 2012 are as follows:

|                        | December 31, 2013                        |  |                 | December 31, 2012                           |                     |                 |
|------------------------|--|--|-----------------|---|---------------------|-----------------|
|                        | Market value<br>per<br>share<br>(In won) | Number of<br>shares<br>(In millions of won, except for share and per share data) | Market<br>price | Market value<br>per<br>share<br>(In<br>won) | Number of<br>shares | Market<br>price |
| Candle Media Co., Ltd. | 810                                      | 21,620,360   | 17,512          | 858   | 21,620,360          | 18,550          |
| NanoEnTek, Inc.        | 5,170                                    | 1,807,130  | 9,343           | 3,915                                       | 1,807,130           | 7,075           |
| SK hynix Inc.          | 36,800                                   | 146,100,000  | 5,376,480       | 25,750                                      | 146,100,000         | 3,762,075       |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(3) The financial information of the significant investees as of and for the years ended December 31, 2013 and 2012 is as follows:

|  | As of and for the year ended December 31, 2013 |                             |                               |                  |                       |
|--|--|-----------------------------|-------------------------------|------------------|-----------------------|
|  | SK hynix<br>Inc.                               | HanaSK<br>Card Co.,<br>Ltd. | SKY<br>Property<br>Mgmt. Ltd. | Korea IT<br>Fund | Packet One<br>Network |
|  | (In millions of won)                           |                             |                               |                  |                       |
| Current assets                           | 6,653,123                                      | 4,687,020                   | 106,122                       | 132,968          | 45,936                |
| Non-current assets                       | 14,144,175                                     | 211,376                     | 695,653                       | 232,566          | 206,973               |
| Current liabilities                      | 3,078,240                                      | 2,053,942                   | 137,544                       | 6                | 106,038               |
| Non-current liabilities                  | 4,652,200                                      | 2,155,165                   | 163,540                       |                  | 87,989                |
| Revenue                                  | 14,165,102                                     | 853,506                     | 76,834                        | 8,161            | 97,137                |
| Profit (loss) from continuing operations | 2,872,857                                      | 3,521                       | 14,408                        | 2,128            | (44,441)              |
| Other comprehensive income               | 6,594  | 1,906                       | 55,403                        |                  |                       |
| Total comprehensive income (loss)        | 2,879,451                                      | 5,427                       | 69,811                        | 2,128            | (44,441)              |

|  | As of and for the year ended December 31, 2012 |                             |                  |                       |
|--|--|-----------------------------|------------------|-----------------------|
|  | SK hynix<br>Inc.                               | HanaSK<br>Card Co.,<br>Ltd. | Korea IT<br>Fund | Packet One<br>Network |
|  | (In millions of won)                           |                             |                  |                       |
| Current assets                           | 5,313,573                                      | 7,888,008                   | 195,164          | 46,872                |
| Non-current assets                       | 13,335,121                                     | 296,007                     | 168,182          | 210,027               |
| Current liabilities                      | 4,441,180                                      | 259,659                     | 6                | 143,936               |
| Non-current liabilities                  | 4,468,071                                      | 7,240,140                   |                  | 80,896                |
| Revenue                                  | 10,162,210                                     | 1,012,772                   | 19,444           | 110,152               |
| Profit (loss) from continuing operations | (158,795)                                      | (29,571)                    | 5,820            | (42,830)              |
| Other comprehensive income (loss)        | (305,601)                                      | (2,653)                     |                  | 2,259                 |
| Total comprehensive income (loss)        | (464,396)                                      | (32,224)                    | 5,820            | (40,571)              |

(4) The condensed financial information of joint ventures as of and for the years ended December 31, 2013 and 2012 are as follows:

|  | As of and for the year ended December 31, 2013 |                       |                        |                         |
|--|--|-----------------------|------------------------|-------------------------|
|  | Television<br>Media Korea<br>Ltd.              | Dogus<br>Planet, Inc. | PT. Melon<br>Indonesia | PT XL Planet<br>Digital |
|  | (In millions of won)                           |                       |                        |                         |
| Current assets                                 | 18,106   | 25,508                | 7,423                  | 31,241                  |
| Cash and cash equivalents                      | 14,532   | 10,723                | 4,428                  | 30,288                  |
| Non-current assets                             | 5,143  | 9,935                 | 1,658                  | 5,801                   |
| Current liabilities                            | 6,385  | 15,471                | 2,338                  | 2,133                   |
| Account payable, other payables and provisions | 6,385  | 15,386                | 2,338                  | 2,133                   |
| Non-current liabilities                        | 359  | 142                   | 100                    | 14                      |
| Account payable, other payables and provisions | 359  | 1                     |                        | 14                      |
| Revenue  | 14,139   | 7,509                 | 7,475                  |                         |

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|  |         |          |       |       |
|--|---------|----------|-------|-------|
| Depreciation and amortization            | (4,004) | (1,315)  | (397) | (84)  |
| Interest income                          | 410     | 1,598    | 289   | 357   |
| Interest expense                         |         | (29)     |       | (3)   |
| Income tax expense                       |         |          |       | (513) |
| Profit (loss) from continuing operations | (6,021) | (29,278) | (575) | 3,606 |
| Total comprehensive income (loss)        | (6,021) | (29,278) | (575) | 3,606 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

|  | As of and for the year ended December 31, 2012 |   |                        |
|--|--|---|------------------------|
|  | Television<br>Media Korea<br>Ltd.              | Dogus<br>Planet, Inc.<br>(In millions of won) | PT. Melon<br>Indonesia |
| Current assets                                 | 22,449   | 7,735   | 7,770                  |
| Cash and cash equivalents                      | 10,562   | 6,085   | 6,882                  |
| Non-current assets                             | 6,056  | 7,349   | 2,265                  |
| Current liabilities                            | 5,724  | 2,970   | 832                    |
| Account payable, other payables and provisions | 5,323  | 2,631   | 821                    |
| Non-current liabilities                        | 199  | 104   | 78                     |
| Account payable, other payables and provisions |  | 104   |                        |
| Revenue  | 12,115   |   | 1,218                  |
| Depreciation and amortization                  | (2,886)  | (864)   | (442)                  |
| Interest income                                | 758  | 539   | 418                    |
| Loss from continuing operations                | (6,873)  | (4,494)                                       | (572)                  |
| Total comprehensive loss                       | (6,873)  | (4,494)                                       | (572)                  |

(5) Adjustments of financial information of significant associates to carrying amounts attributable to the ownership interests in those associates as of December 31, 2013 and 2012 are as follows:

|                            | Net<br>assets | Ownership<br>interests<br>(%) | December 31, 2013   |                                     |                    |
|----------------------------|---------------|-------------------------------|---|-------------------------------------|--------------------|
|                            |               |                               | Net assets<br>attributable<br>to<br>the<br>ownership<br>interests<br>(In millions of won) | Cost-book<br>value<br>differentials | Carrying<br>amount |
| <b>Associates:</b>         |               |                               |   |                                     |                    |
| SK hynix Inc.(*)           | 13,066,474    | 20.6                          | 2,687,806   | 1,255,426                           | 3,943,232          |
| HanaSK Card Co., Ltd.      | 689,290       | 49.0                          | 337,752   | 40,864                              | 378,616            |
| SKY Property Mgmt. Ltd.(*) | 494,004       | 33.0                          | 163,021   | 75,257                              | 238,278            |
| Korea IT Fund              | 365,528       | 63.3                          | 231,402   |                                     | 231,402            |

|                       | Net<br>assets | Ownership<br>interests<br>(%) | December 31, 2012  |                                     |                    |
|-----------------------|---------------|-------------------------------|--|-------------------------------------|--------------------|
|                       |               |                               | Net assets<br>attributable<br>to<br>the ownership<br>interests<br>(In millions of won) | Cost-book<br>value<br>differentials | Carrying<br>amount |
| <b>Associates:</b>    |               |                               |  |                                     |                    |
| SK hynix Inc.(*)      | 9,738,729     | 21.1                          | 2,049,182  | 1,279,063                           | 3,328,245          |
| HanaSK Card Co., Ltd. | 684,216       | 49.0                          | 335,266  | 43,191                              | 378,457            |
| Korea IT Fund         | 363,340       | 63.3                          | 230,016  |                                     | 230,016            |

(\* ) These entities prepare consolidated financial statements and net assets of these entities represent net assets attributable to owners of the Parent Company.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(6) Details of changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|   | Beginning<br>balance | Acquisition<br>and<br>disposition | Share of<br>profits<br>(losses) | 2013<br>Other<br>compre-<br>hensive<br>income<br>(loss) | Impair-<br>ment<br>loss | Other<br>increase<br>(decrease) | Ending<br>balance |
|---|----------------------|-----------------------------------|---------------------------------|---|-------------------------|---------------------------------|-------------------|
| <b>Investments in associates</b>                |                      |                                   |                                 |   |                         |                                 |                   |
| SK Marketing & Company Co., Ltd.(*1)            | 145,333              |                                   | (3,954)                         | 155   |                         | (141,534)                       |                   |
| SK China Company Ltd.                           | 37,628               |                                   | (7,643)                         | 7,449   |                         |                                 | 37,434            |
| Korea IT Fund                                   | 230,016              |                                   | 1,348                           | 38  |                         |                                 | 231,402           |
| JYP Entertainment Corporation(*2)               | 4,232                |                                   | 1,000                           | 58  |                         | (5,290)                         |                   |
| Etoos Co., Ltd.                                 | 12,037               |                                   | 56                              | (64)  |                         |                                 | 12,029            |
| HanaSK Card Co., Ltd.                           | 378,457              |                                   | (612)                           | 771   |                         |                                 | 378,616           |
| Candle Media Co., Ltd.                          | 21,935               |                                   | (782)                           | 88  |                         |                                 | 21,241            |
| NanoEnTek, Inc.                                 | 9,276                |                                   | 25                              | 11  |                         |                                 | 9,312             |
| SK Industrial Development China Co., Ltd.       | 77,967               |                                   | (1,037)                         | 587   |                         |                                 | 77,517            |
| Packet One Network                              | 88,389               | 25                                | (2,367)                         | (1,843)   | (23,498)                |                                 | 60,706            |
| SK Technology Innovation Company                | 63,559               |                                   | (9,108)                         | (577)   |                         |                                 | 53,874            |
| ViKi, Inc.(*3)                                  | 15,667               | (14,636)                          | (995)                           | (36)  |                         |                                 |                   |
| HappyNarae Co., Ltd.                            | 13,113               |                                   | 822                             |   |                         |                                 | 13,935            |
| SK hynix Inc.                                   | 3,328,245            |                                   | 610,201                         | 4,786   |                         |                                 | 3,943,232         |
| SK MENA Investment B.V.                         | 13,666               |                                   |                                 | (189)   |                         |                                 | 13,477            |
| SKY Property Mgmt. Ltd.(*4)                     |                      |                                   | 5,532                           | 43  |                         | 232,703                         | 238,278           |
| Xinan Tianlong Science and Technology Co., Ltd. |                      | 25,731                            | 831                             |   |                         |                                 | 26,562            |
| Daehan Kanggun BcN Co., Ltd. and others         | 170,747              | 26,257                            | (17,899)                        | (4,291)   | (5,547)                 | (4,291)                         | 164,976           |
| Sub-total                                       | 4,610,267            | 37,377                            | 575,418                         | 6,986   | (29,045)                | 81,588                          | 5,282,591         |
| <b>Investments in joint ventures</b>            |                      |                                   |                                 |   |                         |                                 |                   |
| Dogus Planet, Inc.                              | 6,006                | 21,428                            | (13,027)                        | (4,302)   |                         |                                 | 10,105            |
| PT. Melon Indonesia                             | 4,447                |                                   | (282)                           | (935)   |                         |                                 | 3,230             |
| Television Media Korea Ltd.                     | 11,757               |                                   | (3,098)                         |   |                         |                                 | 8,659             |
| PT XL Planet Digital                            |                      | 19,713                            | 1,549                           |   |                         | (550)                           | 20,712            |
| Sub-total                                       | 22,210               | 41,141                            | (14,858)                        | (5,237)   |                         | (550)                           | 42,706            |
| Total   | 4,632,477            | 78,518                            | 560,560                         | 1,749   | (29,045)                | 81,038                          | 5,325,297         |

- (\*1) The entity was merged into SK Planet Co., Ltd., a subsidiary of the Parent Company during the year ended December 31, 2013 (Refer to note 11).
- (\*2) Investment in JYP Entertainment Corporation decreased as Loen Entertainment, Inc., which holds ownership interests in JYP Entertainment Corporation, has excluded from consolidation scope.
- (\*3) De-recognized upon disposal during the year ended December 31, 2013.
- (\*4) Investment in SKY Property Mgmt. Ltd. was reclassified from investments in subsidiaries to investments to associates as portion of ownership interests were disposed during the year ended December 31, 2013.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(In millions of won)*

|   | Beginning<br>balance | Acquisition<br>and<br>disposition | Share of<br>profits<br>(losses)<br>(*1) | 2012<br>Other<br>compre-<br>hensive<br>income<br>(loss) | Impair-<br>ment<br>loss | Other<br>increase<br>(decrease) | Ending<br>balance |
|---|----------------------|-----------------------------------|---|---|-------------------------|---------------------------------|-------------------|
| <b>Investments in associates</b>          |                      |                                   |   |   |                         |                                 |                   |
| SK Marketing & Company Co., Ltd.          | 128,320              |                                   | 17,585                                  | (572)   |                         |                                 | 145,333           |
| SK China Company Ltd.                     | 48,488               |                                   | 217                                     | (11,077)  |                         |                                 | 37,628            |
| Korea IT Fund                             | 230,980              |                                   | (1,141)                                 | 177   |                         |                                 | 230,016           |
| JYP Entertainment Corporation             | 4,008                |                                   | 282                                     | (58)  |                         |                                 | 4,232             |
| Etoos Co., Ltd.                           | 13,928               |                                   | (1,891)                                 |   |                         |                                 | 12,037            |
| HanaSK Card Co., Ltd.                     | 396,553              |                                   | (16,842)                                | (1,254)   |                         |                                 | 378,457           |
| Candle Media Co., Ltd.                    | 11,814               | 5,853                             | 3,619                                   | 361   |                         | 288                             | 21,935            |
| NanoEnTek, Inc.                           | 10,470               |                                   | (1,290)                                 | 96  |                         |                                 | 9,276             |
| SK Industrial Development China Co., Ltd. | 83,691               |                                   | 276                                     | (6,000)   |                         |                                 | 77,967            |
| Packet One Network                        | 103,409              | 2,387                             | (18,252)                                | 845   |                         |                                 | 88,389            |
| SK Technology Innovation Company          | 75,974               |                                   | (7,320)                                 | (5,095)   |                         |                                 | 63,559            |
| ViKi, Inc.                                | 17,799               |                                   | (2,168)                                 | 36  |                         |                                 | 15,667            |
| HappyNarae Co., Ltd.                      | 12,250               |                                   | 863                                     |   |                         |                                 | 13,113            |
| SK hynix Inc.                             |                      | 3,374,726                         | 6,865                                   | (53,346)  |                         |                                 | 3,328,245         |
| SK MENA Investment B.V.                   |                      | 14,485                            | 16                                      | (835)   |                         |                                 | 13,666            |
| Daehan Kanggun BcN Co., Ltd. and others   | 226,332              | 33,126                            | (15,293)                                | (3,914)   | (48,039)                | (21,465)                        | 170,747           |
| Sub-total                                 | 1,364,015            | 3,430,577                         | (34,472)                                | (80,637)  | (48,039)                | (21,177)                        | 4,610,267         |
| <b>Investments in joint ventures</b>      |                      |                                   |   |   |                         |                                 |                   |
| PT. Melon Indonesia                       | 5,326                |                                   | (468)                                   | (411)   |                         |                                 | 4,447             |
| Television Media Korea Ltd.               | 15,262               |                                   | (3,504)                                 |   |                         |                                 | 11,758            |
| Dogus Planet, Inc.                        |                      | 8,932                             | (2,218)                                 | (709)   |                         |                                 | 6,005             |
| Sub-total                                 | 20,588               | 8,932                             | (6,190)                                 | (1,120)   |                         |                                 | 22,210            |
| Total                                     | 1,384,603            | 3,439,509                         | (40,662)                                | (81,757)  | (48,039)                | (21,177)                        | 4,632,477         |

(\*1) Losses relating to investments in subsidiaries, joint venture and associates on the consolidated statements of income for the year ended December 31, 2012 includes share of profits (losses), impairment loss and losses on the disposal of investments in associates of 1,581 million.

(7) As the Group discontinued the application of the equity method due to the carrying amount of the Group's share being reduced to zero, the unrecognized accumulated equity losses as of December 31, 2013 are as follows:

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(In millions of won)

|                                 | Unrealized loss                    |             | Unrealized change in equity        |             |
|---------------------------------|------------------------------------|-------------|------------------------------------|-------------|
|                                 | Year ended<br>December 31,<br>2013 | Accumulated | Year ended<br>December 31,<br>2013 | Accumulated |
| ULand Company Limited           | (150)                              | 1,553       | (130)                              | (3)         |
| Wave City Development Co., Ltd. | (965)                              | 3,721       |                                    | 334         |
|                                 | (1,115)                            | 5,274       | (130)                              | 331         |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****13. Property and Equipment**

(1) Property and equipment as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                          | December 31, 2013 |                          |                             | Carrying amount |
|--------------------------|-------------------|--------------------------|-----------------------------|-----------------|
|                          | Acquisition cost  | Accumulated depreciation | Accumulated impairment loss |                 |
| Land                     | 732,206           |                          |                             | 732,206         |
| Buildings                | 1,510,846         | (554,155)                |                             | 956,691         |
| Structures               | 716,724           | (351,773)                |                             | 364,951         |
| Machinery                | 24,994,337        | (18,145,580)             | (1,698)                     | 6,847,059       |
| Other                    | 1,428,159         | (894,217)                | (761)                       | 533,181         |
| Construction in progress | 762,519           |                          |                             | 762,519         |
|                          | 30,144,791        | (19,945,725)             | (2,459)                     | 10,196,607      |

*(In millions of won)*

|                          | December 31, 2012 |                          |                             | Carrying amount |
|--------------------------|-------------------|--------------------------|-----------------------------|-----------------|
|                          | Acquisition cost  | Accumulated depreciation | Accumulated impairment loss |                 |
| Land                     | 704,908           |                          |                             | 704,908         |
| Buildings                | 1,391,489         | (505,118)                |                             | 886,371         |
| Structures               | 681,905           | (318,421)                |                             | 363,484         |
| Machinery                | 22,997,148        | (16,558,093)             | (122,863)                   | 6,316,192       |
| Other                    | 1,609,034         | (971,062)                | (760)                       | 637,212         |
| Construction in progress | 804,552           |                          |                             | 804,552         |
|                          | 28,189,036        | (18,352,694)             | (123,623)                   | 9,712,719       |

(2) Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | Beginning balance | Acquisition | Disposal | Transfer | 2013         |            |                         | Ending balance |
|--|-------------------|-------------|----------|----------|--------------|------------|-------------------------|----------------|
|  |                   |             |          |          | Depreciation | Impairment | Change of consolidation |                |

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|                          |           |           |          |             |             |         | scope  |            |
|--------------------------|-----------|-----------|----------|-------------|-------------|---------|--------|------------|
| Land                     | 704,908   | 6,865     | (200)    | 15,545      |             |         | 5,088  | 732,206    |
| Buildings                | 886,371   | 1,128     | (177)    | 112,827     | (47,429)    |         | 3,971  | 956,691    |
| Structures               | 363,484   | 17,850    | (18)     | 17,001      | (33,366)    |         |        | 364,951    |
| Machinery                | 6,316,192 | 582,593   | (13,183) | 1,951,267   | (1,990,850) |         | 1,040  | 6,847,059  |
| Other                    | 637,212   | 1,190,739 | (7,032)  | (1,157,150) | (133,682)   |         | 3,094  | 533,181    |
| Construction in progress | 804,552   | 1,113,576 | (31,146) | (1,131,703) |             | (1,275) | 8,515  | 762,519    |
|                          | 9,712,719 | 2,912,751 | (51,756) | (192,213)   | (2,205,327) | (1,275) | 21,708 | 10,196,607 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(In millions of won)*

|                             | 2012                 |                  |           |             |                   |                    | Classified<br>as held<br>for sale | Change<br>of<br>consolida-<br>tion<br>scope | Ending<br>balance |
|-----------------------------|----------------------|------------------|-----------|-------------|-------------------|--------------------|-----------------------------------|---|-------------------|
|                             | Beginning<br>balance | Acquisi-<br>tion | Disposal  | Transfer    | Deprecia-<br>tion | Impair-<br>ment(*) |                                   |   |                   |
| Land                        | 730,361              | 1,499            | (41,771)  | 14,819      |                   |                    |                                   |   | 704,908           |
| Buildings                   | 989,078              | 1,369            | (62,699)  | 9,491       | (50,868)          |                    |                                   |   | 886,371           |
| Structures                  | 301,115              | 65,541           | (81)      | 30,632      | (33,723)          |                    |                                   |   | 363,484           |
| Machinery                   | 5,493,572            | 547,874          | (24,614)  | 2,188,882   | (1,780,899)       | (108,623)          |                                   |   | 6,316,192         |
| Other                       | 711,461              | 1,497,412        | (4,593)   | (1,438,042) | (124,426)         | (748)              | (1,566)                           | (2,286)                                     | 637,212           |
| Construction in<br>progress | 805,411              | 1,280,654        | (810)     | (1,262,578) |                   | (18,125)           |                                   |   | 804,552           |
|                             | 9,030,998            | 3,394,349        | (134,568) | (456,796)   | (1,989,916)       | (127,496)          | (1,566)                           | (2,286)                                     | 9,712,719         |

(\*) The Group recognized 109,486 million of impairment loss on property and equipment in relation to the discontinuance of the Digital Multimedia Broadcasting service as recoverable amount is expected to be zero, and included the amount in loss from discontinued operation.

**14. Investment Property**

(1) Investment property as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|           | Acquisition<br>cost | December 31, 2013           |  | Carrying<br>amount |
|-----------|---------------------|-----------------------------|--|--------------------|
|           |                     | Accumulated<br>depreciation |  |                    |
| Land      | 10,822              |                             |  | 10,822             |
| Buildings | 7,657               | (2,668)                     |  | 4,989              |
|           | 18,479              | (2,668)                     |  | 15,811             |

*(In millions of won)*

|           | Acquisition<br>cost | December 31, 2012           |  | Carrying<br>amount |
|-----------|---------------------|-----------------------------|--|--------------------|
|           |                     | Accumulated<br>depreciation |  |                    |
| Land      | 12,638              |                             |  | 12,638             |
| Buildings | 20,026              | (5,185)                     |  | 14,841             |

32,664 (5,185) 27,479

(2) Changes in investment property for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|           | Beginning<br>balance | Acquisition | Disposal | 2013     |              | Ending<br>balance |
|-----------|----------------------|-------------|----------|----------|--------------|-------------------|
|           |                      |             |          | Transfer | Depreciation |                   |
| Land      | 12,638               |             |          | (1,816)  |              | 10,822            |
| Buildings | 14,841               |             |          | (8,737)  | (1,115)      | 4,989             |
|           | 27,479               |             |          | (10,553) | (1,115)      | 15,811            |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(In millions of won)*

|           | Beginning<br>balance | Acquisition | Disposal | 2012     |              | Classified<br>as held<br>for sale | Ending<br>balance |
|-----------|----------------------|-------------|----------|----------|--------------|-----------------------------------|-------------------|
|           |                      |             |          | Transfer | Depreciation |                                   |                   |
| Land      | 23,153               |             | (10,737) | 222      |              |                                   | 12,638            |
| Buildings | 247,933              | 129         | (22,619) | (15,797) | (8,123)      | (186,682)                         | 14,841            |
|           | 271,086              | 129         | (33,356) | (15,575) | (8,123)      | (186,682)                         | 27,479            |

(3) Details of fair value of investment property as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|           | December 31, 2013  |            | December 31, 2012  |            |
|-----------|--------------------|------------|--------------------|------------|
|           | Carrying<br>amount | Fair value | Carrying<br>amount | Fair value |
| Land      | 10,822             | 6,595      | 12,638             | 15,228     |
| Buildings | 4,989              | 4,737      | 14,841             | 13,949     |
|           | 15,811             | 11,332     | 27,479             | 29,177     |

The fair value of investment property was appraised on the basis of market price by an independent appraisal company.

(4) Income (expense) from investment property for the years ended December 31, 2013, 2012 and 2011 are as follows:

*(In millions of won)*

|                   | 2013  | 2012     | 2011     |
|-------------------|-------|----------|----------|
| Rent revenue      | 1,373 | 73,755   | 54,088   |
| Operating expense | (476) | (57,049) | (42,141) |

**15. Goodwill**

(1) Goodwill as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

| December 31,<br>2013 | December 31,<br>2012 |
|----------------------|----------------------|
|----------------------|----------------------|

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|   |           |           |
|---|-----------|-----------|
| Goodwill related to acquisition of Shinsegi Telecom, Inc. | 1,306,236 | 1,306,236 |
| Goodwill related to acquisition of SK Broadband Co., Ltd. | 358,443   | 358,443   |
| Other goodwill  | 68,582    | 79,804    |
|   | 1,733,261 | 1,744,483 |

Goodwill is allocated to the following CGUs for the purpose of the impairment test.

Shinsegi Telecom, Inc.(\*1): cellular services

SK Broadband Co., Ltd.(\*2): fixed-line telecommunication services

Other: other

(\*1) Shinsegi Telecom, Inc.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.5% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 2.0% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group's long-term wireless business growth. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to the reasonably possible changes from the major assumptions used to estimate the recoverable amount. Management believes that a reasonably possible change in a key assumption would not cause the CGU's carrying amount to exceed its recoverable amount.

(\*2) Goodwill related to acquisition of SK Broadband Co., Ltd.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.4% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 2.2% was applied for the cash flows expected to be incurred after five years. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to the reasonably possible changes from the major assumptions used to estimate the recoverable amount. Management believes that a reasonably possible change in a key assumption would not cause the CGU's carrying amount to exceed its recoverable amount.

(2) Details of changes in goodwill for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                       | 2013      | 2012      |
|---------------------------------------|-----------|-----------|
| Beginning balance                     | 1,744,483 | 1,749,933 |
| Goodwill increase due to acquisitions | 1,252     | 10,078    |
| Impairment loss                       | (9,981)   | (13,316)  |
| Other decrease(*)                     | (2,493)   | (2,212)   |
|                                       | 1,733,261 | 1,744,483 |

(\*) Other decrease represents effects of exchange rate changes in relation to the foreign subsidiaries and reclassification of assets held for sale.

Accumulated impairment losses as of December 31, 2013 and 2012 are 9,981 million and 13,316 million, respectively.

**16. Intangible Assets**

(1) Intangible assets as of December 31, 2013 and 2012 are as follows:

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(In millions of won)

|                       |                  | 2013                     |                        |                 |
|-----------------------|------------------|--------------------------|------------------------|-----------------|
|                       | Acquisition cost | Accumulated depreciation | Accumulated impairment | Carrying amount |
| Frequency use rights  | 3,033,879        | (1,369,308)              |                        | 1,664,571       |
| Land use rights       | 48,031           | (31,441)                 |                        | 16,590          |
| Industrial rights     | 84,495           | (25,732)                 |                        | 58,763          |
| Development costs     | 138,802          | (117,000)                | (11,675)               | 10,127          |
| Facility usage rights | 143,937          | (85,109)                 |                        | 58,828          |
| Customer relations    | 14,222           | (7,889)                  |                        | 6,333           |
| Memberships(*1)       | 128,452          |                          |                        | 128,452         |
| Other(*2)             | 2,438,559        | (1,630,374)              | (1,067)                | 807,118         |
|                       | 6,030,377        | (3,266,853)              | (12,742)               | 2,750,782       |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(In millions of won)*

|                       | Acquisition<br>cost | 2012<br>Accumulated<br>depreciation | 2012<br>Accumulated<br>impairment | Carrying<br>amount |
|-----------------------|---------------------|-------------------------------------|-----------------------------------|--------------------|
| Frequency use rights  | 2,837,385           | (1,140,610)                         | (2,907)                           | 1,693,868          |
| Land use rights       | 42,041              | (25,979)                            |                                   | 16,062             |
| Industrial rights     | 84,955              | (24,851)                            |                                   | 60,104             |
| Development costs     | 171,256             | (146,757)                           | (11,079)                          | 13,420             |
| Facility usage rights | 142,283             | (76,943)                            |                                   | 65,340             |
| Customer relations    | 52,792              | (3,906)                             |                                   | 48,886             |
| Memberships(*1)       | 119,686             |                                     | (732)                             | 118,954            |
| Other(*2)             | 2,197,856           | (1,518,585)                         | (6,247)                           | 673,024            |
|                       | 5,648,254           | (2,937,631)                         | (20,965)                          | 2,689,658          |

(\*1) Memberships are classified as intangible assets with indefinite useful life and are not amortized.

(\*2) Other intangible assets consist of computer software and usage rights to a research facility which the Group built and donated to a university which in turn the Group is given rights-to-use for a definite number of years.

(2) Details of changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                         | Beginning<br>balance | Acquisition | Disposal  | Transfer | Amortization | Impairment | Change<br>of<br>consolida-<br>tion<br>scope | Ending<br>balance |
|-------------------------|----------------------|-------------|-----------|----------|--------------|------------|---|-------------------|
| Frequency use rights(*) | 1,693,868            | 1,046,833   | (814,213) |          | (261,917)    |            |   | 1,664,571         |
| Land use rights         | 16,062               | 7,378       | (279)     |          | (6,571)      |            |   | 16,590            |
| Industrial rights       | 60,104               | 2,045       | (75)      | 485      | (3,674)      |            | (122)                                       | 58,763            |
| Development costs       | 13,420               | 594         |           | 650      | (5,230)      | (1,448)    | 2,141                                       | 10,127            |
| Facility usage rights   | 65,340               | 1,930       | (75)      | 9        | (8,376)      |            |   | 58,828            |
| Customer relations      | 48,886               | 1,293       |           | 1,856    | (45,702)     |            |   | 6,333             |
| Memberships             | 118,954              | 2,828       | (997)     |          |              |            | 7,667                                       | 128,452           |
| Other                   | 673,024              | 111,972     | (21,751)  | 325,529  | (291,870)    | (1,695)    | 11,909                                      | 807,118           |
|                         | 2,689,658            | 1,174,873   | (837,390) | 328,529  | (623,340)    | (3,143)    | 21,595                                      | 2,750,782         |

- (\*) The Group newly acquired 1.8GHz frequency use rights through auction during the year ended December 31, 2013 and returned the existing 1.8GHz frequency use rights as partial consideration in connection with the new acquisition. Accordingly, the Group recognized 199,613 million of loss on disposal of property and equipment and intangible assets.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(In millions of won)*

|                       | 2012              |             |          |          |              |                | Change of consolidation scope | Ending balance |
|-----------------------|-------------------|-------------|----------|----------|--------------|----------------|-------------------------------|----------------|
|                       | Beginning balance | Acquisition | Disposal | Transfer | Amortization | Impairment (*) |                               |                |
| Frequency use rights  | 1,889,102         | 16,659      |          |          | (208,986)    | (2,907)        | 1,693,868                     |                |
| Land use rights       | 19,326            | 3,830       | (142)    |          | (6,952)      |                | 16,062                        |                |
| Industrial rights     | 59,474            | 4,313       |          | 687      | (4,316)      | (6)            | 60,104                        |                |
| Development costs     | 20,961            | 3,019       |          | 933      | (6,940)      | (4,553)        | 13,420                        |                |
| Facility usage rights | 69,491            | 3,998       | (121)    | 108      | (8,136)      |                | 65,340                        |                |
| Customer relations    | 141,818           | 578         |          |          | (93,510)     |                | 48,886                        |                |
| Memberships           | 117,711           | 6,363       | (3,972)  | 396      |              | (732)          | 118,954                       |                |
| Other                 | 677,920           | 115,498     | (15,630) | 194,442  | (286,139)    | (11,200)       | 673,024                       |                |
|                       | 2,995,803         | 154,258     | (19,865) | 196,566  | (614,979)    | (19,398)       | 2,689,658                     |                |

(\*) The Group recognized 12,101 million of impairment loss on intangible assets in relation to the frequency use rights of the discontinuance of Digital Multimedia Broadcasting service as recoverable amount is expected to be zero, and included the amount in loss from discontinued operation.

(3) Research and development expenditure recognized as expense for the years ended December 31, 2013, 2012 and 2011 are as follows:

|   | 2013    | 2012    | 2011    |
|---|---------|---------|---------|
| Research and development costs expensed as incurred | 352,385 | 304,557 | 271,382 |

(4) The carrying amount and residual useful lives of major intangible assets as of December 31, 2013 are as follows, all of which are amortized on a straight-line basis:

*(In millions of won)*

|                | Amount    | Description   | Commencement of amortization | Completion of amortization |
|----------------|-----------|---|------------------------------|----------------------------|
| W-CDMA license | 294,245   | Frequency use rights relating to W-CDMA service       | Dec. 2003                    | Dec. 2016                  |
| W-CDMA license | 48,933    | Frequency use rights relating to W-CDMA service       | Oct. 2010                    | Dec. 2016                  |
| 800MHz license | 304,080   | Frequency use rights relating to CDMA and LTE service | Jul. 2011                    | Jun. 2021                  |
| 1.8GHz license | 1,004,960 |   | Sep. 2013                    | Dec. 2021                  |

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Frequency use rights relating to LTE  
service

|               |           |               |           |           |
|---------------|-----------|---------------|-----------|-----------|
| WiBro license | 12,353    | WiBro service | Mar. 2012 | Mar. 2019 |
|               | 1,664,571 |               |           |           |

**17. Borrowings and Debentures**

(1) Short-term borrowings as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                       | Lender             | Annual<br>interest<br>rate (%) | December 31,<br>2013 | December 31,<br>2012 |
|-----------------------|--------------------|--------------------------------|----------------------|----------------------|
| Commercial paper      | Woori Bank, etc.   | 2.98~3.10                      | 200,000              | 130,000              |
| Short-term borrowings | Kookmin Bank, etc. | 3.48~6.20                      | 60,000               | 470,245              |
|                       |                    |                                | 260,000              | 600,245              |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(2) Long-term borrowings as of December 31, 2013 and 2012 are as follows:

(In millions of won and thousands of U.S. dollars)

| <b>Lender</b>                                       | <b>Annual interest rate (%)</b> | <b>Maturity</b> | <b>December 31, 2013</b> | <b>December 31, 2012</b> |
|---|---------------------------------|-----------------|--------------------------|--------------------------|
| Bank of Communications                              | 6M Libor + 0.29                 | Oct. 10, 2013   |                          | 32,133                   |
|   |                                 |                 |                          | (USD 30,000)             |
| Bank of China                                       | 6M Libor + 0.29                 | Oct. 10, 2013   |                          | 21,422                   |
|   |                                 |                 |                          | (USD 20,000)             |
| DBS Bank  | 6M Libor + 0.29                 | Oct. 10, 2013   |                          | 26,778                   |
|   |                                 |                 |                          | (USD 25,000)             |
| SMBC  | 6M Libor + 0.29                 | Oct. 10, 2013   |                          | 26,778                   |
|   |                                 |                 |                          | (USD 25,000)             |
| Kookmin Bank and 13 others                          | 4.48                            | Feb. 14, 2015   |                          | 350,000                  |
| Korea Development Bank                              | 2.89                            | Jun. 17, 2013   |                          | 1,762                    |
| Korea Development Bank                              | 2.84                            | Jun. 16, 2014   | 1,648                    | 4,942                    |
| Shinhan Bank  | 2.84                            | Jun. 15, 2015   | 5,136                    | 8,561                    |
| Kookmin Bank  | 2.84                            | Jun. 15, 2015   | 8,124                    | 9,749                    |
| Kookmin Bank  | 2.84                            | Mar. 15, 2017   | 5,996                    | 5,996                    |
| Kookmin Bank  | 2.84                            | Mar. 15, 2018   | 8,600                    |                          |
| Export Kreditnamnden(*)                             | 1.7                             | Apr. 29, 2022   | 99,975                   |                          |
|   |                                 |                 | (USD 94,736)             |                          |
| <b>Sub-total</b>                                    |                                 |                 | <b>129,479</b>           | <b>488,121</b>           |
| Less present value discount on long-term borrowings |                                 |                 | (3,287)                  | (1,667)                  |
|   |                                 |                 | 126,192                  | 486,454                  |
| Less current portion of long-term borrowings        |                                 |                 | (21,384)                 | (117,217)                |
| <b>Long-term borrowings</b>                         |                                 |                 | <b>104,808</b>           | <b>369,237</b>           |

(\*) For the year ended December 31, 2013, the Group obtained long-term borrowings from Export Kreditnamnden, an export credit agency. The long-term borrowings are redeemed by installment on an annual basis from 2014 to 2022.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(3) Debentures as of December 31, 2013 and 2012 are as follows:

(In millions of won, thousands of U.S. dollars and thousands of other currencies)

|                             | Purpose                        | Maturity | Annual interest rate (%) | December 31, 2013 | December 31, 2012 |
|-----------------------------|--------------------------------|----------|--------------------------|-------------------|-------------------|
| Unsecured private bonds     | Refinancing fund               | 2016     | 5.00                     | 200,000           | 200,000           |
| Unsecured private bonds     |                                | 2013     | 4.00                     |                   | 200,000           |
| Unsecured private bonds     |                                | 2014     | 5.00                     | 200,000           | 200,000           |
| Unsecured private bonds     | Other fund                     | 2015     | 5.00                     | 200,000           | 200,000           |
| Unsecured private bonds     |                                | 2018     | 5.00                     | 200,000           | 200,000           |
| Unsecured private bonds     |                                | 2013     | 6.92                     |                   | 250,000           |
| Unsecured private bonds     |                                | 2016     | 5.54                     | 40,000            | 40,000            |
| Unsecured private bonds     |                                | 2016     | 5.92                     | 230,000           | 230,000           |
| Unsecured private bonds     | Operating fund                 | 2016     | 3.95                     | 110,000           | 110,000           |
| Unsecured private bonds     |                                | 2021     | 4.22                     | 190,000           | 190,000           |
| Unsecured private bonds     | Operating and refinancing fund | 2019     | 3.24                     | 170,000           | 170,000           |
| Unsecured private bonds     |                                | 2022     | 3.30                     | 140,000           | 140,000           |
| Unsecured private bonds     |                                | 2032     | 3.45                     | 90,000            | 90,000            |
| Unsecured private bonds     | Operating fund                 | 2023     | 3.03                     | 230,000           |                   |
| Unsecured private bonds     |                                | 2033     | 3.22                     | 130,000           |                   |
| Unsecured private bonds(*1) |                                | 2014     | 4.86                     | 20,000            | 20,000            |
| Unsecured private bonds(*1) |                                | 2015     | 4.62                     | 10,000            | 10,000            |
| Unsecured private bonds(*2) |                                | 2013     | 3.99                     |                   | 150,000           |
| Unsecured private bonds(*2) |                                | 2014     | 4.53                     | 290,000           | 290,000           |
| Unsecured private bonds(*2) |                                | 2014     | 4.40                     | 100,000           | 100,000           |
| Unsecured private bonds(*2) |                                | 2015     | 4.09                     | 110,000           | 110,000           |
| Unsecured private bonds(*2) |                                | 2015     | 4.14                     | 110,000           | 110,000           |
| Unsecured private bonds(*2) |                                | 2017     | 4.28                     | 100,000           | 100,000           |
| Unsecured private bonds(*2) |                                | 2015     | 3.14                     | 130,000           | 130,000           |
| Unsecured private bonds(*2) |                                | 2017     | 3.27                     | 120,000           | 120,000           |
| Foreign global bonds        |                                |          |                          | 422,120           | 428,440           |
|                             |                                | 2027     | 6.63                     | (USD 400,000)     | (USD 400,000)     |
| Exchangeable bonds(*5)      |                                |          |                          | 96,147            | 405,678           |
|                             | Refinancing fund               | 2014     | 1.75                     | (USD 91,109)      | (USD 332,528)     |
| Floating rate notes(*3)     |                                |          |                          | 263,825           | 267,775           |
|                             | Operating fund                 | 2014     | 3M Libor + 1.60          | (USD 250,000)     | (USD 250,000)     |
| Floating rate notes(*4)     |                                | 2014     | SOR rate + 1.20          | 54,129            | 56,906            |

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|                                   |      |                 |               |               |
|-----------------------------------|------|-----------------|---------------|---------------|
|                                   |      |                 | (SGD 65,000)  | (SGD 65,000)  |
| Swiss unsecured private bonds     |      |                 | 356,601       | 351,930       |
|                                   | 2017 | 1.75            | (CHF 300,000) | (CHF 300,000) |
| Foreign global bonds              |      |                 | 738,710       | 749,770       |
|                                   | 2018 | 2.13            | (USD 700,000) | (USD 700,000) |
| Australia unsecured private bonds |      |                 | 281,988       |               |
|                                   | 2017 | 4.75            | (AUD 300,000) |               |
| Floating rate notes(*3)           |      |                 | 316,590       |               |
|                                   | 2020 | 3M Libor + 0.88 | (USD 300,000) |               |
| Foreign global bonds(*2)          |      |                 | 316,590       |               |
|                                   | 2018 | 2.88            | (USD 300,000) |               |
| Sub-total                         |      |                 | 5,966,700     | 5,620,499     |
| Less discounts on bonds           |      |                 | (40,228)      | (43,500)      |
|                                   |      |                 | 5,926,472     | 5,576,999     |
| Less current portion of bonds     |      |                 | (1,020,893)   | (597,779)     |
|                                   |      |                 | 4,905,579     | 4,979,220     |

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2013, 2012 and 2011**

(\*1) Unsecured private bonds were issued by SK Telink Co., Ltd., a subsidiary of the Parent Company.

(\*2) Unsecured private bonds were issued by SK Broadband Co., Ltd., a subsidiary of the Parent Company.

(\*3) As of December 31, 2013, 3M Libor rate is 0.24%.

(\*4) As of December 31, 2013, SOR rate is 0.21%.

(\*5) On April 7, 2009, the Group issued exchangeable bonds with a maturity of five years in the principal amount of USD 332,528,000 for USD 326,397,463 with a coupon rate of 1.75%.

The Group may redeem the principal amount after three years from the issuance date if the market price exceeds 130% of the exchange price during a predetermined period. The exchange right may be exercised during the period from May 18, 2009 to March 24, 2014.

Exchanges of notes for common shares may be prohibited under the Telecommunications Law or other legal restrictions which restrains foreign governments, individuals and entities from owning more than 49% of the Group's voting stock. If such 49% ownership limitation is violated due to the exercise of exchange rights, the Group will pay the bond holder a cash settlement which will be determined at the average price of one day after a holder exercises its exchange right or the weighted average price for the following five or twenty business days. Unless either previously redeemed or exchanged, the notes are redeemable at 100% of the principal amount at maturity.

In accordance with a resolution of the general shareholder's meeting on March 22, 2013 and a resolution of the Board of Directors' meeting on July 25, 2013, the exchange price has changed from 197,760 to 189,121.

During 2013, the accumulated principal amount that was claimed for exchange is USD 268,977,000. For the year ended December 31, 2013, exchange of bonds in the principal amount of USD 170,223,000 was claimed and the Group granted 1,241,337 shares of treasury stock. The exchange of bonds in the principal amount of USD 98,754,000 was additionally claimed and cash was paid due to the limitation on foreign ownership under Article 6 of the Telecommunications Business Act. In addition, bonds in the principal amount of USD 6,505,000 were redeemed at par value due to the exercise of the Controlling Company's early redemption rights.

As of December 31, 2013, exchange for the entire bonds in the principal amount of USD 57,046,000 was claimed and will be redeemed by cash during 2014. The Group recognized 134,232 million of financial costs in relation to the exchangeable bonds for the year ended December 31, 2013.

As of December 31, 2013, fair value of the exchangeable bonds is USD 91,108,508 and the exchange price is 189,121. The exchange price could be adjusted with the exchange rate of 1,383.40 per USD 1.

**18. Long-term Payables other**

(1) Long-term payables as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31, 2013</b> | <b>December 31, 2012</b> |
|--|--------------------------|--------------------------|
| Payables related to acquisition of W-CDMA licenses | 828,721                  | 705,605                  |
| Other(*)   | 9,864                    | 9,903                    |
|  | <b>838,585</b>           | <b>715,508</b>           |

(\*) Other consists of vested compensation claims of employees who have rendered long-term service.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

- (2) As of December 31, 2013 and 2012, long-term payables other consist of payables related to the acquisition of W-CDMA licenses for 2.1GHz, 800MHZ, 2.3GHz and 1.8GHz frequencies as follows:

(In millions of won)

|  | <b>Period of<br/>repayment</b> | <b>Coupon<br/>rate(*1)</b> | <b>Annual effective<br/>interest rate(*2)</b> | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|--------------------------------|----------------------------|---|------------------------------|------------------------------|
| 2.1GHz   | 2012~2014                      | 3.58%                      | 5.89%   | 17,533                       | 35,067                       |
| 800MHz   | 2013~2015                      | 3.51%                      | 5.69%   | 138,833                      | 208,250                      |
| 2.3GHz   | 2014~2016                      | 3.00%                      | 5.80%   | 8,650                        | 8,650                        |
| 1.8GHz   | 2012~2021                      | 2.43~3.00%                 | 4.84~5.25%                                    | 942,675                      | 671,625                      |
|  |                                |                            |   | <b>1,107,691</b>             | <b>923,592</b>               |
| Present value discount on long-term payables other |                                |                            |   | (72,171)                     | (60,021)                     |
|  |                                |                            |   | <b>1,035,520</b>             | <b>863,571</b>               |
| Current portion of long-term payables other        |                                |                            |   | (206,799)                    | (157,966)                    |
| <b>Carrying amount at December 31, 2013</b>        |                                |                            |   | <b>828,721</b>               | <b>705,605</b>               |

(\*1) The Group applied an annual interest rate equal to the previous year average lending rate of public funds financing account less 1%.

(\*2) The Group estimated the discount rate based on its credit ratings and corporate bond yield rate as there is no market interest rate available for long-term account payables-other.

- (3) The repayment schedule of long-term payables other as of December 31, 2013 is as follows:

(In millions of won)

|                     | <b>Amount</b>    |
|---------------------|------------------|
| 2014                | 207,668          |
| 2015                | 190,134          |
| 2016                | 120,718          |
| 2017 and thereafter | 589,171          |
|                     | <b>1,107,691</b> |

**19. Provisions**

(1) Changes in provisions for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                   | <b>Beginning<br/>balance</b> | <b>For the year ended December 31, 2013</b> |                    |                 |              | <b>Ending<br/>balance</b> | <b>As of December 31, 2013</b> |                    |
|-----------------------------------|------------------------------|---|--------------------|-----------------|--------------|---------------------------|--------------------------------|--------------------|
|                                   |                              | <b>Increase</b>                             | <b>Utilization</b> | <b>Reversal</b> | <b>Other</b> |                           | <b>Current</b>                 | <b>Non-current</b> |
| Provision for handset subsidy(*1) | 353,383                      | 9,416                                       | (308,876)          |                 |              | 53,923                    | 53,334                         | 589                |
| Provision for restoration (*2)    | 39,895                       | 5,679                                       | (712)              | (4,211)         | (144)        | 40,507                    | 13,441                         | 27,066             |
| Other provisions                  | 590                          |   | (85)               | (17)            | (37)         | 451                       |                                | 451                |
|                                   | 393,868                      | 15,095                                      | (309,673)          | (4,228)         | (181)        | 94,881                    | 66,775                         | 28,106             |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(In millions of won)*

|                               | Beginning<br>balance | For the year ended December 31, 2012 |             |          |       | Ending<br>balance | As of December 31, 2012 |             |
|-------------------------------|----------------------|--------------------------------------|-------------|----------|-------|-------------------|-------------------------|-------------|
|                               |                      | Increase                             | Utilization | Reversal | Other |                   | Current                 | Non-current |
| Provision for handset subsidy | 762,238              | 272,869                              | (677,416)   | (4,525)  | 217   | 353,383           | 279,977                 | 73,406      |
| Provision for restoration     | 36,379               | 3,915                                | (1,348)     | (32)     | 981   | 39,895            | 7,256                   | 32,639      |
| Other provisions              | 942                  | 43                                   | (49)        |          | (346) | 590               | 74                      | 516         |
|                               | 799,559              | 276,827                              | (678,813)   | (4,557)  | 852   | 393,868           | 287,307                 | 106,561     |

(\*1) The Group recognizes a provision for handset subsidies given to the subscribers who purchase handsets on an installment basis. During the years ended December 31, 2013 and 2012, the Group's provision for handset subsidies significantly decreased as it gradually ceased providing handset subsidies to subscribers.

The amount recognized as a provision for handset subsidies is the Group's best estimate of the expenditure required to settle the current obligations to the relevant subscribers at the end of the reporting period, which is calculated as the sum of the present values of the monthly balances for handset subsidies over the relevant service periods, taking into account the customer retention rate for the relevant subscribers. The discount rate used in calculating the present values is based on AAA-rated corporate bonds with a two-year maturity. The customer retention rate is based on the Group's historical retention rate.

(\*2) In the course of the Group's activities, base station and other assets are utilized on leased premises which are expected to have costs associated with restoring the location where these assets are situated upon ceasing their use on those premises. The associated cash outflows, which are long-term in nature, are generally expected to occur at the dates of exit of the assets to which they relate. 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 liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements. The Group records these restoration costs as property and equipments and subsequently allocates them to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to finance costs.

(2) The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period.

**Key assumptions**

|                               |  |
|-------------------------------|--|
| Provision for handset subsidy | estimation based on historical service retention period data                             |
| Provision for restoration     | estimation based on inflation assuming demolition of the relevant assets after six years |

**20. Lease**

**(1) Finance Lease**

The Group has leased certain telecommunication equipment under finance lease agreements with Cisco Systems Capital Korea Ltd. Finance lease liabilities as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| <b>Finance Lease Liabilities</b>                       |                              |                              |
| Current portion of long-term finance lease liabilities | 19,351                       | 19,904                       |
| Long-term finance lease liabilities                    | 3,867                        | 22,036                       |
|  | 23,218                       | 41,940                       |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

The Group's related interest and principal as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|  | December 31, 2013     |               | December 31, 2012     |               |
|--|-----------------------|---------------|-----------------------|---------------|
|  | Minimum lease payment | Present value | Minimum lease payment | Present value |
| Less than 1 year                                       | 20,039                | 19,351        | 21,375                | 19,904        |
| 1~5 years  | 3,974                 | 3,867         | 22,744                | 22,036        |
| <b>Subtotal</b>  | <b>24,013</b>         | <b>23,218</b> | <b>44,119</b>         | <b>41,940</b> |
| Current portion of long-term finance lease liabilities |                       | (19,351)      |                       | (19,904)      |
| Long-term finance lease liabilities                    |                       | 3,867         |                       | 22,036        |

**(2) Operating Leases**

The Group entered into operating leases and sublease agreements in relation to rented office space and the expected future lease payments and lease revenues (included in other operating income in the accompanying consolidated statements of income) are as follows:

(In millions of won)

|                   | 2013           |                | 2012           |                |
|-------------------|----------------|----------------|----------------|----------------|
|                   | Lease payments | Lease revenues | Lease payments | Lease revenues |
| Less than 1 year  | 32,842         | 2,422          | 36,411         | 1,636          |
| 1~5 years         | 72,236         | 1,074          | 108,747        | 1,074          |
| More than 5 years | 65,013         | 1,026          | 69,058         | 1,026          |
|                   | 170,091        | 4,522          | 214,216        | 3,736          |

**(3) Sales and Leaseback**

For the year ended December 31, 2013, the Group disposed a portion of its property and equipment and investment property, and entered into lease agreements with respect to those assets. This sale and leaseback transaction is accounted for as an operating lease and the gain on disposal of property and equipment and investment property is recognized as other operating income. The Group recognized 13,703 million of lease payments in relation to the operating lease agreement and 269 million in relation to the sublease agreement. Expected future lease payments and lease revenues are explained in Note 20-(2).

**21. Defined Benefit Liabilities**

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(1) Details of defined benefit liabilities as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31, 2013</b> | <b>December 31, 2012</b> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | 312,494                  | 244,866                  |
| Fair value of plan assets                    | (238,293)                | (158,345)                |
|  | 74,201                   | 86,521                   |

(2) Principal actuarial assumptions as of December 31, 2013 and 2012 are as follows:

|   | <b>December 31, 2013</b> | <b>December 31, 2012</b> |
|---|--------------------------|--------------------------|
| Discount rate for defined benefit obligations | 3.06%~4.34%              | 3.28%~4.75%              |
| Expected rate of salary increase              | 3.05%~6.27%              | 3.00%~5.81%              |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

Discount rate for defined benefit obligation is determined based on the Group's credit ratings and yield rate of corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of salary increase is determined based on the Group's historical promotion index, inflation rate and salary increase ratio in accordance with salary agreement.

(3) Changes in defined benefit obligations for the years ended December 31, 2013 and 2012 are as follows:

|                                  | <b>2013</b> | <b>2012</b> |
|----------------------------------|-------------|-------------|
| Beginning balance                | 244,866     | 188,120     |
| Current service cost             | 89,802      | 77,060      |
| Interest cost                    | 9,370       | 8,119       |
| Remeasurement                    |             |             |
| - Demographic assumption         | (394)       | (905)       |
| - Financial assumption           | (12,371)    | 7,329       |
| - Adjustment based on experience | 6,475       | 13,518      |
| Benefit paid                     | (42,948)    | (46,066)    |
| Others(*)                        | 17,694      | (2,309)     |
| Ending balance                   | 312,494     | 244,866     |

(\*) Others for the year ended December 31, 2013 include liabilities of 14,703 million transferred due to business combination, (4,141) million for changes in consolidation scope, and transfers to construction in progress. Others for the year ended December 31, 2012 include effects of changes in consolidation scope of (4,185) million in relation to the disposal of Ntreev Soft Co., Ltd. and transfers to construction in progress.

(4) Changes in plan assets for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Beginning balance                                 | 158,345     | 102,179     |
| Interest income                                   | 6,332       | 4,314       |
| Actuarial gain (loss)                             | 122         | 447         |
| Contributions by employer directly to plan assets | 85,683      | 60,533      |
| Benefits paid                                     | (23,827)    | (9,108)     |
| Others(*)   | 11,638      | (20)        |
| Ending balance                                    | 238,293     | 158,345     |

(\*) Others include assets of 14,334 million transferred due to business combination and effects of changes in consolidation scope of (3,074) million for the year ended December 31, 2013.

The Group expects to make a contribution of 56,973 million to the defined benefit plans during the next financial year.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

- (5) Expenses recognized in profit and loss (included in labor cost in the accompanying consolidated statements of income) and capitalized into construction-in-progress for the years ended December 31, 2013, 2012 and 2011 are as follows:

(In millions of won)

|                                | 2013    | 2012    | 2011    |
|--------------------------------|---------|---------|---------|
| Current service cost           | 89,802  | 77,060  | 63,925  |
| Interest cost                  | 9,370   | 8,119   | 9,086   |
| Expected return on plan assets | (6,332) | (4,314) | (4,059) |
|                                | 92,840  | 80,865  | 68,952  |

The above costs are recognized in labor cost, research and development, or capitalized into construction-in-progress.

- (6) Details of plan assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|  | December 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Equity instruments                     | 713               | 1,221             |
| Debt instruments                       | 48,901            | 34,269            |
| Short-term financial instruments, etc. | 188,679           | 122,855           |
|  | 238,293           | 158,345           |

Actual return on plan assets for the years ended December 31, 2013, 2012 and 2011 amounted to 6,472 million, 4,761 million and 3,011 million, respectively.

- (7) As of December 31, 2013, effects on defined benefit obligations if each of significant actuarial assumptions changes within potential reasonable range are as follows:

(In millions of won)

|                                  | Increase | Decrease |
|----------------------------------|----------|----------|
| Discount rate (if changed by 1%) | (22,864) | 25,216   |
| Expected rate of salary increase | 25,305   | (23,230) |

The sensitivity analysis does not consider dispersion of all cashflows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

Weighted average durations of defined benefit obligations as of December 31, 2013 and 2012 are 9.12 years and 9.04 years, respectively.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****22. Derivative Instruments**

(1) Currency swap contracts under cash flow hedge accounting as of December 31, 2013 are as follows:

*(In thousands of foreign currencies)*

| <b>Borrowing date</b> | <b>Hedged item</b>  | <b>Hedged risk</b>                               | <b>Contract type</b>        | <b>Financial institution</b>        | <b>Duration of contract</b>   |
|-----------------------|---|--|-----------------------------|-------------------------------------|-------------------------------|
| Jul. 20, 2007         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)                      | Foreign currency risk                            | Currency swap               | Morgan Stanley and five other banks | Jul. 20, 2007 ~ Jul. 20, 2027 |
| Dec. 15, 2011         | Floating-to-fixed cross currency interest rate swap (Singapore dollar denominated bonds face value of SGD 65,000) | Foreign currency risk and the interest rate risk | Currency interest rate swap | United Overseas Bank                | Dec. 15, 2011 ~ Dec. 12, 2014 |
| Dec. 15, 2011         | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 250,000)     | Foreign currency risk and the interest rate risk | Currency interest rate swap | DBS Bank and Citi Bank              | Dec. 15, 2011 ~ Dec. 12, 2014 |
| Jun. 12, 2012         | Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds face value of CHF 300,000)                      | Foreign currency risk                            | Currency swap               | Citibank and five other banks       | Jun. 12, 2012 ~ Jun. 12, 2017 |
| Nov. 1, 2012          | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)                      | Foreign currency risk                            | Currency swap               | Barclays and nine other banks       | Nov. 1, 2012 ~ May. 1, 2018   |
| Jan. 17, 2013         | Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of AUD 300,000)                 | Foreign currency risk                            | Currency swap               | BNP Paribas and three other banks   | Jan. 17, 2013 ~ Nov. 17, 2017 |
| Mar. 7, 2013          | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)     | Foreign currency risk and the interest rate risk | Currency interest rate swap | DBS Bank                            | Mar. 7, 2013 ~ Mar. 7, 2020   |
| Oct. 29, 2013         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)                      | Foreign currency risk                            | Currency swap               | Korea Development Bank and others   | Oct. 29, 2013 ~ Oct. 26, 2018 |
| Dec. 16, 2013         | Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of USD 94,736)                  | Foreign currency risk                            | Currency swap               | Deutsche bank                       | Dec. 16, 2013 ~ Apr. 29, 2022 |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(2) As of December 31, 2013, fair values of the above derivatives recorded in assets or liabilities and details of derivative instruments are as follows:

(In millions of won and thousands of foreign currencies)

| Hedged item   | Accumulated gain (loss) on valuation of derivatives | Fair value                    |  |             | Held for trading purpose | Total     |
|---|---|-------------------------------|--|-------------|--------------------------|-----------|
|   |   | Cash flow hedge<br>Tax effect | Accumulated foreign currency translation gain (loss) | Others (*1) |                          |           |
| <b>Current assets:</b>  |   |                               |  |             |                          |           |
| Convertible bonds (available-for-sale securities)<br>(Korean won denominated bonds face value of 1,500 million)(*2) |   |                               |  |             | 10                       | 10        |
| <b>Non-current assets:</b>  |   |                               |  |             |                          |           |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)                        | (42,772)  | (13,656)                      | (34,853)   | 129,806     |                          | 38,525    |
| Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)       | 8,822   | 2,816                         | (8,451)  |             |                          | 3,187     |
| <b>Total assets</b>   |   |                               |  |             |                          | 41,722    |
| <b>Current liabilities:</b>   |   |                               |  |             |                          |           |
| Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 250,000)       | 5,871   | 1,875                         | (25,602)   |             |                          | (17,856)  |
| Floating-to-fixed cross currency interest rate swap (Singapore dollar denominated bonds face value of SGD 65,000)   | 7   | 2                             | (3,324)  |             |                          | (3,315)   |
| <b>Non-current liabilities:</b>   |   |                               |  |             |                          |           |
| Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds face value of CHF 300,000)                        | (5,275)   | (1,684)                       | (6,902)  |             |                          | (13,861)  |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)                        | (8,400)   | (2,682)                       | (24,435)   |             |                          | (35,517)  |
| Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of AUD 300,000)                   | 4,262   | 1,361                         | (53,295)   |             |                          | (47,672)  |
| Fixed-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)          | (1,128)   |                               | (1,830)  |             |                          | (2,958)   |
| Fixed-to-fixed long-term borrowings (U.S. dollar denominated bonds face value of USD 94,736)                        | (2,548)   | (813)                         | 201  |             |                          | (3,160)   |
| <b>Total liabilities</b>  |   |                               |  |             |                          | (124,339) |

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- (\*1) Cash flow hedge accounting has been applied to the relevant contract from May 12, 2010. Others represent gain on valuation of currency swap incurred prior to the application of hedge accounting and was recognized through profit or loss prior to the year ended December 31, 2012.
  
- (\*2) Fair value of the conversion option of convertible bonds held by SK Communications Co., Ltd., a subsidiary, amounting to 10 million was accounted for as derivative financial assets.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****23. Share Capital and Capital Surplus (Deficit) and Other Capital Adjustments**

The Parent Company's outstanding share capital consists entirely of common stock with a par value of 500. The number of authorized, issued and outstanding common shares and capital surplus (deficit) and other capital adjustments As of December 31, 2013 and 2012 are as follows:

*(In millions of won, except for share data)*

|  | December 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Authorized shares  | 220,000,000       | 220,000,000       |
| Issued shares(*1)  | 80,745,711        | 80,745,711        |
| Share capital  |                   |                   |
| Common stock   | 44,639            | 44,639            |
| Capital surplus (deficit) and other capital adjustments: |                   |                   |
| Paid-in surplus  | 2,915,887         | 2,915,887         |
| Treasury stock   | (2,139,683)       | (2,410,451)       |
| Loss on disposal of treasury stock                       | (18,087)          | (18,855)          |
| Others(*2)   | (839,127)         | (775,464)         |
|  | (81,010)          | (288,883)         |

(\*1) For the years ended December 31, 2003, 2006 and 2009, the Parent Company retired 7,002,235 shares, 1,083,000 shares and 448,000 shares, respectively, of treasury stock which reduced its retained earnings before appropriation in accordance with the Korean Commercial Law. As a result, the Parent Company's outstanding shares have decreased without change in the share capital.

(\*2) Others primarily consist of net losses on disposals of businesses and the excess of the consideration paid by the Group over the carrying values of net assets acquired from common control transactions with entities within the control of the Controlling Entity.

Changes in number of shares outstanding for the years ended December 31, 2013 and 2012 are as follows:

*(In shares)*

|                            | Issued<br>shares | 2013<br>Treasury<br>stock | Outstanding<br>shares | Issued<br>shares | 2012<br>Treasury<br>stock | Outstanding<br>shares |
|----------------------------|------------------|---------------------------|-----------------------|------------------|---------------------------|-----------------------|
| Beginning issued shares    | 80,745,711       | 11,050,712                | 69,694,999            | 80,745,711       | 11,050,712                | 69,694,999            |
| Disposal of treasury stock |                  | (1,241,337)               | 1,241,337             |                  |                           |                       |
| Ending issued shares       | 80,745,711       | 9,809,375                 | 70,936,336            | 80,745,711       | 11,050,712                | 69,694,999            |

**24. Treasury Stock**



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The Parent Company acquired treasury stock to provide stock dividends, merge with Shinsegi Telecom, Inc. and SK IMT Co, Ltd., increase shareholder value and to stabilize its stock prices when needed.

Treasury stock as of December 31, 2013 and 2012 are as follows:

*(In millions of won, shares)*

|                         | <b>December 31, 2013</b> | <b>December 31, 2012</b> |
|-------------------------|--------------------------|--------------------------|
| <b>Number of shares</b> | <b>9,809,375</b>         | <b>11,050,712</b>        |
| <b>Amount</b>           | <b>2,139,683</b>         | <b>2,410,451</b>         |

In addition, the Parent Company granted 1,241,337 shares of treasury stock for 270,768 million from May 14, 2013 to October 24, 2013 as a result of exercise of exchange rights by the holders of exchangeable bonds.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****25. Hybrid Bonds**

The Parent Company issued hybrid bonds at face amount on June 7, 2013 and details as of December 31, 2013 are as follows:

(In millions of won)

|                      | Type  | Issuance date | Maturity         | Annual interest rate(%) | Amount  |
|----------------------|---|---------------|------------------|-------------------------|---------|
| Private hybrid bonds | Blank coupon unguaranteed subordinated bond | June 7, 2013  | June 7, 2073(*1) | 4.21(*2)                | 400,000 |
| Issuance costs       |   |               |                  |                         | (1,482) |
|                      |   |               |                  |                         | 398,518 |

Hybrid bonds issued by the Parent Company are classified as equity as there is no contractual obligation for delivery of financial assets to the bond holders. These are subordinated bonds which rank before common shareholders in the event of a liquidation or reorganization of the Parent Company.

(\*1) The Parent Company has a right to extend the maturity under the same issuance terms without any notice or announcement. The Parent Company also has the right to defer interest payment at its sole discretion.

(\*2) Annual interest rate is adjusted after five years from the issuance date.

**26. Retained Earnings**

(1) Retained earnings as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|   | December 31, 2013 | December 31, 2012 |
|---|-------------------|-------------------|
| Appropriated:                               |                   |                   |
| Legal reserve                               | 22,320            | 22,320            |
| Reserve for research & manpower development | 155,766           | 220,000           |
| Reserve for business expansion              | 9,376,138         | 9,106,138         |
| Reserve for technology development          | 2,271,300         | 1,901,300         |
|   | 11,825,524        | 11,249,758        |
| Unappropriated                              | 1,276,971         | 874,899           |

(2) Legal reserve

The Korean Commercial Code requires the Parent Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to share capital.

(3) Reserve for research & manpower development

The reserve for research and manpower development was appropriated in order to recognize certain tax deductible benefits through the early recognition of future expenditures for tax purposes. These reserves will be reversed from appropriated and retained earnings in accordance with the relevant tax laws. Such reversal will be included in taxable income in the year of reversal.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****27. Reserves**

(1) Details of reserves, net of taxes, as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|   | December 31, 2013 | December 31, 2012 |
|---|-------------------|-------------------|
| Unrealized fair value of available-for-sale financial assets    | 208,529           | 207,063           |
| Other comprehensive loss of investments in associates           | (172,117)         | (175,044)         |
| Unrealized fair value of derivatives                            | (35,429)          | (46,652)          |
| Foreign currency translation differences for foreign operations | (13,253)          | (11,003)          |
|   | (12,270)          | (25,636)          |

(2) Changes in reserves for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|                              | 2013   |   |                                      |   |          |
|------------------------------|--|---|--------------------------------------|---|----------|
|                              | Unrealized fair value of available-for-sale financial assets | Other comprehensive income of investments in associates | Unrealized fair value of derivatives | Foreign currency translation differences for foreign operations | Total    |
| Balance at January 1, 2013   | 207,063  | (175,044)   | (46,652)                             | (11,003)  | (25,636) |
| Changes                      | 2,747  | 1,254   | 14,488                               | (2,250)   | 16,239   |
| Tax effect                   | (1,281)  | 1,673   | (3,265)                              |   | (2,873)  |
| Balance at December 31, 2013 | 208,529  | (172,117)   | (35,429)                             | (13,253)  | (12,270) |

(In millions of won)

|                              | 2012   |   |                                      |   |           |
|------------------------------|--|---|--------------------------------------|---|-----------|
|                              | Unrealized fair value of available-for-sale financial assets | Other comprehensive income of investments in associates | Unrealized fair value of derivatives | Foreign currency translation differences for foreign operations | Total     |
| Balance at January 1, 2012   | 354,951  | (93,599)  | (25,100)                             | 23,812  | 260,064   |
| Changes                      | (194,929)  | (75,448)  | (26,114)                             | (34,815)  | (331,306) |
| Tax effect                   | 47,041   | (5,997)   | 4,562                                |   | 45,606    |
| Balance at December 31, 2012 | 207,063  | (175,044)   | (46,652)                             | (11,003)  | (25,636)  |

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(3) Details of changes in unrealized fair value of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>Before<br/>taxes</b> | <b>2013</b>              |                    |
|---|-------------------------|--------------------------|--------------------|
|   |                         | <b>Income tax effect</b> | <b>After taxes</b> |
| Balance at January 1, 2013                                      | 272,917                 | (65,854)                 | 207,063            |
| Amount recognized as other comprehensive income during the year | 3,879                   | (1,529)                  | 2,350              |
| Amount reclassified through profit or loss                      | (1,133)                 | 249                      | (884)              |
| Balance at December 31, 2013                                    | 275,663                 | (67,134)                 | 208,529            |

*(In millions of won)*

|   | <b>Before<br/>taxes</b> | <b>2012</b>              |                    |
|---|-------------------------|--------------------------|--------------------|
|   |                         | <b>Income tax effect</b> | <b>After taxes</b> |
| Balance at January 1, 2012                                      | 467,846                 | (112,895)                | 354,951            |
| Amount recognized as other comprehensive income during the year | (43,135)                | 10,249                   | (32,886)           |
| Amount reclassified through profit or loss                      | (151,794)               | 36,792                   | (115,002)          |
| Balance at December 31, 2012                                    | 272,917                 | (65,854)                 | 207,063            |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(4) Details of changes in unrealized valuation of derivatives for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>Before taxes</b> | <b>2013<br/>Income tax effect</b> | <b>After taxes</b> |
|---|---------------------|-----------------------------------|--------------------|
| Balance at January 1, 2013                                      | (62,698)            | 16,046                            | (46,652)           |
| Amount recognized as other comprehensive income during the year | 11,833              | (3,001)                           | 8,832              |
| Amount reclassified through profit or loss                      | 2,654               | (263)                             | 2,391              |
| Balance at December 31, 2013                                    | (48,211)            | 12,782                            | (35,429)           |

*(In millions of won)*

|   | <b>Before taxes</b> | <b>2012<br/>Income tax effect</b> | <b>After taxes</b> |
|---|---------------------|-----------------------------------|--------------------|
| Balance at January 1, 2012                                      | (36,583)            | 11,483                            | (25,100)           |
| Amount recognized as other comprehensive income during the year | (29,883)            | 4,327                             | (25,556)           |
| Amount reclassified through profit or loss                      | 3,768               | 236                               | 4,004              |
| Balance at December 31, 2012                                    | (62,698)            | 16,046                            | (46,652)           |

**28. Other Operating Income and Expenses**

Details of other operating income and expenses for the years ended December 31, 2013, 2012 and 2011 are as follows:

*(In millions of won)*

|  | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|-------------|
| <b>Other Operating Income:</b>                                   |             |             |             |
| Reversal of allowance for doubtful accounts                      | 359         | 5,902       | 2,301       |
| Gain on disposal of property and equipment and intangible assets | 7,991       | 162,590     | 6,260       |
| Others(*1)   | 66,604      | 33,352      | 41,070      |
|  | 74,954      | 201,844     | 49,631      |
| <b>Other Operating Expenses:</b>                                 |             |             |             |
| Communication expenses   | 62,193      | 69,585      | 64,131      |
| Utilities  | 227,593     | 197,559     | 168,201     |
| Taxes and dues(*2)   | 29,873      | 91,745      | 47,394      |
| Repair   | 252,344     | 223,247     | 250,801     |
| Research and development   | 352,385     | 304,557     | 271,382     |
| Training   | 40,446      | 39,407      | 38,033      |
| Bad debt for accounts receivables trade                          | 53,344      | 52,393      | 81,526      |
| Travel   | 31,762      | 31,380      | 32,742      |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Supplies and other   | 189,224   | 143,882   | 106,733   |
| Loss on disposal of property and equipment and intangible assets | 267,468   | 15,117    | 20,659    |
| Loss on disposal of investment assets                            | 6,137     | 1,307     | 434       |
| Impairment loss on property and equipment and intangible assets  | 13,770    | 37,007    | 1,237     |
| Donations  | 82,057    | 81,330    | 104,516   |
| Bad debt for accounts receivable other                           | 22,155    | 30,107    | 12,785    |
| Other(*)   | 115,532   | 23,402    | 25,838    |
|  | 1,746,283 | 1,342,025 | 1,226,412 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(\*1) Others for the year ended December 31, 2013, 2012 and 2011, primarily consist of 10.3 billion, 5.6 billion and 3.3 billion of VAT refund, respectively.

(\*2) Penalties were included in taxes and dues until the year ended December 31, 2012 while penalties were included in other starting from the year ended December 31, 2013.

**29. Finance Income and Costs**

(1) Details of finance income and costs for the years ended December 31, 2013, 2012 and 2011 are as follows:

(In millions of won)

|   | 2013    | 2012    | 2011    |
|---|---------|---------|---------|
| <b>Finance Income:</b>  |         |         |         |
| Interest income   | 65,560  | 97,318  | 166,065 |
| Dividend income   | 10,197  | 27,732  | 26,433  |
| Gain on foreign currency transactions   | 11,041  | 6,735   | 11,134  |
| Gain on foreign currency translation  | 4,401   | 4,065   | 1,985   |
| Gain on disposal of long-term investment securities                           | 9,300   | 282,605 | 164,424 |
| Gain on valuation of derivatives  |         |         | 3,785   |
| Gain on settlement of derivatives   | 7,716   | 26,103  |         |
| Gain on valuation of financial asset at fair value through profit or loss     | 5,177   |         | 2,617   |
| Gain on valuation of financial liability at fair value through profit or loss |         |         | 63,769  |
|   | 113,392 | 444,558 | 440,212 |
| <b>Finance Costs:</b>   |         |         |         |
| Interest expense  | 331,834 | 412,379 | 297,172 |
| Loss on foreign currency transactions   | 16,430  | 7,204   | 10,377  |
| Loss on foreign currency translation  | 2,634   | 4,608   | 6,409   |
| Loss on disposal of long-term investment securities                           | 31,909  | 10,802  | 447     |
| Loss on valuation of derivatives  | 2,106   | 286     | 943     |
| Loss on settlement of derivatives   |         | 1,232   | 15,577  |
| Loss on valuation of financial asset at fair value through profit or loss     |         | 1,262   |         |
| Loss relating to financial liability at fair value through profit or loss(*1) | 134,232 | 7,793   |         |
| Loss on redemption of debentures  |         | 2,099   |         |
| Other finance costs(*2)   | 52,058  | 190,620 | 12,846  |
|   | 571,203 | 638,285 | 343,771 |



(\*1) Loss relating to financial liabilities at fair value through profit or loss for the year ended December 31, 2013 related to exchangeable bonds (face amount of USD 326,397,463) due to the valuation loss from rising stock prices and loss on redemption of debenture upon the exchange claims.

(\*2) Refer to note 29(5).

(2) Details of interest income included in finance income for the years ended December 31, 2013, 2012 and 2011 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|-------------|
| Interest income on cash equivalents and deposits      | 41,907      | 57,029      | 61,577      |
| Interest income on installment receivables and others | 23,653      | 40,289      | 104,488     |
|   | 65,560      | 97,318      | 166,065     |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(3) Details of interest expense included in finance costs for the years ended December 31, 2013, 2012 and 2011 are as follows:

(In millions of won)

|  | 2013    | 2012    | 2011    |
|--|---------|---------|---------|
| Interest expense on bank overdrafts and borrowings | 28,600  | 147,741 | 60,271  |
| Interest expense on debentures                     | 258,962 | 209,545 | 208,403 |
| Interest on finance lease liabilities              | 1,333   | 2,621   | 4,422   |
| Others   | 42,939  | 52,472  | 24,076  |
|  | 331,834 | 412,379 | 297,172 |

(4) Finance income and costs by categories of financial instruments for the years ended December 31, 2013, 2012 and 2011 are as follows. Bad debt expenses (reversal of allowance for doubtful accounts) for accounts receivable trade, loans and receivables are excluded and are explained in note 7.

**(i) Finance income**

(In millions of won)

|  | 2013    | 2012    | 2011    |
|--|---------|---------|---------|
| <b>Financial Assets:</b>                                   |         |         |         |
| Financial assets at fair value through profit or loss      | 5,177   |         | 3,013   |
| Available-for-sale financial assets                        | 23,311  | 317,915 | 198,517 |
| Loans and receivables                                      | 62,211  | 90,177  | 171,415 |
| Derivative financial instruments designated as hedged item | 7,716   | 26,103  |         |
|  | 98,415  | 434,195 | 372,945 |
| <b>Financial Liabilities:</b>                              |         |         |         |
| Financial liabilities at fair value through profit or loss |         |         | 67,158  |
| Financial liabilities measured at amortized cost           | 14,977  | 10,363  | 109     |
|  | 14,977  | 10,363  | 67,267  |
|  | 113,392 | 444,558 | 440,212 |

**(ii) Finance costs**

(In millions of won)

|                          | 2013 | 2012 | 2011 |
|--------------------------|------|------|------|
| <b>Financial Assets:</b> |      |      |      |

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|  |         |         |         |
|--|---------|---------|---------|
| Financial assets at fair value through profit or loss      | 276     | 1,262   | 943     |
| Available-for-sale financial assets                        | 83,967  | 201,423 | 13,293  |
| Loans and receivables                                      | 16,479  | 1,789   | 12,598  |
| Derivative financial instruments designated as hedged item | 1,830   | 1,516   | 8,088   |
|  | 102,552 | 205,990 | 34,922  |
| <b>Financial Liabilities:</b>                              |         |         |         |
| Financial liabilities at fair value through profit or loss | 134,232 | 7,793   | 2,353   |
| Financial liabilities measured at amortized cost           | 334,419 | 424,502 | 301,360 |
| Derivative financial instruments designated as hedged item |         |         | 5,136   |
|  | 468,651 | 432,295 | 308,849 |
|  | 571,203 | 638,285 | 343,771 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****(iii) Other comprehensive income***(In millions of won)*

|  | 2013    | 2012      | 2011      |
|--|---------|-----------|-----------|
| <b>Financial Assets:</b>                                   |         |           |           |
| Available-for-sale financial assets                        | 2,009   | (149,082) | (433,546) |
| Derivative financial instruments designated as hedged item | 12,240  | (23,527)  | 20,890    |
|  | 14,249  | (172,609) | (412,656) |
| <b>Financial Liabilities:</b>                              |         |           |           |
| Derivative financial instruments designated as hedged item | (1,018) | 166       | 8,346     |
|  | (1,018) | 166       | 8,346     |
|  | 13,231  | (172,443) | (404,310) |

(5) Details of impairment losses for financial assets for the years ended December 31, 2013, 2012 and 2011 are as follows.

*(In millions of won)*

|   | 2013    | 2012    | 2011    |
|---|---------|---------|---------|
| Available-for-sale financial assets (*) | 52,058  | 190,620 | 12,846  |
| Bad debt for accounts receivable trade  | 53,344  | 52,393  | 81,526  |
| Bad debt for accounts receivable other  | 22,155  | 30,107  | 12,785  |
|   | 127,557 | 273,120 | 107,157 |

(\*) This is included in other finance costs (note 29(1)).

**30. Income Tax Expense for Continuing Operations**

(1) Income tax expenses for continuing operations for the years ended December 31, 2013, 2012 and 2011 consist of the following:

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(In millions of won)

|   | 2013     | 2012     | 2011      |
|---|----------|----------|-----------|
| <b>Current tax expense</b>  |          |          |           |
| Current tax payable   | 145,457  | 200,836  | 523,214   |
| Adjustments recognized in the period for current tax of prior periods | (16,696) | (69,634) | 90,389    |
|   | 128,761  | 131,202  | 613,603   |
| <b>Deferred tax expense</b>   |          |          |           |
| Changes in net deferred tax assets                                    | 266,601  | 103,480  | (120,718) |
| Tax directly charged to equity  | (3,584)  | 50,053   | 108,563   |
| Changes in scope of consolidation                                     | 8,919    | (3,611)  | 330       |
| Others (exchange rate differences, etc.)                              | 100      | 7,083    | 159       |
|   | 272,036  | 157,005  | (11,666)  |
| <b>Income tax for continuing operation</b>                            | 400,797  | 288,207  | 601,937   |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

- (2) The difference between income taxes computed using the statutory corporate income tax rates and the actual income tax expense from continuing operations for the years ended December 31, 2013, 2012 and 2011 is attributable to the following:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|-------------|
| Income taxes at statutory income tax rate                             | 441,697     | 367,661     | 531,069     |
| Non-taxable income  | (35,632)    | (5,039)     | (10,230)    |
| Non-deductible expenses   | 74,311      | 19,410      | 7,994       |
| Tax credit and tax reduction  | (37,893)    | (72,947)    | (42,572)    |
| Changes in unrealizable deferred taxes                                | (13,285)    | 5,723       | 33,170      |
| Additional income tax (refund) for prior periods                      | (23,162)    | (32,071)    | 90,389      |
| Deferred tax effect from statutory tax rate change for future periods | (5,239)     | 5,470       | (7,883)     |
| Income tax for continuing operation                                   | 400,797     | 288,207     | 601,937     |

For the year ended December 31, 2011, additional income tax for prior periods is recognized as a result of the resolution of various tax matters during the finalization of Tax Authorities audits of the Parent Company's tax returns from 2005 to 2009.

- (3) Deferred taxes directly charged to (credited to) equity for the years ended December 31, 2013, 2012 and 2011 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|-------------|
| Net change in fair value of available-for-sale financial assets | (1,281)     | 47,041      | 116,918     |
| Share of other comprehensive income of associates               | 1,673       | (5,997)     | (1,280)     |
| Gain or loss on valuation of derivatives                        | (3,265)     | 4,562       | (9,103)     |
| Remeasurement of defined benefit obligations                    | (466)       | 4,447       | 6,276       |
| Loss on disposal of treasury stock                              | (245)       |             | (2,980)     |
| Others  |             |             | (1,268)     |
|   | (3,584)     | 50,053      | 108,563     |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(4) Details of changes in deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|  | Beginning | Changes in scope of consolidation | 2013<br>Deferred tax expense (income) | Directly added to (deducted from) equity | Other | Ending    |
|--|-----------|-----------------------------------|---------------------------------------|--|-------|-----------|
| Deferred tax assets (liabilities) related to temporary differences                               |           |                                   |                                       |  |       |           |
| Allowance for doubtful accounts  | 51,972    | (2,323)                           | 6,773                                 |  | 5     | 56,427    |
| Accrued interest income  | (1,782)   | (756)                             | (293)                                 |  |       | (2,831)   |
| Available-for-sale financial assets  | 13,419    | (45)                              | (12,682)                              | (1,281)                                  |       | (589)     |
| Investments in subsidiaries and associates   | 66,969    | 51                                | (113,541)                             | 1,673                                    | 4     | (44,844)  |
| Property and equipment (depreciation)  | (272,940) | 4,940                             | (65,633)                              |  |       | (333,633) |
| Provisions   | 86,567    | 206                               | (72,470)                              |  |       | 14,303    |
| Retirement benefit obligation  | 16,849    | 151                               | (445)                                 | (466)                                    |       | 16,089    |
| Gain or loss on valuation of derivatives   | 15,894    |                                   | 150                                   | (3,265)                                  |       | 12,779    |
| Gain or loss on foreign currency translation   | 19,652    |                                   | (80)                                  |  |       | 19,572    |
| Tax free reserve for research and manpower development   | (31,093)  |                                   | (8,918)                               |  |       | (40,011)  |
| Goodwill relevant to leased line   | 68,675    |                                   | (37,650)                              |  |       | 31,025    |
| Unearned revenue (activation fees)   | 97,110    |                                   | (43,698)                              |  |       | 53,412    |
| Others   | (23,804)  | (11,654)                          | 80,350                                | (245)                                    | 91    | 44,738    |
|  | 107,488   | (9,430)                           | (268,137)                             | (3,584)                                  | 100   | (173,563) |
| Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards |           |                                   |                                       |  |       |           |
| Tax loss carryforwards   | 16,609    | 18,350                            | (3,899)                               |  |       | 31,060    |
| Tax credit carryforwards   | 1         | (1)                               |                                       |  |       |           |
|  | 16,610    | 18,349                            | (3,899)                               |  |       | 31,060    |
|  | 124,098   | 8,919                             | (272,036)                             | (3,584)                                  | 100   | (142,503) |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011***(In millions of won)*

|  | Beginning | Changes in<br>scope of<br>consolidation | 2012<br>Deferred tax<br>expense<br>(income) | Directly added<br>to (deducted<br>from) equity | Other | Ending    |
|--|-----------|---|---|--|-------|-----------|
| Deferred tax assets (liabilities) related to temporary differences                               |           |   |   |  |       |           |
| Allowance for doubtful accounts  | 41,451    | (126)                                   | 10,657                                      |  | (10)  | 51,972    |
| Accrued interest income  | (1,400)   | 29                                      | (411)                                       |  |       | (1,782)   |
| Available-for-sale financial assets  | (79,778)  | (154)                                   | 46,310                                      | 47,041   |       | 13,419    |
| Investments in subsidiaries and associates   | 33,439    |   | 39,549                                      | (5,997)  | (22)  | 66,969    |
| Property and equipment (depreciation)  | (210,720) |   | (62,220)                                    |  |       | (272,940) |
| Provisions   | 185,266   | (31)                                    | (98,667)                                    |  | (1)   | 86,567    |
| Retirement benefit obligation  | 19,245    | (801)                                   | (6,042)                                     | 4,447  |       | 16,849    |
| Gain or loss on valuation of derivatives   | 11,216    |   | 116   | 4,562  |       | 15,894    |
| Gain or loss on foreign currency translation   | 9,210     | 6                                       | 10,436                                      |  |       | 19,652    |
| Tax free reserve for research and manpower development   | (53,460)  | 220                                     | 22,147                                      |  |       | (31,093)  |
| Goodwill relevant to leased line   | 116,287   |   | (47,612)                                    |  |       | 68,675    |
| Unearned revenue (activation fees)   | 116,512   |   | (19,402)                                    |  |       | 97,110    |
| Others   | 35,117    | (1,981)                                 | (64,056)                                    |  | 7,116 | (23,804)  |
|  | 222,385   | (2,838)                                 | (169,195)                                   | 50,053   | 7,083 | 107,488   |
| Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards |           |   |   |  |       |           |
| Tax loss carryforwards   | 4,419     |   | 12,190                                      |  |       | 16,609    |
| Tax credit carryforwards   | 774       | (773)                                   |   |  |       | 1         |
|  | 5,193     | (773)                                   | 12,190                                      |  |       | 16,610    |
|  | 227,578   | (3,611)                                 | (157,005)                                   | 50,053   | 7,083 | 124,098   |

(5) Details of temporary differences, unused tax losses and unused tax credits which are not recognized as deferred tax assets (liabilities), as management does not believe it is probable that the deferred tax assets will be realizable in the future, in the consolidated statements of financial position as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | December 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Allowance for doubtful accounts            | 152,341           | 145,053           |
| Investments in subsidiaries and associates | 719,974           | 869,486           |
| Other temporary differences                | 221,264           | 157,664           |
| Unused tax loss carryforwards              | 669,890           | 792,796           |
| Unused tax credit carryforwards            |                   | 141               |



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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(6) The expirations of the tax loss carryforwards which are not recognized as deferred tax assets as of December 31, 2013 are as follows:

(In millions of won)

|                   | <b>Tax loss carryforwards</b> |
|-------------------|-------------------------------|
| Less than 1 year  | 2,746                         |
| 1 ~ 2 years       | 1,087                         |
| 2 ~ 3 years       | 4,894                         |
| More than 3 years | 661,163                       |
|                   | <b>669,890</b>                |

**31. Earnings per Share****(1) Basic earnings per share**

1) Basic earnings per share for the years ended December 31, 2013, 2012 and 2011 are calculated as follows:

(In millions of won, shares)

|   | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|-------------|
| <b>Basic earnings per share attributable to owners of the Parent Company from continuing operation:</b> |             |             |             |
| Profit attributable to owners of the Parent Company from continuing operations                          | 1,463,097   | 1,255,526   | 1,647,527   |
| Interest on hybrid bonds  | (8,420)     |             |             |
| Profit attributable to owners of the Parent Company from continuing operations on common shares         | 1,454,677   | 1,255,526   | 1,647,527   |
| Weighted average number of common shares outstanding  | 70,247,592  | 69,694,999  | 70,591,937  |
| Basic earnings per share from continuing operations (In won)  | 20,708      | 18,015      | 23,339      |
| <b>Basic earnings per share attributable to owners of the Parent Company:</b>                           |             |             |             |
| Profit attributable to owners of the Parent Company   | 1,638,964   | 1,151,705   | 1,612,889   |
| Interest on hybrid bond   | (8,420)     |             |             |
| Profit attributable to owners of the Parent Company on common shares                                    | 1,630,544   | 1,151,705   | 1,612,889   |
| Weighted average number of common shares outstanding  | 70,247,592  | 69,694,999  | 70,591,937  |
| Basic earnings per share (In won)   | 23,211      | 16,525      | 22,848      |

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- 2) Profit attributable to owners of the Parent Company from continuing operation for the years ended December 31, 2013, 2012 and 2011 are calculated as follows:

*(In millions of won)*

|  | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|-------------|
| Profit attributable to owners of the Parent Company                            | 1,638,964   | 1,151,705   | 1,612,889   |
| Results of discontinued operation attributable to owners of the Parent Company | (175,867)   | 103,821     | 34,638      |
| Profit attributable to owners of the Parent Company from continuing operation  | 1,463,097   | 1,255,526   | 1,647,527   |

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- 3) The weighted average number of common shares outstanding for the years ended December 31, 2013, 2012 and 2011 are calculated as follows:

(In shares)

|  | 2013         | 2012         | 2011         |
|--|--------------|--------------|--------------|
| Outstanding common shares                            | 80,745,711   | 80,745,711   | 80,745,711   |
| Weighted number of treasury stocks                   | (10,498,119) | (11,050,712) | (10,153,774) |
| Weighted average number of common shares outstanding | 70,247,592   | 69,694,999   | 70,591,937   |

(2) *Diluted earnings per share*

- 1) Diluted earnings per share for the years ended December 31, 2013, 2012 and 2011 are calculated as follows:

(In millions of won, shares)

|   | 2013       | 2012       | 2011       |
|---|------------|------------|------------|
| <b>Diluted earnings per share from continuing operations:</b>   |            |            |            |
| Profit attributable to owners of the Parent Company from continuing operations on common shares         | 1,454,677  | 1,255,526  | 1,647,527  |
| Gain relating to exchangeable bonds(*)  |            | 10,799     | 4,620      |
| Diluted profit attributable to owners of the Parent Company from continuing operations on common shares | 1,454,677  | 1,266,325  | 1,652,147  |
| Weighted average number of common shares outstanding  | 70,247,592 | 72,021,148 | 72,784,039 |
| Diluted earnings per share from continuing operations (In won)  | 20,708     | 17,583     | 22,699     |
| <b>Diluted earnings per share:</b>  |            |            |            |
| Diluted profit attributable to owners of the Parent Company   | 1,630,544  | 1,151,705  | 1,612,889  |
| Gain relating to exchangeable bonds(*)  |            | 10,799     | 4,620      |
| Diluted profit attributable to owners of the Parent Company on common shares                            | 1,630,544  | 1,162,504  | 1,617,509  |
| Weighted average number of common shares outstanding  | 70,247,592 | 72,021,148 | 72,784,039 |
| Diluted earnings per share (In won)   | 23,211     | 16,141     | 22,223     |

(\*) The number of common shares outstanding in respect of the exchangeable common shares of exchangeable bonds is excluded from the diluted earnings per share calculation for the year ended December 31, 2013 as the effect of exchangeable bond would have been anti-dilutive (the weighted average number of diluted shares of 688,744); thus, diluted earnings per share for the year ended December 31, 2013 is the same as basic earnings per share.

2) Adjusted weighted average number of common shares outstanding for the years ended December 31, 2013, 2012 and 2011 are calculated as follows:

*(In shares)*

|   | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|-------------|
| Weighted average number of common shares outstanding          | 70,247,592  | 69,694,999  | 70,591,937  |
| Effect of exchangeable bonds(*)                               |             | 2,326,149   | 2,192,102   |
| Adjusted weighted average number of common shares outstanding | 70,247,592  | 72,021,148  | 72,784,039  |

(\*) Effect of exchangeable bonds represents weighted average number of common shares outstanding in respect of the exchangeable common shares of exchangeable bonds, which could be exchanged to treasury stock.

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## (3) Basic earnings (loss) per share from discontinued operation

*(In millions of won, shares)*

|  | 2013       | 2012       | 2011       |
|--|------------|------------|------------|
| Results of discontinued operation attributable to owners of the Parent Company | 175,867    | (103,821)  | (34,638)   |
| Weighted average number of common shares outstanding                           | 70,247,592 | 69,694,999 | 70,591,937 |
| Basic earnings (loss) per share (In won)                                       | 2,503      | (1,490)    | (491)      |

Diluted earnings (loss) per share from discontinued operation is the same as basic loss per share from discontinued operation.

**32. Dividends****(1) Details of dividends declared**

Details of dividend declared for the years ended December 31, 2013, 2012 and 2011 are as follows:

*(In millions of won, except for face value and share data)*

| Year | Dividend type             | Number of shares outstanding | Face value (In won) | Dividend ratio | Dividends |
|------|---------------------------|------------------------------|---------------------|----------------|-----------|
| 2013 | Cash dividends (Interim)  | 70,508,482                   | 500                 | 200%           | 70,508    |
|      | Cash dividends (Year-end) | 70,936,336                   | 500                 | 1,680%         | 595,865   |
|      |                           |                              |                     |                | 666,373   |
| 2012 | Cash dividends (Interim)  | 69,694,999                   | 500                 | 200%           | 69,695    |
|      | Cash dividends (Year-end) | 69,694,999                   | 500                 | 1,680%         | 585,438   |
|      |                           |                              |                     |                | 655,133   |
| 2011 | Cash dividends (Interim)  | 71,094,999                   | 500                 | 200%           | 71,095    |
|      | Cash dividends (Year-end) | 69,694,999                   | 500                 | 1,680%         | 585,438   |
|      |                           |                              |                     |                | 656,533   |

**(2) Dividends payout ratio**

Dividends payout ratios for the years ended December 31, 2013, 2012 and 2011 are as follows:

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(In millions of won)

| Year | Dividends<br>calculated | Profit    | Dividends payout ratio |
|------|-------------------------|-----------|------------------------|
| 2013 | 666,373                 | 1,638,964 | 40.66%                 |
| 2012 | 655,133                 | 1,151,705 | 56.88%                 |
| 2011 | 656,533                 | 1,612,889 | 40.71%                 |

(3) *Dividends yield ratio*

Dividends yield ratios for the years ended December 31, 2013, 2012 and 2011 are as follows:

(In won)

| Year | Dividend type | Dividend<br>per<br>share | Closing<br>price at<br>settlement | Dividend<br>yield<br>ratio |
|------|---------------|--------------------------|-----------------------------------|----------------------------|
| 2013 | Cash dividend | 9,400                    | 230,000                           | 4.09%                      |
| 2012 | Cash dividend | 9,400                    | 152,500                           | 6.16%                      |
| 2011 | Cash dividend | 9,400                    | 141,500                           | 6.64%                      |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****33. Categories of Financial Instruments**

(1) Financial assets by categories as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                     | Financial<br>assets at<br>fair<br>value<br>through<br>profit or<br>loss | Available-<br>for-sale<br>financial<br>assets | December 31, 2013        |   | Total     |
|-------------------------------------|---|---|--------------------------|---|-----------|
|                                     |   |   | Loans and<br>receivables | Derivative<br>financial<br>instruments<br>designated<br>as hedged<br>item |           |
| Cash and cash equivalents           |   |   | 1,398,639                |   | 1,398,639 |
| Financial instruments               |   |   | 319,616                  |   | 319,616   |
| Short-term investment securities    |   | 106,068                                       |                          |   | 106,068   |
| Long-term investment securities(*1) | 20,532  | 947,995                                       |                          |   | 968,527   |
| Accounts receivable trade           |   |   | 2,270,471                |   | 2,270,471 |
| Loans and other receivables(*2)     |   |   | 1,044,529                |   | 1,044,529 |
| Derivative financial assets(*3)     | 10  |   |                          | 41,712  | 41,722    |
|                                     | 20,542  | 1,054,063                                     | 5,033,255                | 41,712  | 6,149,572 |

*(In millions of won)*

|                                     | Financial<br>assets at<br>fair<br>value<br>through<br>profit or<br>loss | Available-<br>for-sale<br>financial<br>assets | December 31, 2012        |   | Total     |
|-------------------------------------|---|---|--------------------------|---|-----------|
|                                     |   |   | Loans and<br>receivables | Derivative<br>financial<br>instruments<br>designated<br>as hedged<br>item |           |
| Cash and cash equivalents           |   |   | 920,125                  |   | 920,125   |
| Financial instruments               |   |   | 514,561                  |   | 514,561   |
| Short-term investment securities    |   | 60,127  |                          |   | 60,127    |
| Long-term investment securities(*1) | 15,356  | 938,356                                       |                          |   | 953,712   |
| Accounts receivable trade           |   |   | 1,968,297                |   | 1,968,297 |
| Loans and other receivables(*2)     |   |   | 981,693                  |   | 981,693   |
| Derivative financial assets(*3)     | 689   |   |                          | 61,959  | 62,648    |
|                                     | 16,045  | 998,483                                       | 4,384,676                | 61,959  | 5,461,163 |



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(\*1) Long-term investment securities of which the embedded derivative (conversion right option), which should be separated from the main contract, could not be separately measured, were designated as financial assets at fair value through profit or loss.

(\*2) Details of loans and other receivables as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|                           | December 31,<br>2013 | December 31,<br>2012 |
|---------------------------|----------------------|----------------------|
| Short-term loans          | 79,395               | 84,908               |
| Accounts receivable other | 643,603              | 582,098              |
| Accrued income            | 11,941               | 8,715                |
| Other current assets      | 2,548                | 431                  |
| Long-term loans           | 57,442               | 69,299               |
| Guarantee deposits        | 249,600              | 236,242              |
|                           | 1,044,529            | 981,693              |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(\*3) Derivative financial assets classified as financial assets at fair value through profit or loss is the fair value of conversion right of convertible bonds held by SK Communications Co., Ltd., a subsidiary of the Parent Company.

(2) Financial liabilities by categories as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|                                  |                       | December 31, 2013  |  |  |            |
|----------------------------------|-----------------------|--|--|--|------------|
|                                  |                       | Financial liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Derivative financial instruments designated as hedged item | Total      |
| Accounts payable                 | trade                 |  | 214,716  |  | 214,716    |
| Derivative financial liabilities |                       |  |  | 124,339  | 124,339    |
| Borrowings                       |                       |  | 386,192  |  | 386,192    |
| Debentures(*1)                   |                       | 96,147   | 5,830,920  |  | 5,927,067  |
| Accounts payable                 | other and others (*2) |  | 3,949,794  |  | 3,949,794  |
|                                  |                       | 96,147   | 10,381,622                                       | 124,339  | 10,602,108 |

(In millions of won)

|                                  |                       | December 31, 2012  |  |  |            |
|----------------------------------|-----------------------|--|--|--|------------|
|                                  |                       | Financial liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Derivative financial instruments designated as hedged item | Total      |
| Accounts payable                 | trade                 |  | 253,884  |  | 253,884    |
| Derivative financial liabilities |                       |  |  | 63,599   | 63,599     |
| Borrowings                       |                       |  | 1,086,699  |  | 1,086,699  |
| Debentures(*1)                   |                       | 405,678  | 5,171,322  |  | 5,577,000  |
| Accounts payable                 | other and others (*2) |  | 3,646,486  |  | 3,646,486  |
|                                  |                       | 405,678  | 10,158,391                                       | 63,599   | 10,627,668 |

(\*1) Debentures of which the embedded derivative (conversion right option), which should be separated from the main contract, could not be separately measured, were designated as financial liabilities at fair value through profit or loss.

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(\*2) Details of accounts payable other and other payables as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| Accounts payable other                      | 1,864,024                    | 1,811,038                    |
| Withholdings                                | 1,549                        | 1,840                        |
| Accrued expenses                            | 988,193                      | 890,863                      |
| Current portion of long-term payables other | 226,151                      | 177,870                      |
| Long-term payables other                    | 838,585                      | 715,508                      |
| Finance lease liabilities                   | 3,867                        | 22,036                       |
| Other non-current liabilities               | 27,425                       | 27,331                       |
|   | <b>3,949,794</b>             | <b>3,646,486</b>             |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****34. Financial Risk Management**

## (1) Financial risk management

The Group is exposed to credit risk, liquidity risk and market risk. Market risk is the risk related to the changes in market prices, such as foreign exchange rates, interest rates and equity prices. Management implements a risk management system to monitor and manage these specific risks.

The Group's financial assets under financial risk management consist of cash and cash equivalents, financial instruments, available-for-sale financial assets, trade and other receivables. Financial liabilities consist of trade and other payables, borrowings, and debentures.

## 1) Market risk

*(i) Currency risk*

The Group is exposed to currency risk mainly on exchange fluctuations on recognized assets and liabilities. The Group manages currency risk by currency forward, etc. if needed to hedge currency risk on business transactions. Currency risk occurs on forecasted transaction and recognized assets and liabilities which are denominated in a currency other than the functional currency of the Group.

Monetary foreign currency assets and liabilities as of December 31, 2013 are as follows:

*(In millions of won, thousands of U.S. dollars, thousands of Euros, thousands of Japanese Yen, thousands of other currencies)*

|        | Assets             |                 | Liabilities        |                 |
|--------|--------------------|-----------------|--------------------|-----------------|
|        | Foreign currencies | Won translation | Foreign currencies | Won translation |
| USD    | 127,972            | 135,329         | 2,300,314          | 2,424,243       |
| EUR    | 44,623             | 64,981          | 223                | 323             |
| JPY    | 97,776             | 982             | 9,605              | 99              |
| AUD    | 18                 | 15              | 64,811             | 53,971          |
| CHF    |                    |                 | 298,039            | 280,145         |
| SGD    |                    |                 | 298,542            | 354,868         |
| Others | 20,053             | 11,423          | 9,027              | 1,665           |
|        |                    | 212,730         |                    | 3,115,314       |

In addition, the Group has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures. (Refer to note 22)

As of December 31, 2013, effects on income (loss) before income tax as a result of change in exchange rate by 10% are as follows:

*(In millions of won)*

**If increased by 10%**

**If decreased by 10%**

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|        |         |         |
|--------|---------|---------|
| USD    | (5,858) | 5,858   |
| EUR    | 6,466   | (6,466) |
| JPY    | 88      | (88)    |
| SGD    | 2       | (2)     |
| Others | 976     | (976)   |
|        | 1,674   | (1,674) |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****(ii) Equity price risk**

The Group has equity securities which include listed and non-listed securities for its liquidity and operating purpose. As of December 31, 2013, available-for-sale equity instruments measured at fair value amount to 839,647 million.

**(iii) Interest rate risk**

Since the Group's interest bearing assets are mostly fixed-interest bearing assets, as such, the Group's revenue and operating cash flow are not influenced by the changes in market interest rates. However, the Group still has interest rate risk arising from borrowings and debentures.

Accordingly, management performs various analysis of interest rate risk, which includes refinancing, renewal, alternative financing and hedging instrument option, to reduce interest rate risk and to optimize its financing.

The Group's interest rate risk arises from floating-rate borrowings and payables. As of December 31, 2013, floating-rate debentures amount to 634,544 million and the Group has entered into interest rate swaps to hedge interest rate risk related to floating-rate borrowings and debentures (refer to note 22). If interest rate only increases (decreases) by 1%, income before income taxes for the year ended December 31, 2013 would not have been changed due to the interest expense from floating-rate borrowings and debentures.

**2) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations. The maximum credit exposure as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Cash and cash equivalents                             | 1,398,548   | 920,054     |
| Financial instruments                                 | 319,616     | 514,561     |
| Available-for-sale financial assets                   | 35,174      | 35,623      |
| Accounts receivable-trade                             | 2,270,471   | 1,968,297   |
| Loans and receivables                                 | 1,044,529   | 981,693     |
| Derivative financial assets                           | 41,712      | 61,959      |
| Financial assets at fair value through profit or loss | 20,532      | 15,356      |
|   | 5,130,582   | 4,497,543   |

To manage credit risk, management evaluates the credit worthiness of each customer or counterparty considering the party's financial information, its own trading records and other factors; based on such information, the Group establishes credit limits for each customer or counterparty.

For the year ended December 31, 2013, the Group has no trade and other receivables or loans which have indications of significant impairment loss or are overdue for a prolonged period. As a result, the Group believes that the possibility of default is remote. Also, the Group's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Group has a policy to deal with high credit worthy financial institutions. The amount of maximum exposure to credit risk of the

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Group is the carrying amount of financial assets As of December 31, 2013.

In addition, the aging of trade and other receivables that are over due at the end of the reporting period but not impaired is stated in Note 7 and the analysis of financial assets that are individually determined to be impaired at the end of the reporting period is stated in note 29.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

## 3) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will always maintain sufficient cash and cash equivalents balances and have enough liquidity through various committed credit lines. The Group maintains flexibly enough liquidity under credit lines through active operating activities.

Contractual maturities of financial liabilities as of December 31, 2013 are as follows:

(In millions of won)

|                                       | Carrying amount | Contractual cash flows | Less than 1 year | 1 - 5 years | More than 5 years |
|---------------------------------------|-----------------|------------------------|------------------|-------------|-------------------|
| Accounts payable trade                | 214,716         | 214,716                | 214,685          | 31          |                   |
| Borrowings(*1)                        | 386,192         | 403,164                | 284,110          | 74,301      | 44,753            |
| Debentures(*1)                        | 5,927,067       | 7,131,432              | 1,230,996        | 3,775,142   | 2,125,294         |
| Accounts payable other and others(*2) | 3,949,794       | 4,039,035              | 2,973,303        | 685,944     | 379,788           |
|                                       | 10,477,769      | 11,788,347             | 4,703,094        | 4,535,418   | 2,549,835         |

Management does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at different amounts.

(\*1) Includes estimated interest to be paid and excludes discounts on bonds.

(\*2) Excludes discounts on accounts payable-other and others.

As of December 31, 2013, periods which cash flows from cash flow hedge derivatives is expected to be incurred are as follows:

(In millions of won)

|             | Carrying amount | Contractual cash flows | Less than 1 year | 1 - 5 years | More than 5 years |
|-------------|-----------------|------------------------|------------------|-------------|-------------------|
| Assets      | 41,712          | 43,833                 | 1,778            | 35,322      | 6,733             |
| Liabilities | (124,339)       | (133,481)              | (31,781)         | (100,253)   | (1,447)           |
|             | (82,627)        | (89,648)               | (30,003)         | (64,931)    | 5,286             |

(2) Capital management



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The Group manages its capital to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity balance. The overall strategy of the Group is the same as that of the Group as of and for the year ended December 31, 2012.

The Group monitors its debt-equity percentage as a capital management indicator. This percentage is calculated as total debt divided by total equity; the total debt and equity is extracted from the financial statements.

Debt-equity percentage as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                        | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|------------------------|------------------------------|------------------------------|
| Liabilities            | 12,409,958                   | 12,740,777                   |
| Equity                 | 14,166,557                   | 12,854,782                   |
| Debt-equity percentage | 87.60%                       | 99.11%                       |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****(3) Fair value**

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2013 are as follows:

(In millions of won)

|  | Carrying amount | Level 1 | Level 2   | Level 3 | Total     |
|--|-----------------|---------|-----------|---------|-----------|
| <b>Financial assets that can be measured at fair value</b>         |                 |         |           |         |           |
| Financial assets at fair value through profit or loss              | 20,542          |         | 20,532    | 10      | 20,542    |
| Derivative financial assets  | 41,712          |         | 41,712    |         | 41,712    |
| Available-for-sale financial assets                                | 839,647         | 638,445 | 46,414    | 154,788 | 839,647   |
|  | 901,901         | 638,445 | 108,658   | 154,798 | 901,901   |
| <b>Financial assets that cannot be measured at fair value</b>      |                 |         |           |         |           |
| Cash and cash equivalents(*1)                                      | 1,398,639       |         |           |         |           |
| Available-for-sale financial assets(*1,2)                          | 214,416         |         |           |         |           |
| Accounts receivable trade and others(*1)                           | 3,315,000       |         |           |         |           |
| Financial instruments(*1)  | 319,616         |         |           |         |           |
|  | 5,247,671       |         |           |         |           |
| <b>Financial liabilities that can be measured at fair value</b>    |                 |         |           |         |           |
| Financial liabilities at fair value through profit or loss         | 96,147          | 96,147  |           |         | 96,147    |
| Derivative financial liabilities                                   | 124,339         |         | 124,339   |         | 124,339   |
|  | 220,486         | 96,147  | 124,339   |         | 220,486   |
| <b>Financial liabilities that cannot be measured at fair value</b> |                 |         |           |         |           |
| Accounts payable trade(*1)   | 214,716         |         |           |         |           |
| Borrowings   | 386,192         |         | 399,247   |         | 399,247   |
| Debentures   | 5,830,920       |         | 5,946,586 |         | 5,946,586 |
| Accounts payable other and others(*1)                              | 3,949,794       |         |           |         |           |
|  | 10,381,622      |         | 6,345,833 |         | 6,345,833 |

(\*1) Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are closed to the reasonable approximate fair values.

(\*2) Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with IAS 39 as such equity instruments cannot be reliably measured using other methods.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2012 are as follows:

(In millions of won)

|  | Carrying amount | Level 1 | Level 2   | Level 3 | Total     |
|--|-----------------|---------|-----------|---------|-----------|
| <b>Financial assets that can be measured at fair value</b>         |                 |         |           |         |           |
| Financial assets at fair value through profit or loss              | 16,045          |         | 15,356    | 689     | 16,045    |
| Derivative financial assets  | 61,959          |         | 61,959    |         | 61,959    |
| Available-for-sale financial assets                                | 765,759         | 584,029 | 56,158    | 125,572 | 765,759   |
|  | 843,763         | 584,029 | 133,473   | 126,261 | 843,763   |
| <b>Financial assets that cannot be measured at fair value</b>      |                 |         |           |         |           |
| Cash and cash equivalents(*1)                                      | 920,125         |         |           |         |           |
| Available-for-sale financial assets(*1,2)                          | 232,724         |         |           |         |           |
| Accounts receivable trade and others(*1)                           | 2,949,990       |         |           |         |           |
| Financial instruments(*1)  | 514,561         |         |           |         |           |
|  | 4,617,400       |         |           |         |           |
| <b>Financial liabilities that can be measured at fair value</b>    |                 |         |           |         |           |
| Financial liabilities at fair value through profit or loss         | 405,678         | 405,678 |           |         | 405,678   |
| Derivative financial liabilities                                   | 63,599          |         | 63,599    |         | 63,599    |
|  | 469,277         | 405,678 | 63,599    |         | 469,277   |
| <b>Financial liabilities that cannot be measured at fair value</b> |                 |         |           |         |           |
| Accounts payable trade(*1)   | 253,884         |         |           |         |           |
| Borrowings   | 1,086,699       |         | 1,100,464 |         | 1,100,464 |
| Debentures   | 5,171,321       |         | 5,461,142 |         | 5,461,142 |
| Accounts payable other and others(*1)                              | 3,646,486       |         |           |         |           |
|  | 10,158,390      |         | 6,561,606 |         | 6,561,606 |

(\*1) Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are closed to the reasonable approximate fair values.

(\*2) Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with IAS 39 as such equity instruments cannot be reliably measured using other methods.

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Fair value of the financial instruments that are traded in an active market (available-for-sale financial assets, financial liabilities at fair value through profit or loss, etc.) is measured based on the bid price at the end of the reporting date.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

Management uses various valuation methods for valuation of fair value of financial instruments that are not traded in an active market. Fair value of available-for-sale securities is determined using the market approach methods and financial assets through profit or loss are measured using the option pricing model. In addition, derivative financial contracts and long-term liabilities are measured using the present value methods. Inputs used to such valuation methods include swap rate, interest rate, and risk premium, and management performs valuation using the inputs which are consistent with natures of assets and liabilities being evaluated.

Interest rates used by the Group for the fair value measurement as of December 31, 2013 are as follows:

|                           | <b>Interest rate</b> |
|---------------------------|----------------------|
| Derivative instruments    | 2.86% ~ 4.04%        |
| Borrowings and debentures | 3.12%                |

3) There have been no transfers from Level 2 to Level 1 in 2013 and changes of financial assets classified as Level 3 for the year ended December 31, 2013 are as follows:

|   | <b>Balance<br/>at<br/>Jan. 1</b> | <b>Acquisition</b> | <b>Loss for<br/>the period</b> | <b>Other<br/>comprehensive<br/>income</b> | <b>Disposal</b> | <b>Others</b> | <b>Balance at<br/>Dec. 31</b> |
|---|----------------------------------|--------------------|--------------------------------|---|-----------------|---------------|-------------------------------|
|   | (In millions of won)             |                    |                                |   |                 |               |                               |
| Financial assets at fair value through profit or loss | 689                              |                    | (276)                          |   | (404)           |               | 9                             |
| Available-for-sale financial assets                   | 125,572                          | 54,950             | (16,548)                       | 7,901                                     | (43,540)        | 26,454        | 154,789                       |

(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2013 are as follows:

|                                     | <b>Gross financial<br/>instruments<br/>recognized</b> | <b>Gross offset<br/>financial<br/>instruments<br/>recognized</b> | <b>Net financial<br/>instruments<br/>presented on the<br/>statements of<br/>financial position</b> | <b>Relevant amount not offset<br/>on the statements of<br/>financial position</b> |  |                       |
|-------------------------------------|---|--|--|---|--|-----------------------|
|                                     |   |  |  | <b>Financial<br/>instruments</b>  | <b>Cash<br/>collaterals<br/>received</b> | <b>Net<br/>amount</b> |
| Financial assets:                   |   |  |  |   |  |                       |
| Derivatives(*)                      | 28,871  |  | 28,871   | (28,871)  |  |                       |
| Accounts receivable trade and other | 138,897   | (127,055)  | 11,842   |   |  | 11,842                |
|                                     | 167,768   | (127,055)  | 40,713   | (28,871)  |  | 11,842                |

Financial liabilities:

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|                  |                 |         |           |        |          |        |
|------------------|-----------------|---------|-----------|--------|----------|--------|
| Derivatives(*)   |                 | 43,536  |           | 43,536 | (28,871) | 14,665 |
| Accounts payable | trade and other | 127,055 | (127,055) |        |          |        |
|                  |                 | 170,591 | (127,055) | 43,536 | (28,871) | 14,665 |

(\*) The Group entered into derivative contracts which include enforceable master netting arrangement in accordance with ISDA. Generally, all contracts made with the identical currencies are settled from one party to another by combining one net amount. In this case, all contracts are liquidated and paid off at net amount by evaluating liquidation value if credit events such as bankruptcy occur.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

ISDA agreements do not allow the Group to exercise rights of set-off unless credit events such as bankruptcy occur. Therefore, assets and liabilities recognized in accordance with the agreements cannot be offset as the Group does not have enforceable rights of set-off.

**35. Transactions with Related Parties****(1) List of related parties**

| <b>Relationship</b> | <b>Interest rate</b>  |
|---------------------|---|
| Controlling Entity  | SK Holding Co., Ltd.  |
| Subsidiaries        | SK Planet Co., Ltd. and 27 others (refer to note 1)   |
| Joint ventures      | Dogus Planet, Inc. and three others   |
| Associates          | SK hynix Inc. and 64 others   |
| Affiliates          | The Controlling Entity's investor using the equity method, the Controlling Company, and the Controlling Company's subsidiaries and associates, etc. |

**(2) Compensation for the key management**

The Parent Company considers registered directors who have substantial role and responsibility in planning, operating, and controlling of the business as key management. The compensation given to such key management for the years ended December 31, 2013, 2012 and 2011 are as follows:

|                                   | <b>2013</b>                 | <b>2012</b>  | <b>2011</b>   |
|-----------------------------------|-----------------------------|--------------|---------------|
|                                   | <b>(In millions of won)</b> |              |               |
| Salaries                          | 2,263                       | 8,893        | 9,643         |
| Provision for retirement benefits | 1,012                       | 799          | 837           |
|                                   | <b>3,275</b>                | <b>9,692</b> | <b>10,480</b> |

Compensation for the key management includes salaries, non-monetary salaries and contributions made in relation to the pension plan.

(3) Transactions with related parties for the years ended December 31, 2013, 2012 and 2011 are as follows:

| <b>Scope</b>       | <b>Company</b>          | <b>Operating revenue and others</b> | <b>2013</b>                         |  | <b>Loans</b> |
|--------------------|-------------------------|-------------------------------------|-------------------------------------|--|--------------|
|                    |                         |                                     | <b>Operating expense and others</b> | <b>Acquisition of property and equipment</b> |              |
|                    |                         |                                     | <b>(In millions of won)</b>         |  |              |
| Controlling Entity | SK Holding Co., Ltd.(*) | 1,912                               | 226,023                             |  |              |



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|            |   |         |           |         |     |
|------------|---|---------|-----------|---------|-----|
| Associates | HappyNarae Co., Ltd.                    | 281     | 6,217     | 10,542  |     |
|            | F&U Credit information Co., Ltd.        | 1,753   | 43,931    |         |     |
|            | HanaSK Card Co., Ltd.                   | 11,128  |           |         |     |
|            | Others                                  | 6,712   | 6,846     | 125     | 997 |
|            |   | 19,874  | 56,994    | 10,667  | 997 |
| Other      | SK Engineering & Construction Co., Ltd. | 5,564   | 37,978    | 484,006 |     |
|            | SK C&C Co., Ltd.                        | 4,041   | 357,945   | 206,298 |     |
|            | SK Networks Co., Ltd.                   | 51,996  | 1,463,340 | 6,241   |     |
|            | Others                                  | 66,112  | 209,692   | 249,100 |     |
|            |   | 127,713 | 2,068,955 | 945,645 |     |
| Total      |   | 149,499 | 2,351,972 | 956,312 | 997 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(\* ) Operating expense and others include 191,416 million of dividends paid by the Group.

| Scope              | Company                                    | Operating revenue<br>and<br>others | 2012  |   |
|--------------------|--|------------------------------------|---|---|
|                    |  |                                    | Operating expense<br>and others<br>(In millions of won) | Acquisition of<br>property and<br>equipment |
| Controlling Entity | SK Holding Co., Ltd.(*1)                   | 1,339                              | 224,667   |   |
| Associates         | F&U Credit information Co., Ltd.           | 1,516                              | 49,518  |   |
|                    | SK M&C                                     | 11,874                             | 155,397   | 9,051                                       |
|                    | HanaSK Card Co., Ltd.(*2)                  | 672,202                            | 201,533   | 66  |
|                    | Others                                     | 743                                | 96,971  | 11,374                                      |
|                    |  | 686,335                            | 503,419   | 20,491                                      |
| Other              | SK C&C Co., Ltd.                           | 4,441                              | 324,171   | 304,102                                     |
|                    | SK Engineering & Construction<br>Co., Ltd. | 5,384                              | 55,007  | 687,059                                     |
|                    | SK Networks Co., Ltd.                      | 20,477                             | 1,747,130   | 8,048                                       |
|                    | Others                                     | 40,251                             | 246,218   | 300,410                                     |
|                    |  | 70,553                             | 2,372,526   | 1,299,619                                   |
| Total              |  | 758,227                            | 3,100,612   | 1,320,110                                   |

(\*1) Operating expense and others include 171,053 million of dividends paid by the Group.

(\*2) Operating revenue include discounts on accounts receivable related to sales of handsets on installment payment plans of PS&Marketing Corporation.

| Scope              | Company                          | Operating revenue<br>and<br>others | 2011  |   |
|--------------------|----------------------------------|------------------------------------|---|---|
|                    |                                  |                                    | Operating expense<br>and others<br>(In millions of won) | Acquisition of<br>property and<br>equipment |
| Controlling Entity | SK Holding Co., Ltd.(*1)         | 1,068                              | 207,264   |   |
| Associates         | F&U Credit information Co., Ltd. | 1,609                              | 45,433  |   |

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|   |                |                  |                  |
|---|----------------|------------------|------------------|
| SK M&C                                  | 13,366         | 154,103          | 8,405            |
| HanaSK Card Co., Ltd.                   | 168,234        | 284,111          | 33               |
| Others                                  | 1,627          | 57,484           | 15,126           |
|   | 184,836        | 541,131          | 23,564           |
| SK C&C Co., Ltd.                        | 15,607         | 321,437          | 299,170          |
| SK Engineering & Construction Co., Ltd. | 6,213          | 55,109           | 386,144          |
| SK Telesys Co., Ltd.                    | 61,561         | 44,639           | 265,851          |
| SK Networks Co., Ltd.                   | 17,223         | 1,216,951        | 9,647            |
| Others                                  | 25,009         | 157,047          | 18,338           |
|   | 125,613        | 1,795,183        | 979,150          |
| <b>Total</b>                            | <b>311,517</b> | <b>2,543,578</b> | <b>1,002,714</b> |

(\*1) Operating expense and others include 176,235 million of dividends paid by the Group.

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(\*2) Operating revenue include discounts on accounts receivable related to sales of handsets on installment payment plans of PS&Marketing Corporation.

(4) Account balances as of December 31, 2013 and 2012 are as follows:

| Scope              | Company                                 | Loans  | 2013   |  |
|--------------------|---|--------|--|--|
|                    |   |        | Accounts receivable<br>Accounts<br>receivable-trade,<br>and others<br>(In millions of won) | Accounts payable<br>Accounts<br>payable<br>trade, and others |
| Controlling Entity | SK Holding Co., Ltd.                    |        | 334  |  |
| Associates         | HappyNarae Co., Ltd.                    |        | 27   | 16,317   |
|                    | Wave City Development Co., Ltd.         | 1,200  | 38,412   |  |
|                    | SK hynix Inc.                           |        | 392  |  |
|                    | HanaSK Card Co., Ltd.                   |        | 3,723  | 5,443  |
|                    | SK Wyverns Baseball Club Co., Ltd.      | 1,425  |  |  |
|                    | Daehan Kanggun BcN Co., Ltd.            | 22,102 |  |  |
|                    | Others                                  |        | 268  | 492  |
|                    |   | 24,727 | 42,822   | 22,252   |
| Other              | SK Engineering & Construction Co., Ltd. |        | 988  | 92,058   |
|                    | SK Telesys Co., Ltd.                    |        | 412  | 70,467   |
|                    | SK C&C Co., Ltd.                        |        | 182  |  |
|                    | SK Networks. Co., Ltd.                  |        | 5,930  | 118,759  |
|                    | Others                                  |        | 11,633   | 20,197   |
|                    |   |        | 19,145   | 301,481  |
| Total              |   | 24,727 | 62,301   | 323,733  |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

| Scope              | Company                                 | Loans  | 2012   | Accounts payable                         |
|--------------------|---|--------|--|--|
|                    |   |        | Accounts receivable<br>Accounts<br>receivable-trade,<br>and others<br>(In millions of won) | Accounts<br>payable<br>trade, and others |
| Controlling Entity | SK Holding Co., Ltd.                    |        | 310  |  |
| Associates         | SK Wyverns Baseball Club Co., Ltd.      | 1,628  |  | 4,000                                    |
|                    | Wave City Development Co., Ltd.         |        | 38,412   |  |
|                    | SK M&C                                  |        | 6,127  | 109,531                                  |
|                    | SK China Company, Ltd.                  |        |  | 39,694                                   |
|                    | Daehan Kanggun BcN Co., Ltd.            | 22,102 |  |  |
|                    | Others                                  |        | 498  | 11,558                                   |
|                    |   | 23,730 | 45,037   | 164,783                                  |
| Other              | SK Engineering & Construction Co., Ltd. |        | 1,735  | 34,887                                   |
|                    | SK Telesys Co., Ltd.                    |        | 1,182  | 31,289                                   |
|                    | SK C&C Co., Ltd.                        |        | 369  | 144,308                                  |
|                    | SK Networks. Co., Ltd.                  |        | 34,055   | 285,325                                  |
|                    | Others                                  |        | 18,416   | 24,678                                   |
|                    |   |        | 55,757   | 520,487                                  |
| Total              |   | 23,730 | 101,104  | 685,270                                  |

(5) As of December 31, 2013, collateral and guarantee provided by the Group for the related parties financing purposes are as follows. There are no collateral or guarantee provided by related parties to the Group.

(6) M&Service Co., Ltd., a subsidiary of the Parent Company, entered into performance agreement with SK Energy Co., Ltd. and provides a blank note to SK Energy Co., Ltd., with regard to this transaction.

**36. Commitments and Legal Claims and Litigations****(1) Collateral assets and commitments**

SK Broadband Co., Ltd. has pledged its properties as collateral for leases on buildings in the amount of 14,900 million as of December 31, 2013.

**(2) Legal claims and litigations**

As of December 31, 2013, the Group is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. For those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation for these matters, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial

position or operating results in the event an outflow of resources is ultimately necessary.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****37. Discontinued Operations****(1) Discontinued operations**

(a) On September 10, 2013, SK Planet Co., Ltd., a subsidiary of the Parent Company, sold 52.6% of its ownership interests (13,294,369 shares) in Loen Entertainment, Inc., to Star Invest Holdings Limited. Consideration for the sale amounted to 265,887 million. Loen Entertainment was a subsidiary of SK Planet Co., Ltd. and is engaged in the release of music discs as its primary business. The Group's ownership interests after the disposition is 15.0% and Loen Entertainment, Inc. and is now accounted for under the equity method. The results of operations of Loen Entertainment, Inc. prior to the date of disposal of the Group's controlling interest is presented as a discontinued operation. The comparative information in the consolidated financial statements for the years ended December 31, 2012 and 2011 has been restated to present Loen Entertainment, Inc. as a discontinued operation.

(b) During the year ended December 31, 2012, SK Telink Co., Ltd., a subsidiary, ceased its broadcasting business due to the rapid decrease in satellite digital multimedia broadcasting subscribers along with the effects from smart phones, and other mobile devices.

**(2) Results of discontinued operations**

Results of discontinued operations included in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011 are as follows. The consolidated statements of income presented for comparative purposes was restated in order to present discontinued operation segregated from the continuing operations.

|   | 2013                 | 2012      | 2011      |
|---|----------------------|-----------|-----------|
|   | (In millions of won) |           |           |
| <b>Results of discontinued operations:</b>                          |                      |           |           |
| Operating revenue and other income                                  | 167,448              | 162,400   | 137,615   |
| Operating expense   | (140,203)            | (291,809) | (170,433) |
| <b>Operating income (loss) generated by discontinued operations</b> | 27,245               | (129,409) | (32,818)  |
| Finance income and costs  | 1,773                | 2,640     | 1,963     |
| Gain (loss) related to investments in associates, net               | 1,000                | 281       | (252)     |
| Gain on disposal relating to discontinued operations                | 214,352              |           |           |
| Income tax benefit (expense)  | (61,125)             | 10,990    | 2,844     |
| <b>Profit (loss) generated by discontinued operations</b>           | 183,245              | (115,498) | (28,263)  |
| Attributable to :   |                      |           |           |
| Owners of the Parent Company  | 175,867              | (103,821) | (34,638)  |
| Non-controlling interests   | 7,378                | (11,677)  | 6,375     |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****(3) Cash flows from (used in) discontinued operations**

Cash flows from (used in) discontinued operations for the years ended December 31, 2013, 2012 and 2011 are as follows:

|   | 2013                 | 2012     | 2011     |
|---|----------------------|----------|----------|
|   | (In millions of won) |          |          |
| <b>Cash flow from discontinued operations:</b>      |                      |          |          |
| Net cash provided by (used in) operating activities | 40,884               | 22,937   | (4,286)  |
| Net cash provided by (used in) investing activities | 179,490              | (19,931) | (23,297) |
| Net cash provided by (used in) financing activities | (4,780)              | (13,774) | 10,258   |
|   | 215,594              | (10,768) | (17,325) |

(4) Changes in financial condition relating to discontinued operations due to the disposal of ownership interests in Loen Entertainment, Inc. at the date of disposal is as follows:

|  | Date of disposal<br>(In millions of won) |
|--|--|
| Cash and cash equivalents                      | 55,527                                   |
| Long-term and short-term financial instruments | 42,404                                   |
| Accounts receivable trade                      | 49,700                                   |
| Property and equipment, and intangible assets  | 26,334                                   |
| Other assets                                   | 39,526                                   |
| Accounts payable trade                         | (33,154)                                 |
| Defined benefit liabilities                    | (737)                                    |
| Other liabilities                              | (87,022)                                 |
| <b>Decrease in net assets</b>                  | <b>92,578</b>                            |
| Consideration received for disposal            | 264,245                                  |
| Cash and cash equivalents disposed             | (55,527)                                 |
| <b>Net cash inflow</b>                         | <b>208,718</b>                           |



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011****38. Statements of Cash Flows**

(1) Adjustments for income and expenses from operating activities for the years ended December 31, 2013, 2012 and 2011 are as follows:

|   | 2013      | 2012<br>(In millions of won) | 2011      |
|---|-----------|------------------------------|-----------|
| Interest income   | (67,359)  | (99,967)                     | (168,148) |
| Dividend  | (10,197)  | (27,732)                     | (26,433)  |
| Gain on foreign currency translation  | (4,401)   | (4,065)                      | (1,985)   |
| Gain on disposal of long-term investment securities                             | (9,300)   | (282,605)                    | (164,454) |
| Gain on valuation of derivatives  |           |                              | (3,785)   |
| Gain on settlement of derivatives   | (7,716)   | (26,103)                     |           |
| Loss (gain) related to investments in subsidiaries and associates, net          | (921,861) | 24,279                       | 47,149    |
| Gain on disposal of property, equipment and intangible assets                   | (7,991)   | (162,590)                    | (6,275)   |
| Reversal of allowance for doubtful accounts                                     | (359)     | (5,902)                      | (2,301)   |
| Gain on valuation of financial assets at fair value through profit or loss      | (5,177)   |                              | (2,617)   |
| Gain on valuation of financial liabilities at fair value through profit or loss |           |                              | (63,769)  |
| Other income  | (3,951)   | (2,558)                      | (1,732)   |
| Interest expenses   | 331,834   | 412,379                      | 297,172   |
| Loss on foreign currency translation  | 2,634     | 4,608                        | 6,409     |
| Loss on disposal of long-term investment securities                             | 31,909    | 10,802                       | 447       |
| Other finance costs   | 52,058    | 190,621                      | 12,846    |
| Loss on valuation of derivatives  | 2,106     | 286                          | 943       |
| Loss on settlement of derivatives   |           | 1,232                        | 15,577    |
| Income tax expense  | 461,922   | 277,217                      |           |
| Gain related to defined benefit plan  | 92,840    | 80,865                       | 599,093   |
| Depreciation and amortization   | 2,829,784 | 2,613,018                    | 68,814    |
| Bad debt expenses   | 57,163    | 52,393                       | 2,482,703 |
| Loss on disposal of property and equipment and intangible assets                | 267,702   | 15,117                       | 83,748    |
| Impairment loss on property and equipment and intangible assets                 | 14,399    | 160,210                      | 21,136    |
| Loss on valuation of financial assets at fair value through profit or loss      |           | 1,262                        | 2,580     |
| Loss relating to financial liabilities at fair value through profit or loss     | 134,232   | 7,793                        |           |
| Loss on redemption of debentures  |           | 2,099                        |           |
| Bad debt for accounts receivable other  | 22,167    | 30,107                       | 12,847    |
| Impairment loss on other investment securities                                  | 6,136     | 1,307                        | 434       |
| Other expenses  | 6,802     | 15,788                       | 15,283    |
|   | 3,275,376 | 3,289,861                    | 3,225,682 |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2013, 2012 and 2011**

(2) Changes in assets and liabilities from operating activities for the years ended December 31, 2013, 2012 and 2011 are as follows:

| (In millions of won)                 | 2013      | 2012      | 2011      |
|--------------------------------------|-----------|-----------|-----------|
| Accounts receivable trade            | (267,754) | (183,238) | 61,728    |
| Accounts receivable other            | (41,243)  | 288,739   | 1,617,947 |
| Accrued income                       | (502)     | 9,530     | 12,570    |
| Advance payments                     | (26,064)  | 40,664    | 30,734    |
| Prepaid expenses                     | (1,583)   | 18,525    | 64,165    |
| Proxy paid V.A.T.                    | (5,442)   | (963)     |           |
| Inventories                          | (39,610)  | (108,904) | (132,223) |
| Other current assets                 |           |           | (12,270)  |
| Long-term accounts receivables other |           | 5,393     | 521,691   |
| Guarantee deposits                   | 59,431    | 19,460    |           |
| Accounts payable trade               | (4,708)   | 74,923    | 4,528     |
| Accounts payable other               | (131,142) | 260,158   | 66,048    |
| Advanced receipts                    | (2,916)   | (7,977)   | (4,721)   |
| Withholdings                         | 22,025    | 234,048   | 97,380    |
| Deposits received                    | (1,745)   | (6,089)   |           |
| Accrued expenses                     | 98,081    | 153,641   | (24,961)  |
| Advanced V.A.T.                      | (3,901)   | (3,955)   |           |
| Unearned revenue                     | (188,589) | (83,436)  | (55,799)  |
| Provisions                           | (226,644) | (373,213) |           |
| Long-term provisions                 | (72,398)  | (33,254)  |           |
| Plan assets                          | (61,856)  | (51,422)  | (6,618)   |
| Retirement benefit payment           | (42,948)  | (46,066)  | (77,754)  |
| Other non-current liabilities        |           |           | 4,697     |
| Others                               | (30,362)  | (2,256)   | 13,081    |
|                                      | (969,870) | 204,308   | 2,180,223 |

(3) Significant non-cash transactions for the years ended December 31, 2013, 2012 and 2011 are as follows:

|   | 2013                 | 2012  | 2011    |
|---|----------------------|-------|---------|
|   | (In millions of won) |       |         |
| Accounts payable other related to acquisition of tangible assets and others                   | 350,735              | 8,010 | 876,796 |
| Transfer from available-for-sale financial assets to investment in associates                 |                      | 8,130 |         |
| Acquisition of new frequency use rights by returning the existing 1.8GHz frequency use rights | 614,600              |       |         |

**39. Cash Dividends paid to the Parent Company**

Cash dividends paid to the Parent Company for the years ended December 31, 2013, 2012 and 2011 are as follows:

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|  | 2013                 | 2012  | 2011   |
|--|----------------------|-------|--------|
|  | (In millions of won) |       |        |
| Cash dividends received from consolidated subsidiaries | 13,657               | 5,739 | 6,537  |
| Cash dividends received from associates                |                      |       | 8,091  |
|  | 13,657               | 5,739 | 14,628 |

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**Report of Independent Registered Public Accounting Firm**

To The Board of Directors and Shareholders

SK hynix, Inc.:

We have audited the accompanying consolidated statement of financial position of SK hynix, Inc. and subsidiaries as of December 31, 2013 and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended. SK hynix, Inc.'s management is responsible for the preparation and fair presentation of these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SK hynix, Inc. and subsidiaries as of December 31, 2013 and the results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 21, 2014

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2013 and 2012**

|                                     | <i>Note</i>      | <b>2013</b>          | <b>2012</b><br>(Unaudited) |
|-------------------------------------|------------------|----------------------|----------------------------|
|                                     |                  | (In millions of won) |                            |
| <b>Assets</b>                       |                  |                      |                            |
| <b>Current assets</b>               |                  |                      |                            |
| Cash and cash equivalents           | <i>5,7,8,10</i>  | 631,867              | 658,387                    |
| Short-term financial instruments    | <i>5,7,8,11</i>  | 2,154,532            | 1,126,229                  |
| Trade receivables, net              | <i>5,7,8,12</i>  | 1,941,675            | 1,719,521                  |
| Loans and other receivables, net    | <i>5,7,12</i>    | 323,759              | 125,055                    |
| Other financial assets              | <i>5,7,11</i>    | 245,808              |                            |
| Inventories, net                    | <i>13</i>        | 1,178,300            | 1,509,331                  |
| Current tax assets                  |                  | 9,242                | 12,719                     |
| Assets held for sale                | <i>20</i>        | 26,557               | 26,958                     |
| Other current assets                | <i>14</i>        | 141,384              | 135,373                    |
|                                     |                  | <b>6,653,124</b>     | <b>5,313,573</b>           |
| <b>Non-current assets</b>           |                  |                      |                            |
| Equity-accounted investees          | <i>16</i>        | 107,097              | 104,100                    |
| Available-for-sale financial assets | <i>5,7,15</i>    | 158,770              | 44,297                     |
| Loans and other receivables, net    | <i>5,7,12</i>    | 43,090               | 19,127                     |
| Other financial assets              | <i>5,7,11,41</i> | 2,017                | 525                        |
| Property, plant and equipment, net  | <i>17</i>        | 12,129,797           | 11,586,192                 |
| Intangible assets, net              | <i>19</i>        | 1,110,403            | 983,630                    |
| Investment property, net            | <i>18</i>        | 28,609               | 29,888                     |
| Deferred tax assets                 | <i>27</i>        | 198,570              | 378,366                    |
| Other non-current assets            | <i>14</i>        | 365,821              | 188,995                    |
|                                     |                  | <b>14,144,174</b>    | <b>13,335,120</b>          |
| <b>Total assets</b>                 |                  | <b>20,797,298</b>    | <b>18,648,693</b>          |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Financial Position, continued**

As of December 31, 2013 and 2012

|  | <i>Note</i> | <b>2013</b>          | <b>2012</b>       |
|--|-------------|----------------------|-------------------|
|  |             | (In millions of won) |                   |
| <b>Liabilities</b>   |             |                      |                   |
| <b>Current liabilities</b>                                 |             |                      |                   |
| Borrowings   | 4,5,7,22    | 870,320              | 2,719,197         |
| Trade payables   | 4,5,7       | 648,793              | 592,738           |
| Other non-trade payables                                   | 4,5,7,21    | 677,120              | 361,076           |
| Other payables   | 4,5,7       | 788,304              | 381,260           |
| Other financial liabilities                                | 4,5,7,24,41 | 2,194                | 17,020            |
| Provisions   | 23          | 52,584               | 330,615           |
| Current tax liabilities                                    |             | 12,084               | 13,368            |
| Other current liabilities                                  | 25          | 26,840               | 25,906            |
|  |             | <b>3,078,239</b>     | <b>4,441,180</b>  |
| <b>Non-current liabilities</b>                             |             |                      |                   |
| Borrowings   | 4,5,7,22    | 3,679,895            | 3,752,779         |
| Other non-trade payables                                   | 4,5,7,21    | 177,101              | 97,533            |
| Other financial liabilities                                | 4,5,7,24,41 | 107,094              | 1,615             |
| Defined benefit liabilities, net                           | 26          | 635,740              | 575,096           |
| Other non-current liabilities                              | 25          | 52,370               | 41,048            |
|  |             | <b>4,652,200</b>     | <b>4,468,071</b>  |
| <b>Total liabilities</b>                                   |             | <b>7,730,439</b>     | <b>8,909,251</b>  |
| <b>Equity</b>  |             |                      |                   |
| <b>Equity attributable to owners of the Parent Company</b> |             |                      |                   |
| Capital stock  | 1,28        | 3,568,645            | 3,488,419         |
| Capital surplus  | 28          | 3,406,083            | 3,053,874         |
| Accumulated other comprehensive loss                       | 30          | (108,807)            | (115,402)         |
| Retained earnings  | 29          | 6,201,322            | 3,313,265         |
|  |             | <b>13,067,243</b>    | <b>9,740,156</b>  |
| <b>Non-controlling interests</b>                           |             | <b>(384)</b>         | <b>(714)</b>      |
| <b>Total equity</b>  |             | <b>13,066,859</b>    | <b>9,739,442</b>  |
| <b>Total liabilities and equity</b>                        |             | <b>20,797,298</b>    | <b>18,648,693</b> |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Comprehensive Income (Loss)****For the years ended December 31, 2013 and 2012**

|   | <i>Note</i> | <b>2013</b><br>(In millions of won, except per<br>share information) | <b>2012</b><br>(Unaudited) |
|---|-------------|--|----------------------------|
| <b>Revenue</b>  | 6           | <b>14,165,102</b>  | <b>10,162,210</b>          |
| Cost of sales   | 33          | (8,864,587)  | (8,550,989)                |
| <b>Gross profit</b>   |             | <b>5,300,515</b>   | <b>1,611,221</b>           |
| Selling and administrative expense  | 33,34       | (1,920,730)  | (1,838,570)                |
| Financial income  | 36          | 560,570  | 689,709                    |
| Financial costs   | 36          | (747,329)  | (682,594)                  |
| Share of profit of equity-accounted investees                                       | 16          | 19,256   | 16,713                     |
| Other income  | 35          | 368,513  | 67,130                     |
| Other expense   | 35          | (505,870)  | (62,910)                   |
| <b>Profit (loss) before income tax (benefit)</b>                                    |             | <b>3,074,925</b>   | <b>(199,301)</b>           |
| Income tax expense (benefit)  | 37          | 202,068  | (40,506)                   |
| <b>Profit (loss) for the year</b>   |             | <b>2,872,857</b>   | <b>(158,795)</b>           |
| <b>Other comprehensive income (loss)</b>  |             |  |                            |
| <b>Line item that will never be reclassified to profit or loss:</b>                 |             |  |                            |
| Remeasurements of defined benefit liability, net of tax                             | 26          | 15,587   | (82,872)                   |
| <b>Line items that are or may be reclassified to profit or loss:</b>                |             |  |                            |
| Available-for-sale financial assets net change in unrealized fair value, net of tax | 15          | (655)  | (1,896)                    |
| Foreign operations foreign currency translation differences, net of tax             |             | 8,419  | (216,490)                  |
| Equity-accounted investees share of other comprehensive loss, net of tax            | 16          | (1,226)  | (4,343)                    |
| <b>Other comprehensive income (loss), net of tax</b>                                |             | <b>22,125</b>  | <b>(305,601)</b>           |
| <b>Total comprehensive income (loss) for the year</b>                               |             | <b>2,894,982</b>   | <b>(464,396)</b>           |
| <b>Profit (loss) for the year attributable to:</b>                                  |             |  |                            |
| Owners of the Parent Company  |             | 2,872,470  | (158,886)                  |
| Non-controlling interests   |             | 387  | 91                         |
| <b>Total comprehensive income (loss) for the year attributable to:</b>              |             |  |                            |
| Owners of the Parent Company  |             | 2,894,652  | (464,267)                  |
| Non-controlling interests   |             | 330  | (129)                      |
| <b>Earnings (loss) per share</b>  |             |  |                            |
| Basic and diluted earnings (loss) per share (won)                                   | 38          | 4,045  | (233)                      |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Unaudited Consolidated Statements of Changes in Equity**

For the year ended December 31, 2012

|  | Attributable to owners of the Parent Company |                  |   |  |                      |                  | Non-                     |                  |
|--|--|------------------|---|--|----------------------|------------------|--------------------------|------------------|
|  | Capital stock                                | Capital surplus  | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Other<br>components<br>of equity<br>(In millions of won) | Retained<br>earnings | Total            | controlling<br>interests | Total equity     |
| <b>Balance at January 1, 2012</b>                                  | <b>2,978,498</b>                             | <b>1,229,052</b> | <b>107,107</b>  | <b>5,762</b>   | <b>3,555,323</b>     | <b>7,875,742</b> | <b>(471)</b>             | <b>7,875,271</b> |
| <b>Total comprehensive loss</b>                                    |  |                  |   |  |                      |                  |                          |                  |
| Loss for the year  |  |                  |   |  | (158,886)            | (158,886)        | 91                       | (158,795)        |
| Other comprehensive loss   |  |                  | (222,509)   |  | (82,872)             | (305,381)        | (220)                    | (305,601)        |
| <b>Total comprehensive loss</b>                                    |  |                  | <b>(222,509)</b>  |  | <b>(241,758)</b>     | <b>(464,267)</b> | <b>(129)</b>             | <b>(464,396)</b> |
| <b>Transactions with owners of the Parent Company</b>              |  |                  |   |  |                      |                  |                          |                  |
| Issuance of common stock   | 509,250                                      | 1,816,726        |   |  |                      | 2,325,976        |                          | 2,325,976        |
| Exercise of conversion rights                                      | 52   | 210              |   |  |                      | 262              |                          | 262              |
| Exercise of stock options  | 619  | 4,400            |   | (2,200)  |                      | 2,819            |                          | 2,819            |
| Expiration of stock options  |  | 3,562            |   | (3,562)  |                      |                  |                          |                  |
| Changes in the Parent Company's ownership interest in subsidiaries |  | (76)             |   |  |                      | (76)             | (105)                    | (181)            |
| Others   |  |                  |   |  | (300)                | (300)            | (9)                      | (309)            |
| <b>Total transactions with owners of the Parent Company</b>        | <b>509,921</b>                               | <b>1,824,822</b> |   | <b>(5,762)</b>   | <b>(300)</b>         | <b>2,328,681</b> | <b>(114)</b>             | <b>2,328,567</b> |
| <b>Balance at December 31, 2012</b>                                | <b>3,488,419</b>                             | <b>3,053,874</b> | <b>(115,402)</b>  |  | <b>3,313,265</b>     | <b>9,740,156</b> | <b>(714)</b>             | <b>9,739,442</b> |

See accompanying notes to the consolidated financial statements.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Changes in Equity**

For the year ended December 31, 2013

|   | Attributable to owners of the Parent Company |                  |   |   |                   |                   |                           |                   |
|---|--|------------------|---|---|-------------------|-------------------|---------------------------|-------------------|
|   | Capital stock                                | Capital surplus  | Accumulated other comprehensive income (loss) | Other components of equity (In millions of won) | Retained earnings | Total             | Non-controlling interests | Total equity      |
| <b>Balance at January 1, 2013</b>                           | <b>3,488,419</b>                             | <b>3,053,874</b> | <b>(115,402)</b>                              |   | <b>3,313,265</b>  | <b>9,740,156</b>  | <b>(714)</b>              | <b>9,739,442</b>  |
| <b>Total comprehensive income</b>                           |  |                  |   |   |                   |                   |                           |                   |
| Profit for the year   |  |                  |   |   | 2,872,470         | 2,872,470         | 387                       | 2,872,857         |
| Other comprehensive income (loss)                           |  |                  | 6,595   |   | 15,587            | 22,182            | (57)                      | 22,125            |
| <b>Total comprehensive income</b>                           |  |                  | <b>6,595</b>                                  |   | <b>2,888,057</b>  | <b>2,894,652</b>  | <b>330</b>                | <b>2,894,982</b>  |
| <b>Transactions with owners of the Parent Company</b>       |  |                  |   |   |                   |                   |                           |                   |
| Exercise of conversion rights                               | 80,226                                       | 352,209          |   |   |                   | 432,435           |                           | 432,435           |
| <b>Total transactions with owners of the Parent Company</b> | <b>80,226</b>                                | <b>352,209</b>   |   |   |                   | <b>432,435</b>    |                           | <b>432,435</b>    |
| <b>Balance at December 31, 2013</b>                         | <b>3,568,645</b>                             | <b>3,406,083</b> | <b>(108,807)</b>                              |   | <b>6,201,322</b>  | <b>13,067,243</b> | <b>(384)</b>              | <b>13,066,859</b> |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2013 and 2012**

|   | <i>Note</i> | <b>2013</b>          | <b>2012</b>        |
|---|-------------|----------------------|--------------------|
|   |             | (In millions of won) |                    |
|   |             |                      | (Unaudited)        |
| <b>Cash flows from operating activities</b>                               |             |                      |                    |
| Cash generated from operating activities                                  | 42          | 6,521,553            | 2,420,894          |
| Interest received   |             | 58,888               | 81,931             |
| Interest paid   |             | (199,553)            | (275,169)          |
| Dividends received  |             | 17,414               | 12,098             |
| Income tax paid   |             | (26,246)             | (28,103)           |
| <b>Net cash provided by operating activities</b>                          |             | <b>6,372,056</b>     | <b>2,211,651</b>   |
| <b>Cash flows from investing activities</b>                               |             |                      |                    |
| Decrease in short-term financial instruments                              |             | 3,927,831            | 2,754,789          |
| Increase in short-term financial instruments                              |             | (4,956,446)          | (3,252,006)        |
| Decrease in long-term financial instruments                               |             | 11                   |                    |
| Increase in long-term financial instruments                               |             | (1,112)              |                    |
| Proceeds from sale of held-to-maturity financial assets                   |             | 29,670               |                    |
| Acquisition of held-to-maturity financial assets                          |             | (275,479)            |                    |
| Collection of loans and other receivables                                 |             | 2,728                | 11,640             |
| Increase in loans and other receivables                                   |             | (5,969)              | (8,661)            |
| Cash inflows from transaction of derivatives                              |             | 3,656                | 2,419              |
| Cash outflows from transactions of derivatives                            |             | (6,550)              | (44,507)           |
| Proceeds from disposal of assets classified as held for sale              |             |                      | 23                 |
| Proceeds from disposal of available-for-sale financial assets             |             | 331                  | 11,190             |
| Acquisition of available-for-sale financial assets                        |             | (115,564)            | (3,618)            |
| Proceeds from disposal of property, plant and equipment                   |             | 15,509               | 35,809             |
| Acquisition of property, plant and equipment                              |             | (3,205,797)          | (3,772,879)        |
| Proceeds from disposal of intangible assets                               |             | 200                  | 1,226              |
| Acquisition of intangible assets  |             | (301,496)            | (159,072)          |
| Acquisition of investments in subsidiaries                                | 44          | (3,648)              | (274,732)          |
| <b>Net cash used in investing activities</b>                              |             | <b>(4,892,125)</b>   | <b>(4,698,379)</b> |
| <b>Cash flows from financing activities</b>                               |             |                      |                    |
| Proceeds from borrowings  |             | 3,528,687            | 6,966,003          |
| Repayments of borrowings  |             | (5,028,676)          | (7,377,491)        |
| Proceeds from issuance of common stock                                    |             |                      | 2,328,791          |
| Acquisition of investments in subsidiaries                                |             |                      | (181)              |
| <b>Net cash provided by (used in) financing activities</b>                |             | <b>(1,499,989)</b>   | <b>1,917,122</b>   |
| <b>Effect of movements in exchange rates on cash and cash equivalents</b> |             | <b>(6,462)</b>       | <b>(15,795)</b>    |
| <b>Net decrease in cash and cash equivalents</b>                          |             | <b>(26,520)</b>      | <b>(585,401)</b>   |
| <b>Cash and cash equivalents at the beginning of year</b>                 |             | <b>658,387</b>       | <b>1,243,788</b>   |

|   |                |                |
|---|----------------|----------------|
| <b>Cash and cash equivalents at the end of year</b> | <b>631,867</b> | <b>658,387</b> |
|---|----------------|----------------|

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****1. Reporting Entity**

General information about SK hynix, Inc. (the Parent Company or the Company ) and its subsidiaries (collectively the Group ) is as follows:

The Parent Company is engaged in the manufacture, distribution and sales of semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Parent Company's headquarters are located in Icheon, South Korea, and the Group has manufacturing facilities in Icheon and Cheongju, South Korea, and Wuxi, China.

As of December 31, 2013, the shareholders of the Parent Company and their shareholders are as follows:

| Shareholder                 | Number of shares | Percentage of ownership (%) |
|-----------------------------|------------------|-----------------------------|
| SK Telecom Co., Ltd.        | 146,100,000      | 20.57                       |
| National Pension Service    | 66,460,851       | 9.36                        |
| Share Management Council(*) | 12,961,976       | 1.82                        |
| Individual investors        | 484,678,064      | 68.25                       |
|                             | 710,200,891      | 100.00                      |

(\*) As of December 31, 2013, the number of shares held by each member of Share Management Council is as follows:

| Shareholder                  | Number of shares | Percentage of ownership (%) |
|------------------------------|------------------|-----------------------------|
| Korea Exchange Bank          | 10,092,500       | 1.42                        |
| Korea Finance Corporation    | 1,214,309        | 0.17                        |
| Shinhan Bank                 | 850,000          | 0.12                        |
| Other financial institutions | 805,167          | 0.11                        |
|                              | 12,961,976       | 1.82                        |

According to the share purchase agreement dated November 14, 2011, between SK Telecom Co., Ltd. and the Share Management Council, the Share Management Council should exercise its voting right on the shares following SK Telecom Co., Ltd.'s decision in designating officers of the Parent Company or other matters unless this conflicts with the Share Management Council's interest.

Accordingly, in substance, SK Telecom Co., Ltd. has the voting rights over the Share Management Council's shares as of December 31, 2013.

In addition, according to the share purchase agreement, SK Telecom Co., Ltd. or a third party designated by SK Telecom Co., Ltd. has share purchase option when the Share Management Council sells all or a part of its shares. The exercise period of the share purchase option would be automatically renewed until the shareholding of the Share Management Council drops below 10 million shares.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****1. Reporting Entity, continued**

As of December 31, 2013, the Group's consolidated subsidiaries is as follows:

| Names of subsidiaries                                 | Number of Shares | Ownership (%) | Locations | Remarks                   |
|---|------------------|---------------|-----------|---------------------------|
| SK hyeng Inc.   | 674,327          | 100           | Korea     | Domestic subsidiary       |
| SK hystec Inc.  | 277,203          | 100           | Korea     | Domestic subsidiary       |
| SK hynix America Inc. (SKHYA)                         | 6,285,587        | 97.7          | U.S.A.    | Overseas sales subsidiary |
| Hynix Semiconductor Manufacturing America Inc. (HSMA) | 200,000,100      | 100           | U.S.A.    | Discontinued subsidiary   |
| SK hynix Deutschland GmbH (SKHYD)                     | Certificate      | 100           | Germany   | Overseas sales subsidiary |
| SK hynix Europe Holding Ltd. (SKHYE)                  | -                | 100           | U.K.      | Under liquidation         |
| SK hynix U.K. Ltd. (SKHYU)                            | 186,240,200      | 100           | U.K.      | Overseas sales subsidiary |
| SK hynix Asia Pte. Ltd. (SKHYS)                       | 196,303,500      | 100           | Singapore | Overseas sales subsidiary |
| SK hynix Semiconductor India Pvt. Ltd. (SKHYIS)       | 27,000           | 100           | India     | Overseas sales subsidiary |
| SK hynix Semiconductor HongKong Ltd. (SKHYH)          | 170,693,661      | 100           | Hong Kong | Overseas sales subsidiary |
| SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)  | Certificate      | 100           | China     | Overseas sales subsidiary |
| SK hynix Japan Inc. (SKHYJ)                           | 20,000           | 100           | Japan     | Overseas sales subsidiary |
| SK hynix Semiconductor Taiwan Inc. (SKHYT)            | 35,725,000       | 100           | Taiwan    | Overseas sales subsidiary |
| SK hynix Semiconductor (China) Ltd. (SKHYCL)          | Certificate      | 100           | China     | Manufacturing subsidiary  |
| SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)           | Certificate      | 100           | China     | Manufacturing subsidiary  |
| SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)     | Certificate      | 100           | China     | Overseas sales subsidiary |
| SK hynix Italy S.r.l (SKHYIT)                         | Certificate      | 100           | Italy     | Overseas R&D center       |
| SK hynix memory solutions Inc. (SKHMS)                | 105              | 100           | U.S.A.    | Overseas R&D center       |
| SK hynix Flash Solution Taiwan (SKHYFST)              | Certificate      | 100           | Taiwan    | Overseas R&D center       |
| SK APTECH Ltd. (SKAPTECH)                             | 50,000,000       | 100           | Hong Kong | Holding company           |
| SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)     | Certificate      | 100           | China     | Manufacturing subsidiary  |

Subsidiaries newly included or excluded from the consolidation during the year ended December 31, 2013 is as follows:

|                | Company  | Reason  |
|----------------|--|---|
| Newly included | SK hynix Flash Solution Taiwan (SKHYFST)<br>SK APTECH Ltd. (SKAPTECH)<br>SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) | Included in consolidation as subsidiaries due to acquisition of interests |
| Excluded       | Ami Power Co., Ltd.  | Excluded from consolidation due to liquidation                            |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****1. Reporting Entity, continued**

Major subsidiaries summarized statements of financial position as of December 31, 2013 and 2012 are as follows:

|  | 2013      |             |                                | 2012 (Unaudited) |             |           |
|--|-----------|-------------|--------------------------------|------------------|-------------|-----------|
|  | Assets    | Liabilities | Equity<br>(In millions of won) | Assets           | Liabilities | Equity    |
| SK hynix America Inc. (SKHYA)                | 964,682   | 911,513     | 53,169                         | 867,351          | 836,418     | 30,933    |
| SK hynix Asia Pte.Ltd. (SKHYS)               | 231,649   | 164,390     | 67,259                         | 146,471          | 80,538      | 65,933    |
| SK hynix Semiconductor HongKong Ltd. (SKHYH) | 353,248   | 284,438     | 68,810                         | 326,673          | 275,851     | 50,822    |
| SK hynix Japan Inc. (SKHYJ)                  | 302,971   | 250,962     | 52,009                         | 194,730          | 141,766     | 52,964    |
| SK hynix Semiconductor Taiwan Inc. (SKHYT)   | 240,489   | 197,975     | 42,514                         | 276,666          | 238,930     | 37,736    |
| SK hynix Semiconductor (China) Ltd. (SKHYCL) | 3,652,044 | 1,212,007   | 2,440,037                      | 3,234,346        | 848,071     | 2,386,275 |
| SK hynix Deutschland GmbH (SKHYD)            | 98,150    | 63,706      | 34,444                         | 82,039           | 50,918      | 31,121    |
| SK hynix U.K. Ltd. (SKHYU)                   | 78,020    | 66,080      | 11,940                         | 81,677           | 71,264      | 10,413    |

Major subsidiaries summarized statements of comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

|  | 2013      |                                | Total<br>comprehensive<br>income |
|--|-----------|--------------------------------|----------------------------------|
|  | Sales     | Profit<br>(In millions of won) |                                  |
| SK hynix America Inc. (SKHYA)                | 5,187,848 | 23,547                         | 23,547                           |
| SK hynix Asia Pte.Ltd. (SKHYS)               | 1,203,290 | 2,385                          | 2,385                            |
| SK hynix Semiconductor HongKong Ltd. (SKHYH) | 3,022,397 | 19,471                         | 19,471                           |
| SK hynix Japan Inc. (SKHYJ)                  | 790,736   | 10,335                         | 10,447                           |
| SK hynix Semiconductor Taiwan Inc. (SKHYT)   | 1,769,055 | 6,680                          | 6,680                            |
| SK hynix Semiconductor (China) Ltd. (SKHYCL) | 1,718,074 | 23,611                         | 23,611                           |
| SK hynix Deutschland GmbH (SKHYD)            | 594,166   | 2,440                          | 2,440                            |
| SK hynix U.K. Ltd. (SKHYU)                   | 494,305   | 1,743                          | 1,743                            |

|  | 2012 (Unaudited) |                                | Total<br>comprehensive<br>income |
|--|------------------|--------------------------------|----------------------------------|
|  | Sales            | Profit<br>(In millions of won) |                                  |
| SK hynix America Inc. (SKHYA)                | 3,848,368        | 10,498                         | 10,498                           |
| SK hynix Asia Pte.Ltd. (SKHYS)               | 693,598          | 4,619                          | 4,619                            |
| SK hynix Semiconductor HongKong Ltd. (SKHYH) | 1,889,126        | 3,548                          | 3,548                            |
| SK hynix Japan Inc. (SKHYJ)                  | 736,702          | 13,410                         | 13,416                           |
| SK hynix Semiconductor Taiwan Inc. (SKHYT)   | 1,428,484        | 3,815                          | 3,815                            |
| SK hynix Semiconductor (China) Ltd. (SKHYCL) | 2,400,043        | 244,995                        | 244,995                          |
| SK hynix Deutschland GmbH (SKHYD)            | 415,572          | 2,534                          | 2,534                            |
| SK hynix U.K. Ltd. (SKHYU)                   | 399,810          | 3,260                          | 3,260                            |



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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2013 and 2012**

**2. Significant Accounting Policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of Preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). They were authorized for issue by the Parent Company's board of directors on January 27, 2014.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

**2.2 Changes in Accounting Policy and Disclosures**

New standards, amendments and interpretations issued and effective for the financial year beginning January 1, 2013, and adopted by the Group are as follows:

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

IAS 19, Employee Benefits

IFRS 10, Consolidated Financial Statements

IFRS 11, Joint Arrangements

IFRS 12, Disclosures of Interests in Other Entities

IFRS 13, Fair Value Measurement

The nature and effects of the changes are explained below.

(a) *Presentation of Items of Other Comprehensive Income*



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The amendment requires entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. The Group applies the amendment retroactively and there is no impact of the application of this amendment on its total comprehensive income or loss.

### *(b) Employee Benefits*

The amendment requires entities to immediately recognize all actuarial gains and losses incurred in other comprehensive income or loss. All past service costs incurred are immediately recognized in accordance with the change of the plan, and the previous separate calculation of the interest cost and the expected returns on plan assets has been revised to calculate net interest expense (income) by applying the discount rate used in the defined benefit obligation measurement in the net defined benefit liabilities (assets). There is no material impact of the application of this amendment on the consolidated financial statements.

### *(c) Consolidated Financial Statements*

As a result of IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2013 and 2012**

**2. Significant Accounting Policies, continued**

investee and ability to use its power to affect those returns. The adoption of this standard does not have any impact on the consolidation scope in the consolidated financial statements.

*(d) Joint Arrangements*

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. The Group has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from a jointly controlled entity to a joint venture. Notwithstanding the reclassification, the investment continues to be accounted for using equity method and there has been no impact on the consolidated financial statements.

*(e) Disclosures of Interests in Other Entities*

As a result of IFRS 12, the Group has expanded its disclosures about its interests in subsidiaries (see Note 1) and equity-accounted investees (see Note 16).

*(f) Fair Value Measurement*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regard (see Note 5).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013, and not early adopted by the Group are as follows:

IAS 32, Financial Instruments: Presentation

The nature and effects of the changes are explained below.

*(a) Financial Instruments: Presentation*

Amendment to IAS 32, Financial Instruments: Presentation, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment is effective for annual periods beginning on or after January 1,

2014, and the Group is assessing the impact of application of this amendment on its consolidated financial statements.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2013 and 2012**

**2. Significant Accounting Policies, continued**

**2.3 Consolidation**

The Group has prepared the consolidated financial statements in accordance with IFRS10, Consolidated Financial Statements.

*(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Parent Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Group obtains control of a subsidiary and ceases when the Group loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In transactions with non-controlling interests, which do not result in loss of control, the Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

If the Group loses control of a subsidiary, any investment continuously retained in the subsidiary is remeasured at its fair value at the date when control is lost and any resulting differences are recognized in profit or loss.

*(b) Associates*

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

*(c) Joint Arrangements*

A joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that

investment using the equity method.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2013 and 2012**

**2. Significant Accounting Policies, continued**

**2.4 Operating Segments**

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ( CODM ) in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. The Group's CODM is the Board of Directors, who do not receive and therefore do not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic, product and customer information are provided in note 6 to these consolidated financial statements.

**2.5 Foreign Currency Translation**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the each entity operates ( the functional currency ). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

*(c) Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Korean won at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Korean won at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income (OCI) and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest (NCI).

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in the foreign operation. Accordingly, such differences are recognized in OCI and accumulated in the translation reserve.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2013 and 2012**

**2. Significant Accounting Policies, continued**

**2.6 Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

**2.7 Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling expenses. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

**2.8 Financial Assets**

*(a) Classification and Measurement*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on the trade date.

At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

*(b) Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The criteria that the Group uses to determine whether there is objective evidence of an impairment loss include:



Significant financial difficulty of the issuer or obligor;

A breach of contract, such as a default or delinquency in interest or principal payments;

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2013 and 2012**

**2. Significant Accounting Policies, continued**

For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

The disappearance of an active market for that financial asset because of financial difficulties; or

Observable data suggesting that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with respect to the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio;

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

*(c) Derecognition*

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as borrowings in the statement of financial position (Note 22).

**2.9 Derivative Financial Instruments**

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within financial income and expenses according to the nature of transactions.

**2.10 Property, Plant and Equipment**

Property, plant and equipment is stated at its historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

|           |               |
|-----------|---------------|
| Buildings | 10 - 50 years |
|-----------|---------------|

|            |    |          |
|------------|----|----------|
| Structures | 10 | 30 years |
| Machinery  | 4  | 15 years |
| Vehicles   | 4  | 10 years |
| Other      | 3  | 15 years |

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

**2.11 Borrowing Costs**

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

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**2. Significant Accounting Policies, continued**

**2.12 Government Grants**

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

**2.13 Intangible Assets**

*(a) Goodwill*

Goodwill is measured as explained in Note 2.3 Consolidation, and goodwill arises on the acquisition of subsidiaries and business are included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

*(b) Industrial rights*

Industrial rights are shown at historical cost. Industrial rights in a business combination are recognized as fair value at acquisition. Industrial rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial rights over their estimated useful lives of five to ten years.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using straight-line method over their estimated useful lives of ten years.

*(c) Development Costs*

Costs associated with research activities are recognized as an expense as incurred. Costs that are individually identifiable, controllable and directly attributable to development projects are recognized as intangible assets when all the following criteria are met:

It is technically feasible to complete the development project so that it will be available for use;

Management intends to complete the development project;

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There is an ability to use or sell the development project;

It can be demonstrated how the development project will generate probable future economic benefits;

Ability to obtain adequate technical, financial and other resources to complete or use or sell the development project;

The expenditure attributable to the individual project during its development can be reliably measured.

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**2. Significant Accounting Policies, continued**

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Amortization of development costs based on the straight-line method over their useful lives (1 to 2 years) begins at the commencement of the commercial production of related development products. The Group tests annually for impairment of development cost.

*(d) Membership rights*

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

**2.14 Investment Property**

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using straight-line method over their estimated useful lives.

**2.15 Impairment of Non-financial Assets**

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.16 Non-current Assets Held for Sale**

Non-current assets are classified as assets held for sale (or disposal group) when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

**2.17 Financial Liabilities**

*(a) Classification and Measurement*

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as trade payables, borrowings, and other financial liabilities in the statement of financial position.

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**2. Significant Accounting Policies, continued**

*(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

**2.18 Financial Guarantee Contract**

Financial guarantees are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below and recognized as other financial liabilities .

The amount calculated in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*; or

the initial amount, less accumulated amortization recognized in accordance with IAS 18, *Revenue*.

**2.19 Compound Financial Instruments**

Compound financial instruments are convertible bonds that can be converted into equity instruments at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially on the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

**2.20 Provisions**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

**2.21 Current and Deferred Income Tax**

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the

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temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from

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such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

**2.22 Employee Benefits***(a) Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*(b) Defined benefit plans*

The Group's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

*(c) Share-based payments*

Equity-settled share-based payments granted to employees are estimated at the grant date fair value of equity instruments and recognized as employee benefit expenses over the vesting period. The number of equity instruments expected to vest is re-measured with consideration to non-market vesting conditions at the end of the reporting period, with any changes from the original measurement recognized in the profit for the year and equity.

When the options are exercised, the Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

*(d) Long-term employee benefits*

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The Group provides long-term employee benefits, which are entitled to employees with service period for five years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on long-term employee benefits and re-measurements as profit or loss for the year. These liabilities are valued annually by independent qualified actuaries.

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**SK HYNIX, INC. and Subsidiaries**

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**2. Significant Accounting Policies, continued**

*(e) Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits or when the entity recognizes costs for a restructuring.

**2.23 Equity Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

**2.24 Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(a) Sales of goods*

Revenue from the sale of goods is recognized when products are delivered to the purchaser.

*(b) Interest income*

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

*(c) Dividend income*

Dividend income is recognized when the right to receive payment is established.

*(d) Royalty income*

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

**2.25 Leases**

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A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

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**2. Significant Accounting Policies, continued**

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not be immediately recognized as income by a seller-lessee (the Group). Instead, it is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately. Also, if the sale price is below fair value, any profit or loss is recognized immediately, unless the loss is compensated for by future lease payments at below market price, and it then is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

**2.26 Finance income and finance costs**

Financial income comprises interest income, dividend income, foreign exchange differences and gain from derivative instruments. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance expense comprise interest expenses, foreign exchange differences, loss from derivative instruments and loss on redemption of debentures. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

**2.27 Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**3. Use of Judgments and Estimates**

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

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**3. Use of Judgments and Estimates, continued**

*(a) Judgments*

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 7 classification of financial instruments

Note 17 estimated useful lives of property, plant and equipment

*(b) Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2014 is included in the following notes:

Note 23 recognition and measurement of provisions

Note 13 net realizable value of inventories

Note 19 impairment of goodwill

Note 26 measurement of defined benefit obligations

Note 27 deferred tax assets and liabilities

**4. Financial Risk Management**

**4.1 Financial Risk Factors**

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department under policies approved by the board of directors. The Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for

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overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

*(a) Market risk*

*i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities in foreign currencies and net investments in foreign operations.

At December 31, 2013, if the currency had weakened/strengthened by 10% against the US dollar with all other variables held constant, profit before income tax for the year would have been 59,654 million (2012: 218,037 million unaudited) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and foreign exchange losses/gains on translation of US dollar-denominated borrowings and payables.

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At December 31, 2013, if the currency had weakened/strengthened by 10% against the Japanese Yen with all other variables held constant, profit before income tax for the year would have been 36,083 million (2012: 23,887 million unaudited) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Japanese Yen-denominated trade receivables and foreign exchange losses/gains on translation of Japanese Yen-denominated trade payables.

At December 31, 2013, if the currency had weakened/strengthened by 10% against the Euro with all other variables held constant, profit before income tax for the year would have been 763 million (2012: 8,006 million unaudited) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables and foreign exchange losses/gains on translation of Euro-denominated trade payables.

*ii) Price risk*

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The listed securities held by the Group are traded in active markets such as Korea Securities Dealers Automated Quotation (KOSDAQ) and Taiwan Stock Exchange (TWSE).

As of December 31, 2013 and 2012, the impacts of increases/decreases of the stock price by 20% with all other variables held constant on the Group's equity are as follows:

|        | 2013                 |                 | 2012 (Unaudited) |                 |
|--------|----------------------|-----------------|------------------|-----------------|
|        | 20%<br>increase      | 20%<br>decrease | 20%<br>increase  | 20%<br>decrease |
|        | (In millions of won) |                 |                  |                 |
| KOSDAQ | 1,705                | (1,705)         | 1,822            | (1,822)         |
| TWSE   | 3,343                | (3,343)         | 3,529            | (3,529)         |

*iii) interest rate risk*

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings, and is partially offset by cash held at floating rates.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As of December 31, 2013, the Group is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Group adequately minimizes risks from changes in interest rate fluctuations by matching variable interest bearing borrowings with variable interest-bearing financial deposits.



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At December 31, 2013, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the year would have been 15,272 million (2012: 16,220 million unaudited) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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The Group is exposed to credit risk which arises from counterparty's non-performance of obligation. The credit risk mainly arises from operating activities and financial activities.

*i) Trade and other receivables*

Credit risk is managed on group basis, and the Group is managing and analyzing the credit risk for each of its new clients before standard payment and delivery terms and conditions are offered. The Group operates a consistent trade receivables policy (TR Policy) to manage credit risk exposure. The purpose of the TR policy is to support timely decision-making and minimize loss by securing payment of TR. Assumed TR risk is especially mitigated with credit insurance, guarantees/collateral and internal credit limits. In order to manage the risk, a Global Credit Insurance Program is maintained with a reputable credit insurance company.

*ii) Other assets*

Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks and financial institutions, as well as credit exposures from short-term and long-term loans. The maximum exposure to credit risk as of each reporting date is the book value of assets. For banks and financial institutions, only independently rated parties with a high credit rating are accepted, and accordingly management does not expect any losses from non-performance by these counterparties.

*(c) Liquidity risk*

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Group forecasts its cash flow and liquidity status and sets action plans on a regular base to manage liquidity risk proactively.

The Group invests surplus cash in interest-bearing current accounts, time deposits, demand deposits, marketable available-for-sale securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As of December 31, 2013, the Group held cash equivalents and short-term financial instruments of approximately 631,801 million (2012: 658,338 million unaudited) and 2,091,188 million (2012: 1,050,006 million unaudited), respectively, that are expected to readily generate cash inflows for managing liquidity risk.

The analyses of the Group's liquidity risk as of December 31, 2013 and 2012, are as follows:

|                                       | Less than<br>1 year | Between<br>1 year and<br>2 years | 2013                              |                 | Total     |
|---------------------------------------|---------------------|----------------------------------|-----------------------------------|-----------------|-----------|
|                                       |                     |                                  | Between<br>2 years and<br>5 years | Over<br>5 years |           |
| (In millions of won)                  |                     |                                  |                                   |                 |           |
| Borrowings (other than finance lease) | 940,422             | 1,721,781                        | 844,633                           | 1,228,487       | 4,735,323 |
| Finance lease liabilities             | 103,077             | 105,245                          | 111,146                           |                 | 319,468   |
| Trade payables                        | 648,793             |                                  |                                   |                 | 648,793   |

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|                              |           |           |           |           |           |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| Other payables               | 801,425   |           |           |           | 801,425   |
| Other non-trade payables     | 658,733   | 66,180    | 131,565   |           | 856,478   |
| Derivatives                  | 2,439     |           |           |           | 2,439     |
| Financial guarantee contract | 28        |           |           |           | 28        |
|                              | 3,154,917 | 1,893,206 | 1,087,344 | 1,228,487 | 7,363,954 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****4. Financial Risk Management, continued**

|                                       | 2012 (Unaudited)    |                                     |                                   |                 | Total     |
|---------------------------------------|---------------------|-------------------------------------|-----------------------------------|-----------------|-----------|
|                                       | Less than<br>1 year | Between<br>1 year<br>and<br>2 years | Between<br>2 years and<br>5 years | Over<br>5 years |           |
|                                       |                     | (In millions of won)                |                                   |                 |           |
| Borrowings (other than finance lease) | 2,883,583           | 786,358                             | 2,507,033                         | 594,138         | 6,771,112 |
| Finance lease liabilities             | 112,585             | 103,512                             | 217,282                           |                 | 433,379   |
| Trade payables                        | 592,738             |                                     |                                   |                 | 592,738   |
| Other payables                        | 390,463             |                                     |                                   |                 | 390,463   |
| Other non-trade payables              | 361,076             | 44,992                              | 66,243                            | 5,520           | 477,831   |
| Derivatives                           | 4,871               |                                     |                                   |                 | 4,871     |
| Financial guarantee contract          | 31                  |                                     |                                   |                 | 31        |
|                                       | 4,345,347           | 934,862                             | 2,790,558                         | 599,658         | 8,670,425 |

The table above analyzes the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes estimated interest payments. The Group's trading portfolio derivative instruments have been included at their fair value of 2,439 million (2012: 4,871 million unaudited) within the less than one-year time bucket as of December 31, 2013. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Group to manage the Group's interest rate profile.

**4.2 Capital Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity percentages and net borrowing percentages as of December 31, 2013 and 2012, are as follows:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| Total liabilities(A)  | 7,730,439            | 8,909,251           |
| Total equity(B)   | 13,066,859           | 9,739,442           |
| Cash and cash equivalents and short-term financial instruments(C) | 2,786,399            | 1,784,616           |
| Total borrowings(D)   | 4,550,215            | 6,471,976           |
| Debt-to-equity(A/B)   | 59%                  | 91%                 |
| Net borrowing(D-C)/B  | 13%                  | 48%                 |



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****5. Fair Value****5.1 Fair Value of Financial Instruments**

The following table presents the Group's book and fair values of financial instruments by categories as of December 31, 2013 and 2012:

|  | Book value | Level 1 | 2013<br>Level 2<br>(In millions of won) | Level 3 | Total     |
|--|------------|---------|---|---------|-----------|
| <b>Financial assets that can be measured at fair value</b>         |            |         |   |         |           |
| Short-term financial instruments                                   | 1,045,974  |         | 1,045,974                               |         | 1,045,974 |
| Other financial assets   | 272        |         | 272                                     |         | 272       |
| Available-for-sale financial assets                                | 31,966     | 31,966  |   |         | 31,966    |
|  | 1,078,212  | 31,966  | 1,046,246                               |         | 1,078,212 |
| <b>Financial assets that cannot be measured at fair value</b>      |            |         |   |         |           |
| Cash and cash equivalents(1)                                       | 631,867    |         |   |         |           |
| Available-for-sale financial assets(1),(2)                         | 126,804    |         |   |         |           |
| Trade and other receivable(1)                                      | 2,308,524  |         |   |         |           |
| Short-term financial instruments(1)                                | 1,108,558  |         |   |         |           |
| Other financial assets(1)  | 247,553    |         |   |         |           |
|  | 4,423,306  |         |   |         |           |
| <b>Financial liabilities that can be measured at fair value</b>    |            |         |   |         |           |
| Other financial liabilities  | 109,288    |         | 109,288                                 |         | 109,288   |
|  | 109,288    |         | 109,288                                 |         | 109,288   |
| <b>Financial liabilities that cannot be measured at fair value</b> |            |         |   |         |           |
| Trade and other payables(1)  | 1,437,097  |         |   |         |           |
| Other non-trade payables(1)  | 854,221    |         |   |         |           |
| Borrowings   | 4,550,215  |         | 4,785,180                               |         | 4,785,180 |
|  | 6,841,533  |         | 4,785,180                               |         | 4,785,180 |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****5. Fair Value, continued**

|  | Book value | Level 1 | 2012 (Unaudited)     |         | Total     |
|--|------------|---------|----------------------|---------|-----------|
|  |            |         | Level 2              | Level 3 |           |
|  |            |         | (In millions of won) |         |           |
| <b>Financial assets that can be measured at fair value</b>         |            |         |                      |         |           |
| Other financial assets   | 198        |         | 198                  |         | 198       |
| Available-for-sale financial assets                                | 32,932     | 32,932  |                      |         | 32,932    |
|  | 33,130     | 32,932  | 198                  |         | 33,130    |
| <b>Financial assets that cannot be measured at fair value</b>      |            |         |                      |         |           |
| Cash and cash equivalents(1)                                       | 658,387    |         |                      |         |           |
| Available-for-sale financial assets(1),(2)                         | 11,365     |         |                      |         |           |
| Trade and other receivable(1)                                      | 1,863,703  |         |                      |         |           |
| Short-term financial instruments(1)                                | 1,126,229  |         |                      |         |           |
| Other financial assets(1)  | 327        |         |                      |         |           |
|  | 3,660,011  |         |                      |         |           |
| <b>Financial liabilities that can be measured at fair value</b>    |            |         |                      |         |           |
| Other financial liabilities  | 18,635     |         | 18,635               |         | 18,635    |
|  | 18,635     |         | 18,635               |         | 18,635    |
| <b>Financial liabilities that cannot be measured at fair value</b> |            |         |                      |         |           |
| Trade and other payables(1)  | 973,998    |         |                      |         |           |
| Other non-trade payables(1)  | 458,609    |         |                      |         |           |
| Borrowings   | 6,471,976  |         | 6,563,692            |         | 6,563,692 |
|  | 7,904,583  |         | 6,563,692            |         | 6,563,692 |

(1) Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are close to the reasonable approximate fair values.

(2) Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with IAS 39 as fair values of such equity instruments cannot be reliably measured using other methods.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****5. Fair Value, continued****5.2 Financial Instruments Measured at Cost**

The following table presents available-for-sale financial assets measured at cost as of December 31, 2013 and 2012:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| JNT Frontier Private Equity Unit                          | 1,307                | 1,400               |
| SV M&A No.1 Equity Unit                                   | 1,196                | 1,196               |
| Seoul Investment Initial & Green                          | 1,868                | 1,900               |
| TS 2011-4 Technology Transfer & Business Buildup Fund     | 1,600                | 800                 |
| IMM investment  | 786                  | 499                 |
| L&S Investment  | 1,124                | 565                 |
| Daishin Aju IB Investment Co., Ltd.                       | 1,518                | 500                 |
| KTC-NP-Growth   | 540                  |                     |
| Intellectual Discovery, Ltd.                              | 4,000                | 4,000               |
| SKY Property Mgmt. Ltd.                                   | 112,360              |                     |
| Equity investment in a construction guarantee association | 396                  | 396                 |
| Others  | 109                  | 109                 |
|   | 126,804              | 11,365              |

The equity instruments above are measured at cost as the variability of estimated cash flows is significant, and the probabilities of the various estimates cannot be reasonably assessed.

**5.3 Fair Value Hierarchy**

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

**Level 3:** Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

There was no transfer between fair value hierarchy levels for the year ended December 31, 2013.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****5. Fair Value, continued****5.4 Valuation Techniques**

The following table presents the valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2.

|   | Fair value | Level | Valuation technique<br>(In millions of won) |
|---|------------|-------|---|
| <b>Short-term financial instruments:</b>              |            |       |   |
| Financial assets at fair value through profit or loss | 1,045,974  | 2     | Present value technique                     |
| <b>Derivative assets:</b>                             |            |       |   |
| Interest rates swap                                   | 272        | 2     | Present value technique                     |
| <b>Derivative liabilities:</b>                        |            |       |   |
| Interest rates swap                                   | 2,439      | 2     | Present value technique                     |
| Conversion option                                     | 106,849    | 2     | Option pricing model                        |

**6. Geographic, Product and Customer Information**

The Group's revenue information by region based on the location of selling entities for the years ended December 31, 2013 and 2012, are as follows:

|               | 2013                 | 2012<br>(Unaudited) |
|---------------|----------------------|---------------------|
|               | (In millions of won) |                     |
| Domestic      | 1,105,083            | 771,396             |
| China         | 3,038,355            | 1,901,742           |
| Asia other    | 3,751,737            | 2,852,579           |
| United States | 5,191,619            | 3,827,725           |
| Europe        | 1,078,308            | 808,768             |
|               | <b>14,165,102</b>    | <b>10,162,210</b>   |

The Group's non-current assets (excluding financial assets, investments in joint venture and associates and deferred income tax assets) information by region based on the location of subsidiaries as of December 31, 2013 and 2012, are as follows:

|          | 2013                 | 2012<br>(Unaudited) |
|----------|----------------------|---------------------|
|          | (In millions of won) |                     |
| Domestic | 10,424,568           | 9,853,629           |
| China    | 2,912,948            | 2,638,507           |

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|               |                   |                   |
|---------------|-------------------|-------------------|
| Asia other    | 5,834             | 1,614             |
| United States | 289,682           | 293,181           |
| Europe        | 1,598             | 1,775             |
|               | <b>13,634,630</b> | <b>12,788,706</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****6. Geographic, Product and Customer Information, continued**

Details of the Groups' revenue by product and service types for the years ended December 31, 2013 and 2012, are as follows:

|                  | 2013                 | 2012<br>(Unaudited) |
|------------------|----------------------|---------------------|
|                  | (In millions of won) |                     |
| Sale of goods:   |                      |                     |
| DRAM             | 10,157,752           | 7,303,532           |
| NAND Flash       | 3,930,669            | 2,826,193           |
| Sale of services | 76,681               | 30,908              |
| Royalty income   |                      | 1,577               |
|                  | <b>14,165,102</b>    | <b>10,162,210</b>   |

Revenue from a customer that constitutes more than 10% of the Group's sales revenue for the year ended December 31, 2013 amounts to 2,457,867 million (2012: 2,154,986 million unaudited).

**7. Financial Instruments by Categories**

Details of financial assets by category as of December 31, 2013 and 2012, are as follows:

|                                     | Assets at<br>fair value<br>through the<br>profit and loss | Available<br>for-sale<br>financial<br>assets | 2013<br>Held-to-<br>maturity<br>financial<br>assets<br>(In millions of won) | Loans and<br>receivables | Total            |
|-------------------------------------|---|--|---|--------------------------|------------------|
| Cash and cash equivalents           |   |  |   | 631,867                  | 631,867          |
| Short-term financial instruments    | 1,045,974   |  |   | 1,108,558                | 2,154,532        |
| Trade receivables                   |   |  |   | 1,941,675                | 1,941,675        |
| Other receivables                   |   |  |   | 366,849                  | 366,849          |
| Other financial assets              | 272   |  | 245,808   | 1,745                    | 247,825          |
| Available-for-sale financial assets |   | 158,770                                      |   |                          | 158,770          |
|                                     | <b>1,046,246</b>  | <b>158,770</b>                               | <b>245,808</b>  | <b>4,050,694</b>         | <b>5,501,518</b> |

|  | Assets at<br>fair<br>value | Available<br>for-sale<br>financial<br>assets | 2012 (Unaudited)<br>Held-to-<br>maturity<br>financial<br>assets | Loans and<br>receivables | Total |
|--|----------------------------|--|---|--------------------------|-------|
|--|----------------------------|--|---|--------------------------|-------|

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|                                     | value           | assets        | assets               |
|-------------------------------------|-----------------|---------------|----------------------|
|                                     | through the     |               |                      |
|                                     | profit and loss |               |                      |
|                                     |                 |               | (In millions of won) |
| Cash and cash equivalents           |                 |               | 658,387              |
| Short-term financial instruments    |                 |               | 1,126,229            |
| Trade receivables                   |                 |               | 1,719,521            |
| Other receivables                   |                 |               | 144,182              |
| Other financial assets              | 198             |               | 327                  |
| Available-for-sale financial assets |                 | 44,297        | 44,297               |
|                                     | <b>198</b>      | <b>44,297</b> | <b>3,648,646</b>     |
|                                     |                 |               | <b>3,693,141</b>     |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****7. Financial Instruments by Categories, continued**

Details of financial liabilities by category as of December 31, 2013 and 2012, are as follows:

|                             | Liabilities at<br>fair<br>value<br>through<br>the<br>profit and loss | 2013  |                | Total            |
|-----------------------------|--|---|----------------|------------------|
|                             |  | Liabilities<br>measured at<br>amortized<br>cost<br>(In millions of won) | Other          |                  |
| Borrowings                  |  | 4,550,215   |                | 4,550,215        |
| Trade payables              |  | 648,793   |                | 648,793          |
| Other non-trade payables    |  | 854,221   |                | 854,221          |
| Other payables              |  | 788,304   |                | 788,304          |
| Other financial liabilities | 109,288  |   |                | 109,288          |
|                             | <b>109,288</b>   | <b>6,841,533</b>  |                | <b>6,950,821</b> |
|                             |  | 2012 (Unaudited)  |                |                  |
|                             | Liabilities at<br>fair<br>value<br>through<br>the<br>profit and loss | Liabilities<br>measured at<br>amortized<br>cost<br>(In millions of won) | Other          | Total            |
| Borrowings                  |  | 6,130,542   | 341,434        | 6,471,976        |
| Trade payables              |  | 592,738   |                | 592,738          |
| Other non-trade payables    |  | 458,609   |                | 458,609          |
| Other payables              |  | 381,260   |                | 381,260          |
| Other financial liabilities | 18,635   |   |                | 18,635           |
|                             | <b>18,635</b>  | <b>7,563,149</b>  | <b>341,434</b> | <b>7,923,218</b> |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****7. Financial Instruments by Categories, continued**

Details of gain and loss of financial assets and liabilities by category for the years ended December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| <b>Loans and receivables</b>                                 |                      |                     |
| Interest income  | 59,262               | 80,154              |
| Foreign exchange difference                                  | (61,819)             | (127,274)           |
| Impairment reversal  | 2,250                | 460                 |
|  | <b>(307)</b>         | <b>(46,660)</b>     |
| <b>Available-for-sale financial assets</b>                   |                      |                     |
| Other comprehensive loss                                     | (966)                | (1,566)             |
| Gain on disposal   | 205                  | 5,943               |
| Dividend income  | 2,381                | 216                 |
|  | <b>1,620</b>         | <b>4,593</b>        |
| <b>Held-to-maturity financial assets</b>                     |                      |                     |
| Interest income  | 853                  |                     |
|  | <b>853</b>           |                     |
| <b>Assets at fair value through the profit and loss</b>      |                      |                     |
| Interest income  | 6,296                |                     |
| Gain on valuation of derivatives                             | 73                   | 198                 |
|  | <b>6,369</b>         | <b>198</b>          |
| <b>Liabilities measured at amortized cost</b>                |                      |                     |
| Interest expense   | (256,623)            | (317,926)           |
| Loss on redemption of debenture                              |                      | (10,470)            |
| Foreign exchange difference                                  | 169,509              | 381,687             |
|  | <b>(87,114)</b>      | <b>53,291</b>       |
| <b>Liabilities at fair value through the profit and loss</b> |                      |                     |
| Loss on valuation of derivatives                             | (90,652)             | (6,757)             |
| Loss on derivative transactions                              | (2,894)              | (7,762)             |
|  | <b>(93,546)</b>      | <b>(14,519)</b>     |

(172,125)

(3,097)

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****8. Credit Risk of Financial Instruments**

Details of credit quality of trade receivables that are not impaired and assessed by reference to external credit ratings as of December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| <b>Trade receivables that are not impaired</b> |                      |                     |
| Group 1  | 1,395,349            | 1,241,089           |
| Group 2  | 423,209              | 363,589             |
| Group 3  | 125,555              | 117,013             |
|  | <b>1,944,113</b>     | <b>1,721,691</b>    |

Group 1 Related party, public institutions, strategic counterparty with a high credit rating and others

Group 2 Counterparty that limits credit risk by entering into export resale insurance contract with Korea Trade Insurance Corporation

Group 3 Counterparty that limits credit risk by securing collaterals or guarantying bank payment for the counterparty

Details of credit quality of cash and cash equivalents and short-term financial instruments in consideration with financial institutions as of December 31, 2013 and 2012, are as follows:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| <b>Cash and cash equivalents</b>        |                      |                     |
| Banks                                   | 598,455              | 367,829             |
| Securities firms                        | 33,347               | 290,509             |
| Others                                  | 65                   | 49                  |
|   | <b>631,867</b>       | <b>658,387</b>      |
| <b>Short-term financial instruments</b> |                      |                     |
| Banks                                   | 1,107,060            | 864,706             |
| Securities firms                        | 1,047,472            | 261,523             |
|   | <b>2,154,532</b>     | <b>1,126,229</b>    |
|   | <b>2,786,399</b>     | <b>1,784,616</b>    |



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The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

As of December 31, 2013, maximum exposure of credit risk relating guarantees provided by the Group is 28 million (2012: 31 million unaudited) which will be paid upon request of guarantee as mentioned in Note 40.

### **9. Derecognition of Financial Assets**

The Group has entered into trade receivables discounting agreements with several financial institutions. There are no outstanding trade receivables discounted but not yet matured (2012: 341,434 million unaudited) as of

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****9. Derecognition of Financial Assets, continued**

December 31, 2013. The Group is obliged to redeem upon default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

**10. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2013 and 2012, are as follows:

|                   | 2013                 | 2012<br>(Unaudited) |
|-------------------|----------------------|---------------------|
|                   | (In millions of won) |                     |
| Cash on hand      | 66                   | 49                  |
| Checking account  | 59,157               | 94,879              |
| Ordinary deposits | 12,705               | 7,816               |
| Time deposits     | 348,165              | 104,724             |
| MMDA              | 163,118              | 130,626             |
| MMF and others    | 48,656               | 320,293             |
|                   | <b>631,867</b>       | <b>658,387</b>      |

As of December 31, 2013, there are no cash equivalents pledged as collateral.

**11. Short-term Financial Instruments and Other Financial Assets**

Short-term financial instruments and other financial assets as of December 31, 2013 and 2012, are as follows:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| <b>Short-term financial instruments</b> |                      |                     |
| Time deposits                           | 932,052              | 704,645             |
| Specified money trust                   | 341,596              | 260,000             |
| MMW                                     | 704,378              |                     |
| RP                                      | 120,000              | 160,000             |
| CD                                      | 55,000               |                     |
| MMDA                                    | 8                    | 61                  |
| Other                                   | 1,498                | 1,523               |
|   | <b>2,154,532</b>     | <b>1,126,229</b>    |

**Other financial assets**

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|                                   |                  |                  |
|-----------------------------------|------------------|------------------|
| <b>Current</b>                    |                  |                  |
| Held-to-maturity financial assets | 245,808          |                  |
|                                   | <b>245,808</b>   |                  |
| <b>Non-current</b>                |                  |                  |
| Long-term financial instruments   | 1,745            | 327              |
| Derivative assets                 | 272              | 198              |
|                                   | <b>2,017</b>     | <b>525</b>       |
|                                   | <b>2,402,357</b> | <b>1,126,754</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****11. Short-term Financial Instruments and Other Financial Assets, continued**

Restricted short-term financial instruments and other financial assets as of December 31, 2013 and 2012, are as follows:

|                                  | 2013                 | 2012<br>(Unaudited) | Description                           |
|----------------------------------|----------------------|---------------------|---------------------------------------|
|                                  | (In millions of won) |                     |                                       |
| Short-term financial instruments | 8                    | 61                  | Restricted for government grants      |
|                                  | 23,713               | 35,320              | Pledged for borrowings                |
|                                  | 5,023                | 6,238               | Pledged for consumption tax           |
|                                  |                      | 4                   | Pledged for letters of credit         |
|                                  | 34,600               | 34,600              | Restricted for support small business |
|                                  | 63,344               | 76,223              |                                       |
| Other financial assets           | 308                  | 308                 | Pledged for borrowings                |
|                                  | 14                   | 14                  | Bank overdraft guarantee deposit      |
|                                  | 3                    | 4                   | Value added tax deposit               |
|                                  | 1,419                |                     | Deposit for import duties             |
|                                  | 1,744                | 326                 |                                       |
|                                  | <b>65,088</b>        | <b>76,549</b>       |                                       |

**12. Trade and Other Receivables**

Details of current and non-current loans and other receivables as of December 31, 2013 and 2012, are as follows:

|                               | 2013                 | 2012<br>(Unaudited) |
|-------------------------------|----------------------|---------------------|
|                               | (In millions of won) |                     |
| <b>Current</b>                |                      |                     |
| Other receivables             | 307,414              | 111,986             |
| Accrued income                | 11,071               | 8,569               |
| Short-term loans              | 2,665                | 1,823               |
| Short-term guarantee deposits | 397                  | 320                 |
| Deposits                      | 2,212                | 2,357               |
|                               | 323,759              | 125,055             |
| <b>Non-current</b>            |                      |                     |
| Long-term other receivables   | 21,152               | 80                  |

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|                    |                |                |
|--------------------|----------------|----------------|
| Long-term loans    | 6,659          | 6,630          |
| Guarantee deposits | 14,409         | 11,540         |
| Long-term deposits | 870            | 877            |
|                    | 43,090         | 19,127         |
|                    | <b>366,849</b> | <b>144,182</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****12. Trade and Other Receivables, continued**

Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| Trade receivables                                  | 1,945,121            | 1,722,778           |
| Less : provision for impairment                    | (3,446)              | (3,257)             |
| <b>Trade receivables net</b>                       | <b>1,941,675</b>     | <b>1,719,521</b>    |
| Current loans and other receivables                | 325,821              | 130,090             |
| Less : provision for impairment                    | (2,062)              | (5,035)             |
| <b>Current loans and other receivables net</b>     | <b>323,759</b>       | <b>125,055</b>      |
| Non-current loans and other receivables            | 55,600               | 31,966              |
| Less : provision for impairment                    | (12,510)             | (12,839)            |
| <b>Non-current loans and other receivables net</b> | <b>43,090</b>        | <b>19,127</b>       |
|  | <b>2,308,524</b>     | <b>1,863,703</b>    |

Movements in the provision for impairment of trade receivables for the years ended December 31, 2013 and 2012, are as follows:

|                                      | 2013                 | 2012<br>(Unaudited) |
|--------------------------------------|----------------------|---------------------|
|                                      | (In millions of won) |                     |
| <b>Beginning</b>                     | <b>3,257</b>         | <b>3,855</b>        |
| Provision for receivables impairment | 174                  |                     |
| Unused amounts reversed              |                      | (390)               |
| Effect of exchange rates             | 15                   | (208)               |
| <b>Ending</b>                        | <b>3,446</b>         | <b>3,257</b>        |

There were no write-offs of trade receivables in 2013 and 2012.

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| <b>Beginning</b>   | <b>5,035</b>         | <b>4,925</b>        |
| Provision for receivables impairment                     | 47                   | 297                 |
| Receivables written off during the year as uncollectible | (293)                |                     |
| Unused amounts reversed                                  | (2,685)              | (153)               |
| Effect of exchange rates                                 | (42)                 | (34)                |
| <b>Ending</b>  | <b>2,062</b>         | <b>5,035</b>        |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****12. Trade and Other Receivables, continued**

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| <b>Beginning</b>   | <b>12,839</b>        | <b>12,984</b>       |
| Provision for receivables impairment                     | 225                  | 25                  |
| Receivables written off during the year as uncollectible | (137)                |                     |
| Unused amounts reversed                                  | (12)                 | (239)               |
| Effect of exchange rates                                 | (405)                | 69                  |
| <b>Ending</b>  | <b>12,510</b>        | <b>12,839</b>       |

The aging analyses of trade receivables, loans and other receivables as of December 31, 2013 and 2012, are as follows:

|   | 2013                 |                       |  |                  |               |                  |  |
|---|----------------------|-----------------------|--|------------------|---------------|------------------|--|
|   | Not Past<br>due      | Less than<br>3 months | Overdue<br>Over<br>3 months<br>and less than<br>6 months | Over<br>6 months | Impaired      | Total            |  |
|   | (In millions of won) |                       |  |                  |               |                  |  |
| Trade receivables                       | 1,940,110            | 3,784                 | 205  | 14               | 1,008         | 1,945,121        |  |
| Current loans and other receivables     | 323,838              |                       |  |                  | 1,983         | 325,821          |  |
| Non-current loans and other receivables | 43,436               |                       |  |                  | 12,164        | 55,600           |  |
|   | <b>2,307,384</b>     | <b>3,784</b>          | <b>205</b>   | <b>14</b>        | <b>15,155</b> | <b>2,326,542</b> |  |

|   | 2012 (Unaudited)     |                       |  |                  |          |           |  |
|---|----------------------|-----------------------|--|------------------|----------|-----------|--|
|   | Not Past<br>due      | Less than<br>3 months | Overdue<br>Over<br>3 months<br>and less than<br>6 months | Over<br>6 months | Impaired | Total     |  |
|   | (In millions of won) |                       |  |                  |          |           |  |
| Trade receivables                       | 1,720,446            | 980                   | 186  | 79               | 1,087    | 1,722,778 |  |
| Current loans and other receivables     | 125,342              | 1                     |  |                  | 4,747    | 130,090   |  |
| Non-current loans and other receivables | 19,202               |                       |  |                  | 12,764   | 31,966    |  |



|                  |            |            |           |               |                  |
|------------------|------------|------------|-----------|---------------|------------------|
| <b>1,864,990</b> | <b>981</b> | <b>186</b> | <b>79</b> | <b>18,598</b> | <b>1,884,834</b> |
|------------------|------------|------------|-----------|---------------|------------------|

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****13. Inventories**

Details of inventories as of December 31, 2013 and 2012, are as follows:

|                  | 2013                 | 2012<br>(Unaudited) |
|------------------|----------------------|---------------------|
|                  | (In millions of won) |                     |
| Finished goods   | 345,872              | 563,251             |
| Work in progress | 608,402              | 683,352             |
| Raw materials    | 141,625              | 175,985             |
| Supplies         | 45,672               | 42,166              |
| Goods in transit | 36,729               | 44,577              |
|                  | <b>1,178,300</b>     | <b>1,509,331</b>    |

The amount of the inventories recognized as cost of sales is as follows:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| Inventories recognized as cost of sales | 8,594,938            | 8,546,702           |

The changes in inventory valuation allowance during the years ended December 31, 2013 and 2012 are as follows:

|                          | 2013                 | 2012<br>(Unaudited) |
|--------------------------|----------------------|---------------------|
|                          | (In millions of won) |                     |
| <b>Beginning balance</b> | <b>124,889</b>       | <b>208,688</b>      |
| Charged to cost of sales | 5,388                | 18,699              |
| Write-off upon sales     | (57,161)             | (102,498)           |
| <b>Ending balance</b>    | <b>73,116</b>        | <b>124,889</b>      |

There were no significant reversals of inventory write-downs recognized during 2013 and 2012.

**14. Other Current and Non-Current Assets**

Details of other current and non-current assets as of December 31, 2013 and 2012, are as follows:

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|                               | 2013                 | 2012<br>(Unaudited) |
|-------------------------------|----------------------|---------------------|
|                               | (In millions of won) |                     |
| <b>Current Assets</b>         |                      |                     |
| Advance payments              | 7,405                | 4,255               |
| Prepaid expenses              | 128,125              | 123,197             |
| Others                        | 5,854                | 7,921               |
|                               | 141,384              | 135,373             |
| <b>Non-current Assets</b>     |                      |                     |
| Long-term advance payments    | 21                   | 62                  |
| Long-term prepaid expenses(1) | 346,774              | 167,356             |
| Others                        | 19,026               | 21,577              |
|                               | 365,821              | 188,995             |
|                               | <b>507,205</b>       | <b>324,368</b>      |

(1) Long-term prepaid expenses primarily consist of prepaid royalty.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****15. Available-for-sale Financial Assets**

Available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

|   | Number of<br>stock | 2013<br>Ownership<br>(%) | Acquisition<br>cost<br><br>(In millions of won) | Book<br>value  | 2012<br>(Unaudited)<br>Book<br>value |
|---|--------------------|--------------------------|---|----------------|--------------------------------------|
| Hyundai Information Technology Co, Ltd.                   | 1,160,180          | 2.3                      | 3,481   | 1,885          | 2,251                                |
| HYUNDAI LOGISTICS CO., LTD.                               | 15,115             | 0.08                     | 76  | 98             | 98                                   |
| EQ bestech Co., Ltd.                                      | 2,000              | 1.67                     | 10  | 10             | 10                                   |
| Itest Co., Ltd.   | 481,780            | 1.04                     | 1,166   | 768            | 990                                  |
| Hyundai IBT Co., Ltd.                                     | 2,528              | 0.01                     | 63  | 4              | 5                                    |
| Fidelix Co., Ltd.   | 1,605,854          | 8.79                     | 3,560   | 3,870          | 3,019                                |
| Futures Corp Technology Co., Ltd.                         | 60,000             | 10.44                    | 300   |                |                                      |
| iA, Inc. (formerly C&S Technology Co., Ltd.)              | 1,031,590          | 3.9                      | 4,508   | 3,389          | 3,389                                |
| Phison Electronics Corp.                                  | 3,277,054          | 1.82                     | 11,661  | 22,050         | 23,277                               |
| ProMos(1)   | 201,600,000        | 7.93                     | 21,847  |                |                                      |
| L&S Investment  | Certificate        | N/A                      | 1,124   | 1,124          | 565                                  |
| JNT Frontier Private Equity Unit                          | Certificate        | N/A                      | 1,307   | 1,307          | 1,400                                |
| SV M&A No.1 Equity Unit                                   | Certificate        | N/A                      | 1,196   | 1,196          | 1,196                                |
| Daishin Aju IB Investment Co., Ltd.                       | Certificate        | N/A                      | 1,518   | 1,518          | 500                                  |
| Seoul Investment Early & Green Venture Fund               | Certificate        | N/A                      | 1,867   | 1,867          | 1,900                                |
| TS 2011-4 Technology Transfer & Business                  | Certificate        | N/A                      | 1,600   | 1,600          | 800                                  |
| IMM Investment  | Certificate        | N/A                      | 786   | 786            | 499                                  |
| KTC-NP-Growth   | Certificate        | N/A                      | 540   | 540            |                                      |
| Intellectual Discovery, Ltd.                              | 800,000            | 8.94                     | 4,000   | 4,000          | 4,000                                |
| SKY Property Mgmt. Ltd.                                   | 5,745              | 15                       | 112,360   | 112,360        |                                      |
| Equity investment in a construction guarantee association | 132                | 0.01                     | 396   | 396            | 396                                  |
| Others  |                    |                          | 3,140   | 2              | 2                                    |
|   |                    |                          | <b>176,506</b>                                  | <b>158,770</b> | <b>44,297</b>                        |

(1) Fully impaired in prior years.

Changes in the book value of available-for-sale financial assets for the years ended December 31, 2013 and 2012, are as follows:

|                     | 2013<br>(In millions of won) | 2012<br>(Unaudited) |
|---------------------|------------------------------|---------------------|
| <b>At January 1</b> | <b>44,297</b>                | <b>47,492</b>       |

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|                       |                |               |
|-----------------------|----------------|---------------|
| Acquisition           | 115,564        | 3,618         |
| Disposal              | (125)          | (5,247)       |
| Change in fair value  | (966)          | (1,566)       |
| <b>At December 31</b> | <b>158,770</b> | <b>44,297</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****16. Investments in Joint Venture and Associate**

Details of investments in joint venture and associate as of December 31, 2013 and 2012, are as follows:

| Type          | Investee  | Number of stock | Ownership (%) | 2013                                     |                 | 2012 (Unaudited) |                |
|---------------|---|-----------------|---------------|--|-----------------|------------------|----------------|
|               |   |                 |               | Acquisition cost<br>(In millions of won) | Net asset value | Book value       | Book value     |
| Associate     | Siliconfile Technologies Inc.(1)                      | 2,358,832       | 27.93         | 22,835                                   | 9,996           | 10,962           | 8,909          |
| Joint venture | HITECH Semiconductor (Wuxi) Co., Ltd.<br><br>(HITECH) | Certificate     | 45.00         | 90,149                                   | 96,135          | 96,135           | 95,191         |
|               |   |                 |               | <b>112,984</b>                           | <b>106,131</b>  | <b>107,097</b>   | <b>104,100</b> |

(1) As of December 31, 2013, the market value of the Group's interest in the entity's publicly traded stock was 19,791 million (2012: 16,677 million unaudited).

Changes in investments in joint venture and associate for the years ended December 31, 2013 and 2012, are as follows:

|                       | 2013                          |                                | Total          |
|-----------------------|-------------------------------|--------------------------------|----------------|
|                       | Siliconfile Technologies Inc. | HITECH<br>(In millions of won) |                |
| <b>At January 1</b>   | <b>8,909</b>                  | <b>95,191</b>                  | <b>104,100</b> |
| Dividend              |                               | (15,033)                       | (15,033)       |
| Share of profit       | 2,152                         | 17,104                         | 19,256         |
| Other equity movement | (99)                          | (1,127)                        | (1,226)        |
| <b>At December 31</b> | <b>10,962</b>                 | <b>96,135</b>                  | <b>107,097</b> |

| 2012 (Unaudited)              |        |       |
|-------------------------------|--------|-------|
| Siliconfile Technologies Inc. | HITECH | Total |

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|                       | (In millions of won) |               |                |
|-----------------------|----------------------|---------------|----------------|
| <b>At January 1</b>   | <b>8,138</b>         | <b>95,475</b> | <b>103,613</b> |
| Dividend              |                      | (11,883)      | (11,883)       |
| Share of profit       | 826                  | 15,887        | 16,713         |
| Other equity movement | (55)                 | (4,288)       | (4,343)        |
| <b>At December 31</b> | <b>8,909</b>         | <b>95,191</b> | <b>104,100</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****16. Investments in Joint Venture and Associate, continued**

Joint venture and associate's summarized statements of financial position as of December 31, 2013 and 2012, are as follows:

|   | Locations | Current assets | 2013               |                     | Non-current liabilities |
|---|-----------|----------------|--------------------|---------------------|-------------------------|
|   |           |                | Non-current assets | Current liabilities |                         |
| (In millions of won)                          |           |                |                    |                     |                         |
| Siliconfile Technologies Inc.                 | Korea     | 44,042         | 19,644             | 26,034              | 1,860                   |
| HITECH Semiconductor(Wuxi) Co., Ltd. (HITECH) | China     | 213,172        | 353,432            | 182,036             | 170,935                 |

|   | Locations | Current assets | 2012 (Unaudited)   |                     | Non-current liabilities |
|---|-----------|----------------|--------------------|---------------------|-------------------------|
|   |           |                | Non-current assets | Current liabilities |                         |
| (In millions of won)                          |           |                |                    |                     |                         |
| Siliconfile Technologies Inc.                 | Korea     | 49,481         | 12,933             | 31,567              | 2,407                   |
| HITECH Semiconductor(Wuxi) Co., Ltd. (HITECH) | China     | 180,509        | 397,564            | 129,219             | 237,317                 |

Joint venture and associate's summarized statements of comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

|   | 2013    |            |                      | 2012 (Unaudited) |            |                      |
|---|---------|------------|----------------------|------------------|------------|----------------------|
|   | Sales   | Net income | Comprehensive income | Sales            | Net income | Comprehensive income |
| (In millions of won)                          |         |            |                      |                  |            |                      |
| Siliconfile Technologies Inc.                 | 131,914 | 7,708      | 7,708                | 131,126          | 3,083      | 3,083                |
| HITECH Semiconductor(Wuxi) Co., Ltd. (HITECH) | 566,065 | 38,008     | 38,008               | 597,091          | 37,892     | 37,892               |



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****17. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2013 and 2012, are as follows:

|                                     | 2013           |                  |                |                                   |            |                |                              | Total             |
|-------------------------------------|----------------|------------------|----------------|-----------------------------------|------------|----------------|------------------------------|-------------------|
|                                     | Land           | Buildings        | Structures     | Machinery<br>(In millions of won) | Vehicles   | Others         | Construction<br>-in-progress |                   |
| <b>At January 1 net book amount</b> | <b>462,067</b> | <b>1,301,330</b> | <b>181,615</b> | <b>9,033,566</b>                  | <b>340</b> | <b>188,021</b> | <b>419,253</b>               | <b>11,586,192</b> |
| <b>Changes during 2013</b>          |                |                  |                |                                   |            |                |                              |                   |
| Additions                           | 226            | 125              | 82             | 14,682                            | 34         | 6,486          | 3,528,676                    | 3,550,311         |
| Business combination                |                |                  |                | 47                                |            | 12             |                              | 59                |
| Disposals                           | (33)           | (3,347)          | (690)          | (7,423)                           |            | (565)          | (336)                        | (12,394)          |
| Depreciation                        |                | (52,154)         | (19,600)       | (2,788,978)                       | (148)      | (60,086)       |                              | (2,920,966)       |
| Transfers                           | 42,302         | 62,012           | 46,149         | 3,031,495                         | 13         | 75,393         | (3,257,364)                  |                   |
| Impairments                         |                | (985)            | (1,507)        | (88,407)                          |            |                | (10,633)                     | (101,532)         |
| Exchange differences                | (164)          | 2,835            | 1,250          | 27,394                            | (12)       | (150)          | (3,026)                      | 28,127            |
| <b>Ending net book amount</b>       | <b>504,398</b> | <b>1,309,816</b> | <b>207,299</b> | <b>9,222,376</b>                  | <b>227</b> | <b>209,111</b> | <b>676,570</b>               | <b>12,129,797</b> |
| <b>At December 31</b>               |                |                  |                |                                   |            |                |                              |                   |
| Acquisition cost                    | 504,398        | 1,853,434        | 533,333        | 31,885,948                        | 2,412      | 741,869        | 676,570                      | 36,197,964        |
| Accumulated depreciation            |                | (518,446)        | (304,622)      | (22,299,425)                      | (2,185)    | (530,357)      |                              | (23,655,035)      |
| Accumulated impairment              |                | (24,841)         | (21,412)       | (356,843)                         |            | (2,289)        |                              | (405,385)         |
| Government grants                   |                | (331)            |                | (7,304)                           |            | (112)          |                              | (7,747)           |
| <b>Net book amount</b>              | <b>504,398</b> | <b>1,309,816</b> | <b>207,299</b> | <b>9,222,376</b>                  | <b>227</b> | <b>209,111</b> | <b>676,570</b>               | <b>12,129,797</b> |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements**

For the years ended December 31, 2013 and 2012

**17. Property, Plant and Equipment, continued**

|                                     | 2012 (Unaudited) |                  |                |                                   |            |                |                              | Total             |
|-------------------------------------|------------------|------------------|----------------|-----------------------------------|------------|----------------|------------------------------|-------------------|
|                                     | Land             | Buildings        | Structures     | Machinery<br>(In millions of won) | Vehicles   | Others         | Construction<br>-in-progress |                   |
| <b>At January 1 net book amount</b> | <b>462,586</b>   | <b>1,224,520</b> | <b>185,961</b> | <b>8,425,712</b>                  | <b>452</b> | <b>155,103</b> | <b>444,974</b>               | <b>10,899,308</b> |
| <b>Changes during 2012</b>          |                  |                  |                |                                   |            |                |                              |                   |
| Additions                           | 338              | 654              | 101            | 30,549                            | 107        | 3,689          | 3,909,085                    | 3,944,523         |
| Acquisition of subsidiaries         |                  |                  |                | 2,095                             |            | 811            |                              | 2,906             |
| Disposals                           |                  | (16)             | (620)          | (25,105)                          | (40)       | (382)          | (7,784)                      | (33,947)          |
| Depreciation                        |                  | (49,783)         | (19,505)       | (2,925,699)                       | (183)      | (61,406)       |                              | (3,056,576)       |
| Transfers                           |                  | 139,905          | 21,654         | 3,671,679                         | 25         | 92,299         | (3,925,578)                  | (16)              |
| Exchange differences                | (857)            | (13,950)         | (5,976)        | (145,665)                         | (21)       | (2,093)        | (1,444)                      | (170,006)         |
| <b>Ending net book amount</b>       | <b>462,067</b>   | <b>1,301,330</b> | <b>181,615</b> | <b>9,033,566</b>                  | <b>340</b> | <b>188,021</b> | <b>419,253</b>               | <b>11,586,192</b> |
| <b>At December 31</b>               |                  |                  |                |                                   |            |                |                              |                   |
| Acquisition cost                    | 462,067          | 1,792,237        | 486,984        | 29,149,281                        | 2,537      | 677,361        | 419,253                      | 32,989,720        |
| Accumulated depreciation            |                  | (467,030)        | (285,441)      | (19,817,741)                      | (2,197)    | (486,508)      |                              | (21,058,917)      |
| Accumulated impairment              |                  | (23,877)         | (19,928)       | (289,951)                         |            | (2,832)        |                              | (336,588)         |
| Government grants                   |                  |                  |                | (8,023)                           |            |                |                              | (8,023)           |
| <b>Net book amount</b>              | <b>462,067</b>   | <b>1,301,330</b> | <b>181,615</b> | <b>9,033,566</b>                  | <b>340</b> | <b>188,021</b> | <b>419,253</b>               | <b>11,586,192</b> |

Depreciation expense of 2,616,341 million (2012: 2,859,445 million) has been charged to cost of sales, 154,673 million (2012: 179,425 million unaudited) to selling and administrative expenses, 122,471 million (2012: nil unaudited) to casualty losses of other expenses and 27,481 million (2012: 17,706 million unaudited) has been capitalized as development costs for the year ended December 31, 2013.

Impairment of 101,532 million (2012: nil unaudited) has been charged to casualty losses caused by a fire on the manufacturing facilities in Wuxi, China, which is included in other expenses (Note 35).

Certain amounts of the property, plant and equipment are pledged as collaterals for borrowings of the Group as of December 31, 2013 (Note 40).

During 2013, the Group has capitalized borrowing costs amounting to 7,687 million (2012: 5,859 million unaudited) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 3.87% (2012: 2.96% unaudited) for the year ended December 31, 2013.

The Group leases certain machinery and others from ME Semiconductor Rental First L.L.C. and others under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to 242,187 million (2012: 355,365 million unaudited) as of December 31, 2013. The machinery is pledged as collateral for the finance lease liabilities.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****17. Property, Plant and Equipment, continued**

The Group leases certain machinery and others from Macquarie Capital and others under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of December 31, 2013, is as follows:

|                      | <b>Minimum lease payments<br/>(In millions of won)</b> |
|----------------------|--|
| No later than 1 year | 10,122   |
| Later than 1 year    | 2,093  |
|                      | <b>12,215</b>  |

As of December 31, 2013, certain inventories, property, plant and equipment, and investment properties are insured and details of insured assets is as follows:

|                              | <b>Insured assets</b>                                 | <b>Insured amount<br/>(In millions of won)</b> | <b>Insurance company</b>       |
|------------------------------|---|--|--------------------------------|
| Package insurance            | Property, plant and equipment, inventories and others |  | Hyundai Marine & Fire          |
|                              | Business interruption                                 |  |                                |
| Fire insurance               | Property, plant and equipment, investment property    | 34,926,444                                     |                                |
| Erection all risks insurance | Property, plant and equipment                         |  | Insurance Co., Ltd. and others |
|                              |   | <b>34,926,444</b>                              |                                |

**18. Investment Property**

Details of changes in investment property during the years ended December 31, 2013 and 2012, are as follows:

|                                     | <b>2013<br/>Buildings<br/>(In millions<br/>of won)</b> |
|-------------------------------------|--|
| <b>At January 1 net book amount</b> | <b>29,888</b>  |
| <b>Changes during 2013</b>          |  |
| Depreciation                        | (1,279)  |

|                                |               |
|--------------------------------|---------------|
| <b>Closing net book amount</b> | <b>28,609</b> |
| <b>At December 31</b>          |               |
| Acquisition cost               | 48,390        |
| Accumulated depreciation       | (19,781)      |
| <b>Net book amount</b>         | <b>28,609</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****18. Investment Property, continued**

|                                     | <b>2012<br/>(Unaudited)<br/>Buildings<br/>(In millions<br/>of won)</b> |
|-------------------------------------|--|
| <b>At January 1 net book amount</b> | <b>31,168</b>  |
| <b>Changes during 2012</b>          |  |
| Depreciation                        | (1,280)  |
| <b>Closing net book amount</b>      | <b>29,888</b>  |
| <b>At December 31</b>               |  |
| Acquisition cost                    | 48,390   |
| Accumulated depreciation            | (18,502)   |
| <b>Net book amount</b>              | <b>29,888</b>  |

The depreciation expense of 1,279 million (2012: 1,280 million unaudited) has been charged to cost of sales for the year ended December 31, 2013.

Rental income from investment property during the year ended December 31, 2013, is 4,283 million (2012: 4,666 million unaudited).

**19. Intangible Assets**

Intangible assets as of December 31, 2013 and 2012, are as follows:

|                                     | <b>Goodwill</b> | <b>Industrial<br/>property<br/>rights</b> | <b>2013<br/>Development<br/>costs<br/>(In millions of won)</b> | <b>Others</b> | <b>Total</b>   |
|-------------------------------------|-----------------|---|--|---------------|----------------|
| <b>At January 1 net book amount</b> | <b>633,170</b>  | <b>92,188</b>                             | <b>223,188</b>   | <b>35,084</b> | <b>983,630</b> |
| <b>Changes during 2013</b>          |                 |   |  |               |                |
| Additions                           |                 | 13,187                                    | 190,271  | 98,038        | 301,496        |
| Business combinations               | 2,905           |   |  | 684           | 3,589          |
| Disposals                           |                 | (17,288)                                  |  |               | (17,288)       |
| Impairment                          |                 |   |  | (183)         | (183)          |
| Amortization                        |                 | (14,227)                                  | (136,534)  | (5,515)       | (156,276)      |
| Other                               | (3,764)         |   | 5  | (806)         | (4,565)        |

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|   |                |               |                |                |                  |
|---|----------------|---------------|----------------|----------------|------------------|
| <b>Ending net book amount</b>           | <b>632,311</b> | <b>73,860</b> | <b>276,930</b> | <b>127,302</b> | <b>1,110,403</b> |
| <b>At December 31</b>                   |                |               |                |                |                  |
| Acquisition cost                        | 632,311        | 164,125       | 595,943        | 161,329        | 1,553,708        |
| Accumulated amortization and impairment |                | (90,265)      | (319,013)      | (34,027)       | (443,305)        |
| <b>Net book amount</b>                  | <b>632,311</b> | <b>73,860</b> | <b>276,930</b> | <b>127,302</b> | <b>1,110,403</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements**

For the years ended December 31, 2013 and 2012

**19. Intangible Assets, continued**

|   | Goodwill       | Industrial<br>property<br>rights | 2012 (Unaudited)<br>Development<br>costs<br>(In millions of won) | Others        | Total          |
|---|----------------|----------------------------------|--|---------------|----------------|
| <b>At January 1 net book amount</b>     | <b>386,450</b> | <b>84,401</b>                    | <b>221,910</b>   | <b>14,887</b> | <b>707,648</b> |
| <b>Changes during 2012</b>              |                |                                  |  |               |                |
| Additions                               |                | 28,302                           | 130,576  | 194           | 159,072        |
| Business combinations                   | 261,047        |                                  |  | 24,105        | 285,152        |
| Disposals                               |                | (5,680)                          |  | (920)         | (6,600)        |
| Impairment                              |                |                                  |  | (265)         | (265)          |
| Amortization                            |                | (14,834)                         | (129,298)  | (1,566)       | (145,698)      |
| Other                                   | (14,327)       | (1)                              |  | (1,351)       | (15,679)       |
| <b>Ending net book amount</b>           | <b>633,170</b> | <b>92,188</b>                    | <b>223,188</b>   | <b>35,084</b> | <b>983,630</b> |
| <b>At December 31</b>                   |                |                                  |  |               |                |
| Acquisition cost                        | 633,170        | 199,820                          | 405,671  | 46,510        | 1,285,171      |
| Accumulated amortization and impairment |                | (107,632)                        | (182,483)  | (11,426)      | (301,541)      |
| <b>Net book amount</b>                  | <b>633,170</b> | <b>92,188</b>                    | <b>223,188</b>   | <b>35,084</b> | <b>983,630</b> |

Amortization of 501 million (2012: 54 million unaudited) is included in the cost of sales and 155,775 million (2012: 145,644 million unaudited) in selling and administrative expenses in the statements of comprehensive income for the year ended December 31, 2013.

Among costs associated with development activities, 190,271 million (2012: 130,576 million unaudited), that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2013. In addition, costs associated with research activities and other development expenditures that did not meet the criteria amounted to 968,804 million (2012: 975,057 million unaudited) were recognized as an expense as incurred in the statement of comprehensive income for the year ended December 31, 2013.

Goodwill impairment reviews are undertaken annually. For the purposes of impairment reviews, goodwill is allocated to the CGUs to which it relates. As the Group has only one CGU like an operating segment, goodwill was allocated to one CGU. Recoverable amount of the CGU was determined based on fair value less costs to sell, which was determined using the current stock price as of December 31, 2013. No impairment loss of goodwill was recognized since on the recoverable amount is higher than carrying value of the CGU as of December 31, 2013.

**20. Non-current Assets Held for Sale**

Details of changes in non-current assets held for sale during the years ended December 31, 2013 and 2012, are as follows:

2012  
2013 (Unaudited)  
(In millions of won)



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|                       |               |               |
|-----------------------|---------------|---------------|
| <b>At January 1</b>   | <b>26,958</b> | <b>29,033</b> |
| Disposal              | (4)           | (5)           |
| Other                 | (397)         | (2,070)       |
| <b>At December 31</b> | <b>26,557</b> | <b>26,958</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****21. Other Non-trade Payables**

Details of other non-trade payables as of December 31, 2013 and 2012, are as follows:

|                           | 2013                 | 2012<br>(Unaudited) |
|---------------------------|----------------------|---------------------|
|                           | (In millions of won) |                     |
| <b>Current</b>            |                      |                     |
| Accrued expenses          | 677,120              | 361,076             |
| <b>Non-current</b>        |                      |                     |
| Long-term other payables  | 166,641              | 75,492              |
| Long-term accrued expense | 616                  | 3,531               |
| Rent deposit payables     | 9,844                | 18,510              |
|                           | 177,101              | 97,533              |
|                           | <b>854,221</b>       | <b>458,609</b>      |

**22. Borrowings**

Details of borrowings as of December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| <b>Current</b>                             |                      |                     |
| Short-term borrowings                      | 137,979              | 1,020,609           |
| Current maturities of debentures           |                      | 299,697             |
| Current maturities of convertible bonds    |                      | 980,316             |
| Current maturities of long-term borrowings | 732,341              | 418,575             |
|  | 870,320              | 2,719,197           |
| <b>Non-current</b>                         |                      |                     |
| Long-term borrowings                       | 1,730,183            | 2,301,807           |
| Debentures                                 | 1,450,777            | 1,450,972           |
| Convertible bonds                          | 498,935              |                     |
|  | 3,679,895            | 3,752,779           |
|  | <b>4,550,215</b>     | <b>6,471,976</b>    |

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Details of short-term borrowings as of December 31, 2013 and 2012, are as follows:

|  | <b>Financial<br/>Institutions</b> | <b>Annual<br/>Interest Rate (%)<br/>at 2013</b> | <b>2013<br/>(In millions of won)</b> | <b>2012<br/>(Unaudited)</b> |
|--|-----------------------------------|---|--------------------------------------|-----------------------------|
| Usance borrowings                          | Kookmin Bank and other            | 0.65  | 10,610                               | 527,926                     |
| Borrowings on trade receivables collateral | Shinhan Bank and other            |   |                                      | 341,434                     |
| Refinancing                                | China Construction Bank and other | 2.75  | 127,369                              | 151,249                     |
|  |                                   |   | <b>137,979</b>                       | <b>1,020,609</b>            |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****22. Borrowings, continued**

Details of long-term borrowings as of December 31, 2013 and 2012, are as follows:

|                                     | <b>Financial Institutions</b>           | <b>Annual<br/>Interest Rate (%)<br/>at 2013</b>           | <b>2013</b>                 | <b>2012<br/>(Unaudited)</b> |
|-------------------------------------|---|---|-----------------------------|-----------------------------|
|                                     |   |   | <b>(In millions of won)</b> |                             |
| <b>Local currency loans</b>         |   |   |                             |                             |
| Borrowing for housing               | Kookmin Bank                            | 3.5   | 24                          | 28                          |
| Borrowings for childcare facilities | NH Bank                                 | 2   | 246                         | 308                         |
| Funds for equipment                 | Korea Finance Corporation               |   |                             | 25,000                      |
| Funds for equipment                 | Korea Finance Corporation               | Industrial Financial<br>Debentures (4 years) +<br>0.93(2) | 250,000                     | 250,000                     |
| Funds for equipment                 | Korea Exchange Bank                     | CD (91 days) +1.31(3)                                     | 50,000                      | 50,000                      |
| Commercial paper                    | Hanyang Securities and other            | 3.63 ~ 3.9  | 370,000                     | 370,000                     |
| Finance lease liabilities           | ME Semiconductor Rental First<br>LLC.   | 5.00  | 212,442                     | 266,731                     |
|                                     |   |   | 882,712                     | 962,067                     |
| <b>Foreign currency loans</b>       |   |   |                             |                             |
| General borrowings                  | Export Import Korea Bank                | 3M Libor + 3.15(4)  | 105,530                     | 107,110                     |
| General borrowings(1)               | SC Bank(1)                              | 3M Libor + 3.00(4)  | 86,271                      | 151,025                     |
| General borrowings                  | Hana Bank                               | 3M Libor + 3.10(4)  | 23,744                      | 48,200                      |
| General borrowings                  | Korea Development Bank                  | 3M Libor +<br><br>3.06~3.36(4)                            | 316,590                     | 321,330                     |
| General borrowings                  | Comerica Bank                           | 6.48  | 32,954                      | 34,282                      |
| General borrowings                  | NK Bank and other                       | 3M Libor +<br><br>3.19~3.79(4)                            | 263,825                     | 267,775                     |
| General borrowings                  | Agricultural Bank of China and<br>other | 3M Libor + 2.65(4)  | 280,212                     | 118,839                     |
| Syndicated loans                    | Development Bank of China and<br>other  | 3M Libor + 2.95(4)  | 298,787                     | 425,659                     |
| Mortgage loans                      | HITECH                                  | 7.16  | 96,236                      | 177,954                     |
| Finance lease liabilities           | Good memory and other                   | 4.7~7.16  | 81,615                      | 122,919                     |
|                                     |   |   | 1,585,764                   | 1,775,093                   |
|                                     |   |   | 2,468,476                   | 2,737,160                   |
| Less: Discount on present value     |   |   | (5,952)                     | (16,778)                    |

|                    |                  |                  |
|--------------------|------------------|------------------|
| Current maturities | (732,341)        | (418,575)        |
|                    | <b>1,730,183</b> | <b>2,301,807</b> |

(1) The Group entered into interest swap contracts with SC Bank for the interest on the foreign currency loans.

(2) As of December 31, 2013, Industrial Financial Debentures rate is 3.05%.

(3) As of December 31, 2013, CD 91 days rate is 2.66%.

(4) As of December 31, 2013, 3M Libor rate is 0.25%.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****22. Borrowings, continued**

Details of debentures as of December 31, 2013 and 2012, are as follows:

|   | <b>Maturity Date</b> | <b>Annual Interest Rate (%) at 2013</b> | <b>2013</b>      | <b>2012 (Unaudited)</b> |
|---|----------------------|---|------------------|-------------------------|
| <b>(In millions of won)</b>               |                      |   |                  |                         |
| <b>Unsecured notes in local currency:</b> |                      |   |                  |                         |
| 209th                                     | Sep. 9, 2013         |   |                  | 300,000                 |
| 210th                                     | Jan. 14, 2015        | 6.35                                    | 200,000          | 200,000                 |
| 211th                                     | May 5, 2016          | 6.2                                     | 400,000          | 400,000                 |
| 212th                                     | May 30, 2019         | 5.35                                    | 550,000          | 550,000                 |
| 213th                                     | Sep. 4, 2017         | 3.72                                    | 200,000          | 200,000                 |
| <b>Secured notes in foreign currency</b>  |                      |   |                  |                         |
| Foreign 8th(1)                            | Jun. 20, 2017        | 3M Libor+2.85                           | 105,530          | 107,110                 |
|   |                      |   | 1,455,530        | 1,757,110               |
| Less: Discounts on debentures             |                      |   | (4,753)          | (6,441)                 |
| Current portion                           |                      |   |                  | (299,697)               |
|   |                      |   | <b>1,450,777</b> | <b>1,450,972</b>        |

(1) The Group is provided with USD 100 million of bank guarantee payment from Shinhan Bank as of December 31, 2013. Details of convertible bonds as of December 31, 2013 and 2012, are as follows:

|   | <b>Maturity Date</b> | <b>Annual Interest Rate (%) at 2013</b> | <b>2013</b> | <b>2012 (Unaudited)</b> |
|---|----------------------|---|-------------|-------------------------|
| <b>(In millions of won)</b>                 |                      |   |             |                         |
| <b>Convertible bond in local currency</b>   |                      |   |             |                         |
| 207th                                       | Sep. 5, 2013         |   |             | 440,499                 |
| <b>Convertible bond in foreign currency</b> |                      |   |             |                         |
| Foreign 7th(1)                              | May. 14, 2015        | 2.65                                    | 527,650     | 535,550                 |
|   |                      |   | 527,650     | 976,049                 |
| Add: Call premium on bonds                  |                      |   |             | 70,952                  |
| Less: Conversion rights adjustment          |                      |   | (26,434)    | (61,752)                |
| Discount on bonds                           |                      |   | (2,281)     | (4,933)                 |
| Current portion                             |                      |   |             | (980,316)               |

- (1) As of December 31, 2012, the convertible bond was classified as current liabilities because the early redemption right was exercisable until April 14, 2013. Upon expiration of the early redemption right, in 2013, the convertible bond was reclassified as non-current liabilities as of December 31, 2013.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2013 and 2012**

**22. Borrowings, continued**

Details of terms and conditions of conversion rights of convertible bond as of December 31, 2013, is as follows:

|                                |   |
|--------------------------------|---|
|                                | <b>Details<br/>Foreign 7th</b>          |
| Face value of convertible bond | USD 500,000,000                         |
| Convertible rate at face value | 100%                                    |
| Conversion term (per share)    | Par value of 34,394                     |
|                                | (KRW 1,133.8/USD 1)                     |
| Number of convertible shares   | 16,483,000 shares                       |
| Convertible periods            | May 15, 2011 ~ Apr. 28, 2015            |
| Deemed exercise date           | The first day of the year of conversion |
| <b>Finance lease liability</b> |   |

Lease liabilities are effectively secured as the rights to the leased asset belong to the lessor in the event of default.

Details of future minimum lease payments to the lessor as of December 31, 2013 and 2012, are as follows:

|                                    | 2013                 | 2012<br>(Unaudited) |
|------------------------------------|----------------------|---------------------|
|                                    | (In millions of won) |                     |
| <b>Total minimum lease payment</b> |                      |                     |
| No later than 1 year               | 103,077              | 112,585             |
| Between 1 and 5 years              | 216,391              | 320,794             |
|                                    | 319,468              | 433,379             |
| <b>Unearned finance income</b>     | <b>(25,410)</b>      | <b>(43,729)</b>     |
| <b>Net minimum lease payment</b>   |                      |                     |
| No later than 1 year               | 90,139               | 94,372              |
| Between 1 and 5 years              | 203,919              | 295,278             |
|                                    | <b>294,058</b>       | <b>389,650</b>      |

Details of book value and fair value of non-current borrowings as of December 31, 2013 and 2012, are as follows:

|  | 2013       |            | 2012 (Unaudited) |            |
|--|------------|------------|------------------|------------|
|  | Book value | Fair value | Book value       | Fair value |



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|                      | (In millions of won) |                  |                  |                  |
|----------------------|----------------------|------------------|------------------|------------------|
| Long-term borrowings | 1,730,183            | 1,759,397        | 2,301,807        | 2,339,963        |
| Debentures           | 1,450,777            | 1,501,810        | 1,450,972        | 1,504,532        |
| Convertible bond     | 498,935              | 653,653          |                  |                  |
|                      | <b>3,679,895</b>     | <b>3,914,860</b> | <b>3,752,779</b> | <b>3,844,495</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****23. Provisions**

Details of changes in provisions during the years ended December 31, 2013 and 2012, are as follows:

|                                       | Sales returns | 2013          |                | Total          |
|---------------------------------------|---------------|---------------|----------------|----------------|
|                                       |               | Warranty      | Legal claims   |                |
| (In millions of won)                  |               |               |                |                |
| <b>At January 1</b>                   | <b>5,305</b>  | <b>2,949</b>  | <b>322,361</b> | <b>330,615</b> |
| Addition                              | 12,564        | 13,656        | 58,959         | 77,183         |
| Reversal                              |               |               | (211,152)      | (211,152)      |
| Utilization                           | (5,305)       | (2,691)       | (158,762)      | (158,762)      |
| Foreign exchange difference and other |               |               | 14,700         | 14,700         |
| <b>At December 31</b>                 | <b>12,564</b> | <b>13,914</b> | <b>26,106</b>  | <b>52,584</b>  |

|                                       | Sales returns | 2012 (Unaudited) |                | Total          |
|---------------------------------------|---------------|------------------|----------------|----------------|
|                                       |               | Warranty         | Legal claims   |                |
| (In millions of won)                  |               |                  |                |                |
| <b>At January 1</b>                   | <b>3,806</b>  |                  | <b>349,661</b> | <b>353,467</b> |
| Addition                              | 5,305         | 2,949            | 86,398         | 90,846         |
| Reversal                              |               |                  | (70,490)       | (70,490)       |
| Utilization                           | (3,806)       |                  | (18,209)       | (18,209)       |
| Foreign exchange difference and other |               |                  | (24,999)       | (24,999)       |
| <b>At December 31</b>                 | <b>5,305</b>  | <b>2,949</b>     | <b>322,361</b> | <b>330,615</b> |

***Provisions for sales returns***

The Group estimates the expected sales returns based on historical results and adjusts sales and cost of sales, respectively. Accordingly, related gross profit and estimated expenses related to the return (such as transportation costs) are recorded as provisions for sales returns.

***Provisions for warranty***

The Group estimates the expected warranty costs based on historical results and accrues provisions for warranty.

***Provisions for legal claims***

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated.

The Group was a defendant in lawsuits claimed by Rambus Inc. ( Rambus ), a developer of High- bandwidth chip connection technology, alleging that the Group s certain DRAM products are infringing Rambus patents ( Patent Litigation ), and that the Group together with other major memory

chip manufacturers conspired to prevent Rambus' proprietary DRAM technology from becoming the standard computer memory technology ( Antitrust Litigation ). However, on June 11, 2013, the Group entered into a settlement and patent license agreement with Rambus, and pursuant to the agreement the Group and Rambus withdrew all outstanding disputes, including Patent Litigation and Antitrust Litigation, and the Group secured rights to use the Rambus' patents for the next five years. The reversal of legal provision for the year ended December 31, 2013 was primarily due to settlement of Rambus litigation.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****24. Other Financial Liabilities**

Details of other financial liabilities as of December 31, 2013 and 2012, are as follows:

|                                  | 2013                 | 2012<br>(Unaudited) |
|----------------------------------|----------------------|---------------------|
|                                  | (In millions of won) |                     |
| <b>Current</b>                   |                      |                     |
| Derivative liabilities (Note 41) | 2,194                | 17,020              |
| <b>Non-current</b>               |                      |                     |
| Derivative liabilities (Note 41) | 107,094              | 1,615               |
|                                  | <b>109,288</b>       | <b>18,635</b>       |

**25. Other Current and Non-current Liabilities**

Details of other current and non-current liabilities as of December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| <b>Current</b>                               |                      |                     |
| Unearned income                              | 2,403                | 1,431               |
| Withholdings                                 | 21,180               | 19,915              |
| Deposits received                            | 531                  | 841                 |
| Advance receipts                             | 2,616                | 3,684               |
| Other  | 110                  | 35                  |
|  | 26,840               | 25,906              |
| <b>Non-current</b>                           |                      |                     |
| Long-term withholdings                       | 935                  | 666                 |
| Other long-term employee benefit liabilities | 51,280               | 40,335              |
| Long-term advance receipts                   | 155                  |                     |
| Other  |                      | 47                  |
|  | 52,370               | 41,048              |
|  | <b>79,210</b>        | <b>66,954</b>       |

**26. Defined Benefit Liabilities**

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Defined benefit liabilities recognized in the statements of financial position as of December 31, 2013 and 2012, are determined as follows:

|  | <b>2013</b>                 | <b>2012</b>        |
|--|-----------------------------|--------------------|
|  | <b>(In millions of won)</b> |                    |
|  | <b>2013</b>                 | <b>(Unaudited)</b> |
| Present value of defined benefit obligations | 656,080                     | 592,171            |
| Fair value of plan assets(1)                 | (20,340)                    | (17,075)           |
|  | <b>635,740</b>              | <b>575,096</b>     |

(1) The contributions to the National Pension Fund of 1,855 million are included in the fair value of plan assets (2012: 1,952 million unaudited) as of December 31, 2013.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****26. Defined Benefit Liabilities, continued**

The amounts recognized in the statements of comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

|                      | 2013                 | 2012<br>(Unaudited) |
|----------------------|----------------------|---------------------|
|                      | (In millions of won) |                     |
| Current service cost | 98,095               | 81,034              |
| Interest expenses    | 28,079               | 27,152              |
| Interest income      | (679)                | (456)               |
|                      | <b>125,495</b>       | <b>107,730</b>      |

The line items in which defined benefit plan related expenses are included for the years ended December 31, 2013 and 2012, are as follows:

|                                     | 2013                 | 2012<br>(Unaudited) |
|-------------------------------------|----------------------|---------------------|
|                                     | (In millions of won) |                     |
| Cost of sales (manufacturing costs) | 73,950               | 68,462              |
| Selling and administrative expenses | 51,545               | 39,268              |
|                                     | <b>125,495</b>       | <b>107,730</b>      |

The remeasurements recognized as other comprehensive loss for the year ended December 31, 2013, amount to 15,587 million (2012: 82,872 million unaudited), and cumulative remeasurements recognized as other comprehensive loss as of December 31, 2013 amount to 185,677 million.

As of December 31, 2013, the Group funded at approximately 2.91% (2012: 2.55% unaudited) of the total retirement benefit obligations through insurance plans with Hanwha Life Insurance Co., Ltd. and Samsung Insurance Co., Ltd.

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2013 and 2012, are as follows:

|                             | 2013                 | 2012<br>(Unaudited) |
|-----------------------------|----------------------|---------------------|
|                             | (In millions of won) |                     |
| <b>At January 1</b>         | <b>592,171</b>       | <b>471,290</b>      |
| Current service cost        | 98,095               | 81,034              |
| Interest expense            | 28,079               | 27,152              |
| Transferred from associates | 344                  | 444                 |
| Benefits paid               | (46,538)             | (70,945)            |

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Remeasurements

|  |                |                |
|--|----------------|----------------|
| - Actuarial gains and losses arising from changes in assumptions | (18,324)       | 62,273         |
| - Actuarial gains and losses arising from experience adjustments | 2,559          | 20,417         |
| Other  | (306)          | 506            |
| <b>At December 31</b>  | <b>656,080</b> | <b>592,171</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****26. Defined Benefit Liabilities, continued**

The movements in the fair value of plan assets for the years ended December 31, 2013 and 2012, are as follows:

|                       | 2013                 | 2012<br>(Unaudited) |
|-----------------------|----------------------|---------------------|
|                       | (In millions of won) |                     |
| <b>At January 1</b>   | <b>17,075</b>        | <b>12,591</b>       |
| Interest income       | 679                  | 456                 |
| Employer contribution | 4,131                | 5,994               |
| Benefits paid         | (1,367)              | (1,784)             |
| Remeasurements        | (178)                | (182)               |
| <b>At December 31</b> | <b>20,340</b>        | <b>17,075</b>       |

The actual return of plan assets for the year ended December 31, 2013, was 492 million (2012: 274 million unaudited).

The principal actuarial assumptions as of December 31, 2013 and 2012, are as follows:

|                    | 2013          | 2012<br>(Unaudited) |
|--------------------|---------------|---------------------|
| Salary growth rate | 4.92% ~ 6.18% | 5.04% ~ 5.58%       |
| Discount rate(1)   | 1.11% ~ 5.85% | 1.65% ~ 5.03%       |

(1) Return on plan assets is the same as discount rate. As of December 31, 2013, 1.11% of discount rate was applied for SKHYJ, which comprises 0.2% of total defined benefit liabilities, and 4.26% to 5.85% was applied for others. As of December 31, 2012, 1.65% of discount rate was applied for SKHYJ, which comprises 0.3% of total defined benefit liabilities, and 3.98% to 5.03% was applied for others (unaudited).

Plan assets as of December 31, 2013 and 2012, consist of the following:

|          | 2013                 | 2012<br>(Unaudited) |
|----------|----------------------|---------------------|
|          | (In millions of won) |                     |
| Deposits | 18,485               | 15,123              |
| Other    | 1,855                | 1,952               |
|          | <b>20,340</b>        | <b>17,075</b>       |



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The sensitivity analysis of the defined benefit obligations as of December 31, 2013 to changes in the principal assumptions is as follows:

|                    | Effect on defined benefit obligation     |  |  |
|--------------------|--|--|--|
|                    | Changes<br>in<br>principal<br>assumption | Increase in<br>principal<br>assumption<br>(In millions of won) | Decrease in<br>principal<br>assumption |
| Discount rate      | 1%                                       | (73,160)   | 86,732                                 |
| Salary growth rate | 1%                                       | 88,147   | (75,494)                               |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****26. Defined Benefit Liabilities, continued**

sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

**27. Deferred Income Tax**

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2013 and 2012, are as follows:

|  | <b>2013</b>          | <b>2012</b>    |
|--|----------------------|----------------|
|  | (In millions of won) |                |
| <b>Deferred tax assets</b>   |                      |                |
| Deferred tax asset expected to be realized after more than 12 months     | 105,260              | 317,109        |
| Deferred tax asset to be recovered within 12 months                      | 178,473              | 187,904        |
|  | 283,733              | 505,013        |
| <b>Deferred tax liabilities</b>  |                      |                |
| Deferred tax liability expected to be reversed after more than 12 months | (79,090)             | (118,431)      |
| Deferred tax liability expected to be reversed within 12 months          | (6,073)              | (8,216)        |
|  | (85,163)             | (126,647)      |
| <b>Deferred tax assets, net</b>  | <b>198,570</b>       | <b>378,366</b> |

Change in deferred taxes for the years ended December 31, 2013 and 2012, are as follows:

|  | <b>2013</b>          | <b>2012</b>    |
|--|----------------------|----------------|
|  | (In millions of won) |                |
| <b>At January 1</b>  | <b>378,366</b>       | <b>315,718</b> |
| Recorded in profit or loss   | (180,928)            | 69,404         |
| Tax charge (credit) relating to components of other comprehensive income | 311                  | (330)          |
| Exchange differences   | 821                  | (6,426)        |
| <b>At December 31</b>  | <b>198,570</b>       | <b>378,366</b> |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****27. Deferred Income Tax, continued**

Changes in deferred income tax assets and liabilities for the years ended December 31, 2013 and 2012, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

|   | January 1,<br>2013 | Profit or<br>loss | 2013<br>Other<br>comprehensive<br>income<br>(In millions of won) | Currency<br>translation<br>differences | December 31,<br>2013 |
|---|--------------------|-------------------|--|--|----------------------|
| <b>Deferred tax liabilities</b>                   |                    |                   |  |  |                      |
| Advanced depreciation provision                   | (55,666)           |                   |  |  | (55,666)             |
| Valuation of derivatives                          | (5,356)            | (96)              |  |  | (5,452)              |
| Gains on foreign currency translation             | (30,398)           | 27,801            |  |  | (2,597)              |
| Conversion rights adjustment                      | (14,944)           | 8,117             |  |  | (6,827)              |
| Others  | (19,676)           | 4,720             | 311  | 23                                     | (14,622)             |
|   | <b>(126,040)</b>   | <b>40,542</b>     | <b>311</b>   | <b>23</b>                              | <b>(85,164)</b>      |
| <b>Deferred tax assets</b>                        |                    |                   |  |  |                      |
| Loss on valuation of inventories                  | 27,804             | (8,915)           |  | (13)                                   | 18,876               |
| Valuation of equity-method investments            | 322,919            | (111,402)         |  | 4,817                                  | 216,334              |
| Accumulated depreciation                          | 98,499             | (6,214)           |  | 544                                    | 92,829               |
| Net defined benefits                              | 107,219            | 30,414            |  | (55)                                   | 137,578              |
| Deemed interest of suspense payment and other     | 162,507            | (117)             |  |  | 162,390              |
| Provisions and others                             | 104,468            | (98,652)          |  |  | 5,816                |
| Impairment of available-for-sale financial assets | 36,964             | 3,170             |  |  | 40,134               |
| Losses on foreign currency translation            | 29,906             | (27,360)          |  |  | 2,546                |
| Property, plant and equipment                     | 24,439             | (9,222)           |  |  | 15,217               |
| Losses on valuation of derivative                 | 9,182              | 22,185            |  |  | 31,367               |
| Tax loss carryforwards                            | 612,111            | (538,748)         |  | (627)                                  | 72,736               |
| Tax credit carryforwards                          | 658,899            | (16,732)          |  | (46)                                   | 642,121              |
| Others  | 230,455            | (18,423)          |  | (2,065)                                | 209,967              |
|   | <b>2,425,372</b>   | <b>(780,016)</b>  |  | <b>2,555</b>                           | <b>1,647,911</b>     |
| Deferred income tax assets                        | 2,299,332          | (739,474)         | 311  | 2,578                                  | 1,562,747            |
| Deferred income tax assets not recognized         | (1,920,966)        | 558,546           |  | (1,757)                                | (1,364,177)          |
| <b>Deferred income tax assets recognized</b>      | <b>378,366</b>     | <b>(180,928)</b>  | <b>311</b>   | <b>821</b>                             | <b>198,570</b>       |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****27. Deferred Income Tax, continued**

|   | January 1,<br>2012 | Profit or<br>loss | 2012 (Unaudited)<br>Other<br>comprehensive<br>income<br>(In millions of won) | Currency<br>translation<br>differences | December 31,<br>2012 |
|---|--------------------|-------------------|--|--|----------------------|
| <b>Deferred tax liabilities</b>                   |                    |                   |  |  |                      |
| Advanced depreciation provision                   | (55,666)           |                   |  |  | (55,666)             |
| Valuation of derivatives                          | (15,816)           | 10,460            |  |  | (5,356)              |
| Gains on foreign currency translation             | (62,363)           | 31,965            |  |  | (30,398)             |
| Conversion rights adjustment                      | (25,923)           | 10,979            |  |  | (14,944)             |
| Others  | (22,114)           | 2,634             | (330)  | 134                                    | (19,676)             |
|   | <b>(181,882)</b>   | <b>56,038</b>     | <b>(330)</b>   | <b>134</b>                             | <b>(126,040)</b>     |
| <b>Deferred tax assets</b>                        |                    |                   |  |  |                      |
| Loss on valuation of inventories                  | 39,371             | (11,508)          |  | (59)                                   | 27,804               |
| Valuation of equity-method investments            | 422,452            | (99,533)          |  |  | 322,919              |
| Accumulated depreciation                          | 158,857            | (49,335)          |  | (11,023)                               | 98,499               |
| Net defined benefits                              | 94,968             | 12,312            |  | (61)                                   | 107,219              |
| Deemed interest of suspense payment and other     | 162,313            | 194               |  |  | 162,507              |
| Provisions and others                             | 122,982            | (18,514)          |  |  | 104,468              |
| Impairment of available-for-sale financial assets | 36,187             | 777               |  |  | 36,964               |
| Losses on foreign currency translation            | 100,517            | (70,611)          |  |  | 29,906               |
| Property, plant and equipment                     | 24,689             | (250)             |  |  | 24,439               |
| Losses on valuation of derivative                 | 26,844             | (17,662)          |  |  | 9,182                |
| Tax loss carryforwards                            | 467,047            | 149,771           |  | (4,707)                                | 612,111              |
| Tax credit carryforwards                          | 712,485            | (53,373)          |  | (213)                                  | 658,899              |
| Others  | 120,628            | 120,097           |  | (10,270)                               | 230,455              |
|   | <b>2,489,340</b>   | <b>(37,635)</b>   |  | <b>(26,333)</b>                        | <b>2,425,372</b>     |
| Deferred income tax assets                        | 2,307,458          | 18,403            | (330)  | (26,199)                               | 2,299,332            |
| Deferred income tax assets not recognized         | (1,991,740)        | 51,001            |  | 19,773                                 | (1,920,966)          |
| <b>Deferred income tax assets recognized</b>      | <b>315,718</b>     | <b>69,404</b>     | <b>(330)</b>   | <b>(6,426)</b>                         | <b>378,366</b>       |

Deferred income tax assets are recognized for deductible temporary differences and tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

As of December 31, 2013, the Group recognized the entire deferred income tax assets for loss carryforwards which are deductible from future taxable income. However, as of December 31, 2012, the Group did not recognize deferred income tax assets amounting to 225,155 million for a loss carryforwards of 928,469 million because it was not probable that future taxable profit will be available against which the Group can use the benefits therefrom (unaudited).

Also, the Group did not recognize deferred income tax assets of 799,182 million (2012: 1,036,912 million) in respect of deductible temporary differences amounting to 3,302,398 million (2012: 4,133,301 million) because it was not probable that future taxable profit will be available

against which the Group can use the benefits therefrom.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****27. Deferred Income Tax, continued**

For the year ended December 31, 2013, 108,433 million (2012: 140,711 million unaudited) of tax credit occurred which can be utilized in the future period. However, the Group did not recognize deferred income tax assets of 564,995 million (2012: 658,899 million unaudited) in respect of unused tax credit and others accumulated as of December 31, 2013.

On January 1, 2014, the Tax Reduction and Exemption Control Act in Korea was amended so that the minimum tax rate applied to taxable income in excess of 100 billion for the Parent Company after 2014 was revised from 16% to 17%. As of December 31, 2013, the Parent Company applied 16% as the minimum tax rate when measuring the amount of tax credit related deferred tax assets for which it is probable that the related tax benefit will be realized. If the Parent Company applied the 17% of minimum tax rate, deferred tax assets related to tax credit carryforwards would have decreased by 10,489 million.

On January 1, 2014, certain municipal corporate income tax rules were amended and effective on the same date that resulted in excluding tax credits from the basis of determining municipal corporate income tax. Accordingly, starting for the annual periods from 2014, the Parent Company will have larger municipal corporate income tax due to the impact from the income tax credits. If the amended municipal corporate income tax rules were applied at the end of 2013, deferred tax assets related to tax credit carryforwards would have decreased by 6,805 million.

Expiration schedule of tax loss carryforwards and tax credit carryforwards as of December 31, 2013 is as follows:

|            | Tax loss carryforwards | Tax credit carryforwards |
|------------|------------------------|--------------------------|
|            | (In millions of won)   |                          |
| 2014       |                        | 54,017                   |
| 2015       |                        | 186,116                  |
| 2016       |                        | 144,287                  |
| 2017       |                        | 146,123                  |
| Thereafter | 258,529                | 111,578                  |
|            | <b>258,529</b>         | <b>642,121</b>           |

**28. Share capital and Capital Surplus**

Details of share capital and capital surplus as of December 31, 2013, is as follows:

| Authorized shares | Outstanding shares (1)  | Par value (per share) | Paid in capital   |
|-------------------|---|-----------------------|-------------------|
|                   | (In thousands of share capital, except for par value and paid-in capital) |                       |                   |
| 9,000,000         | 713,729   | 5,000                 | 3,568,645 million |

(1) As of December 31, 2013, the actual number of shares which the shareholders own is 710,201 thousand shares and the difference of 3,528 thousand shares is the result of stock retirement.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****28. Share capital and Capital Surplus, continued**

Changes in share capital and capital surplus during the years ended December 31, 2013 and 2012, are as follows:

|   | Total<br>owned<br>shares | Share<br>capital | Share<br>premium | Capital Surplus<br>Conversion<br>right<br>consideration | Other          | Total            |
|---|--------------------------|------------------|------------------|---|----------------|------------------|
| (In millions of won and in thousands of shares) |                          |                  |                  |   |                |                  |
| At January 1, 2012 (Unaudited)                  | 592,172                  | 2,978,498        | 685,177          | 72,350  | 471,525        | 4,207,550        |
| Issuance of common stock                        | 101,850                  | 509,250          | 1,816,726        |   |                | 2,325,976        |
| Exercise of conversion rights                   | 10                       | 52               | 229              | (19)  |                | 262              |
| Exercise of stock options                       | 124                      | 619              | 4,400            |   |                | 5,019            |
| Expiration of stock options                     |                          |                  |                  |   | 3,562          | 3,562            |
| Others(1)                                       |                          |                  |                  |   | (76)           | (76)             |
| <b>At December 31, 2012 (Unaudited)</b>         | <b>694,156</b>           | <b>3,488,419</b> | <b>2,506,532</b> | <b>72,331</b>   | <b>475,011</b> | <b>6,542,293</b> |
| At January 1, 2013                              | 694,156                  | 3,488,419        | 2,506,532        | 72,331  | 475,011        | 6,542,293        |
| Exercise of conversion rights                   | 16,045                   | 80,226           | 381,612          | (29,403)  |                | 432,435          |
| <b>At December 31, 2013</b>                     | <b>710,201</b>           | <b>3,568,645</b> | <b>2,888,144</b> | <b>42,928</b>   | <b>475,011</b> | <b>6,974,728</b> |

(1) The Company purchased non-controlling interest of subsidiaries on September 30, 2012, and the difference between consideration paid and carrying amount of non-controlling interest was charged to capital surplus (unaudited).

In accordance with the Articles of Incorporation, shares can be retired and be distributed as dividends to the shareholders, and the total of number of shares retired as of December 31, 2013, is 3,528 thousand shares.

**29. Retained Earnings**

Retained earnings as of December 31, 2013 and 2012, are as follows:

|                                  | 2013             | 2012<br>(Unaudited) |
|----------------------------------|------------------|---------------------|
| (In millions of won)             |                  |                     |
| Legal reserve(1)                 | 8,854            | 8,854               |
| Discretionary reserve(2)         | 235,506          | 235,506             |
| Unappropriated retained earnings | 5,956,962        | 3,068,905           |
|                                  | <b>6,201,322</b> | <b>3,313,265</b>    |



- (1) The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).
  
- (2) Discretionary reserve is a reserve for technology development.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****30. Accumulated Other Comprehensive Income**

Details of accumulated other comprehensive income as of December 31, 2013 and 2012, are as follows:

|   | 2013<br>(In millions of won) | 2012<br>(Unaudited)<br>(In millions of won) |
|---|------------------------------|---|
| Gain on valuation of available-for-sale financial assets      | 7,824                        | 8,479                                       |
| Changes of equity from equity-method investments              | (8,338)                      | (7,111)                                     |
| Cumulative effect of foreign currency translation adjustments | (108,293)                    | (116,770)                                   |
|   | <b>(108,807)</b>             | <b>(115,402)</b>                            |

Details of changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

|   | Beginning        | 2013<br>Increase<br>(Decrease)<br>(In millions of won) | 2013<br>Reclassification<br>to profit or<br>loss | Ending           |
|---|------------------|--|--|------------------|
| Gain on valuation of available-for-sale financial assets      | 8,479            | (655)  |  | 7,824            |
| Changes of equity from equity-method investments              | (7,111)          | (1,227)  |  | (8,338)          |
| Cumulative effect of foreign currency translation adjustments | (116,770)        | 8,477  |  | (108,293)        |
|   | <b>(115,402)</b> | <b>6,595</b>   |  | <b>(108,807)</b> |

|   | Beginning      | 2012 (Unaudited)<br>Increase<br>(Decrease)<br>(In millions of won) | 2012 (Unaudited)<br>Reclassification<br>to profit or<br>loss | Ending           |
|---|----------------|--|--|------------------|
| Gain on valuation of available-for-sale financial assets      | 10,375         | (1,896)  |  | 8,479            |
| Changes of equity from equity-method investments              | (2,768)        | (4,343)  |  | (7,111)          |
| Cumulative effect of foreign currency translation adjustments | 99,500         | (216,270)  |  | (116,770)        |
|   | <b>107,107</b> | <b>(222,509)</b>   |  | <b>(115,402)</b> |

**31. Share-Based Payments**

The Group granted share options to directors and selected employees pursuant to approval of the shareholders and the Board of Directors.

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Changes in details of share-based payments during the years ended December 31, 2013 and 2012, are as follows:

|                       | 2013                 | 2012<br>(Unaudited) |
|-----------------------|----------------------|---------------------|
|                       | (In millions of won) |                     |
| <b>At January 1</b>   |                      | <b>5,762</b>        |
| Exercised             |                      | (2,200)             |
| Expired               |                      | (3,562)             |
| <b>At December 31</b> |                      |                     |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****31. Share-Based Payments, continued**

Changes in details of options and weighted-average exercisable prices during the years ended December 31, 2013 and 2012, are as follows:

|                       | 2013                                       | 2012<br>(Unaudited) |                                       |            |
|-----------------------|--|---------------------|---------------------------------------|------------|
|                       | Weighted<br>average<br>exercise<br>price   | Options             | Weighted<br>average<br>exercise price | Options    |
|                       | (In thousands of shares, except for price) |                     |                                       |            |
| <b>At January 1</b>   |  |                     | <b>22,800</b>                         | <b>324</b> |
| Granted               |  |                     |                                       |            |
| Exercised             |  |                     | 22,800                                | (124)      |
| Expired               |  |                     | 22,800                                | (200)      |
| <b>At December 31</b> |  |                     |                                       |            |

The weighted average fair value of options was determined using the Black-Scholes valuation model. The significant inputs into the model were weighted average share price at the grant date, exercise price, volatility of share price, dividend yield, an expected option life and an annual risk-free interest rate. For the year ended December 31, 2013, there is no expense recognized in the statement of comprehensive income for share options granted to directors and employees.

**32. Dividends**

There was no dividend paid for the years ended December 31, 2013 and 2012, and there is no plan to declare any dividend as regards the year ended December 31, 2013.

**33. Expenses by Nature**

Expense that are recorded as cost of sales, selling and administrative expenses in the statements of comprehensive income (loss) for the years ended December 31, 2013 and 2012, are as follows:

|                                   | 2013                 | 2012<br>(Unaudited) |
|-----------------------------------|----------------------|---------------------|
|                                   | (In millions of won) |                     |
| Changes in finished goods and WIP | 292,330              | (332,250)           |
| Raw materials and consumables     | 2,328,140            | 2,677,328           |
| Employee benefit expenses         | 1,969,650            | 1,551,700           |
| Depreciation and amortization     | 2,956,040            | 3,193,513           |
| Royalty expense                   | 187,611              | 167,352             |
| Commission expense                | 445,231              | 371,975             |

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|                     |                   |                   |
|---------------------|-------------------|-------------------|
| Utilities expense   | 552,413           | 496,753           |
| Repair expense      | 1,031,023         | 911,792           |
| Outsourcing expense | 952,457           | 1,015,512         |
| Other               | 70,422            | 335,884           |
|                     | <b>10,785,317</b> | <b>10,389,559</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****33. Expenses by Nature, continued**

Employee benefit expenses for the years ended December 31, 2013 and 2012, are as follows:

|                                   | 2013                 | 2012<br>(Unaudited) |
|-----------------------------------|----------------------|---------------------|
|                                   | (In millions of won) |                     |
| Wages and salaries                | 1,712,052            | 1,336,814           |
| Defined benefits                  | 125,495              | 107,730             |
| Other long-term employee benefits | 14,067               | 9,911               |
| Termination benefits              | 6,576                | 1,447               |
| Social security costs and other   | 111,460              | 95,798              |
|                                   | <b>1,969,650</b>     | <b>1,551,700</b>    |

**34. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2013 and 2012, are as follows:

|                                       | 2013                 | 2012<br>(Unaudited) |
|---------------------------------------|----------------------|---------------------|
|                                       | (In millions of won) |                     |
| Salaries                              | 265,137              | 211,210             |
| Defined benefit plan related expenses | 19,132               | 16,702              |
| Employee benefits                     | 60,459               | 57,502              |
| Commission expense                    | 158,107              | 161,783             |
| Depreciation                          | 51,240               | 55,602              |
| Amortization                          | 155,313              | 145,154             |
| Research and development              | 968,804              | 975,057             |
| Exporting expense                     | 21,675               | 23,100              |
| Legal cost                            | 11,374               | 34,204              |
| Rental expense                        | 14,650               | 15,257              |
| Taxes and dues                        | 17,912               | 10,231              |
| Utility expense                       | 10,804               | 10,924              |
| Freight expenses and custody charges  | 11,526               | 13,812              |
| Travel                                | 9,614                | 9,396               |
| Supplies                              | 25,471               | 16,859              |
| Maintenance                           | 19,890               | 11,649              |
| Training expense                      | 10,284               | 15,660              |
| Sales promotional expenses            | 28,414               | 22,788              |
| Repair expense                        | 28,061               | 8,772               |
| Other                                 | 32,863               | 22,908              |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****35. Other Income and Expense**

Other income for the years ended December 31, 2013 and 2012, are as follows:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| Rental income                                     |                      | 17,425              |
| Gain on disposal of assets held-for-sale          |                      | 18                  |
| Gain on disposal of property, plant and equipment | 9,560                | 3,231               |
| Gain on disposal of intangible assets             | 191                  | 298                 |
| Insurance compensation(1)                         | 327,659              |                     |
| Miscellaneous(2)                                  | 31,103               | 46,158              |
|   | <b>368,513</b>       | <b>67,130</b>       |

Other expenses for the years ended December 31, 2013 and 2012, are as follows:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| Loss on disposal of property, plant and equipment | 7,952                | 1,369               |
| Loss on disposal of intangible assets             | 17,278               | 5,672               |
| Donation  | 3,222                | 2,614               |
| Loss on disposal of trade receivables             | 3,317                | 1,031               |
| Impairment losses of intangible assets            | 183                  | 265                 |
| Amortization of suspended assets                  | 3,254                | 10,041              |
| Loss on disposal of assets held-for-sale          | 4                    |                     |
| Casualty losses(1)                                | 450,752              |                     |
| Miscellaneous(3)                                  | 19,908               | 41,918              |
|   | <b>505,870</b>       | <b>62,910</b>       |

- (1) For the year ended December 31, 2013, the Group recognized casualty losses of 450,752 million caused by a fire on the manufacturing facilities located in Wuxi, China, which includes impairment losses on property, plant and equipment, impairment losses on inventories, depreciation of temporarily idle property, plant and equipment and others. The Group and insurance companies conduct the investigation and negotiation for the loss amount and compensation amount according to insurance policies. The Group recognized insurance income of 327,659 million among negotiated amounts whose reimbursement is virtually certain as of December 31, 2013.



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- (2) Miscellaneous income includes refunds from Ministry of Labor, gain on disposal of used parts, subsidy for child-care leave, insurance compensation, reversal of litigation provision and etc.
  
- (3) Miscellaneous expense includes disposal costs due to blackout, additions to litigation provision and etc.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****36. Financial Income and Expense**

Financial income and expense for the years ended December 31, 2013 and 2012, are as follows:

|                                     | 2013                 | 2012<br>(Unaudited) |
|-------------------------------------|----------------------|---------------------|
|                                     | (In millions of won) |                     |
| <b>Finance income</b>               |                      |                     |
| Interest income                     | 66,411               | 80,154              |
| Dividend income                     | 2,381                | 216                 |
| Foreign exchange differences        | 485,411              | 598,986             |
| Gain from derivative instruments    | 6,163                | 4,409               |
| Other                               | 204                  | 5,944               |
|                                     | 560,570              | 689,709             |
| <b>Finance expense</b>              |                      |                     |
| Interest expenses                   | (256,623)            | (317,926)           |
| Foreign exchange differences        | (391,071)            | (335,468)           |
| Loss from derivative instruments    | (99,635)             | (18,730)            |
| Loss on redemption of debentures    |                      | (10,470)            |
|                                     | (747,329)            | (682,594)           |
| <b>Net finance income (expense)</b> | <b>(186,759)</b>     | <b>7,115</b>        |

**37. Income Tax**

Income tax expense (benefit) for the years ended December 31, 2013 and 2012, are as follows:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| <b>Current tax:</b>                               |                      |                     |
| Current tax on profits for the year               | 22,728               | 29,555              |
| Adjustments in respect of prior years             | (1,588)              | (657)               |
| Total current tax                                 | 21,140               | 28,898              |
| <b>Deferred tax:</b>                              |                      |                     |
| Origination and reversal of temporary differences | 180,928              | (69,404)            |

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|                                     |                |                 |
|-------------------------------------|----------------|-----------------|
| Total deferred tax                  | 180,928        | (69,404)        |
| <b>Income tax expense (benefit)</b> | <b>202,068</b> | <b>(40,506)</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****37. Income Tax, continued**

The tax on the Group's profit (loss) before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entities as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| Profit (loss) before tax   | 3,074,925            | (199,301)           |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 744,847              | (89,590)            |
| Tax effects of:  |                      |                     |
| Tax-exempt income  | 76                   | (469)               |
| Non-deductible expenses  | 13,545               | 4,123               |
| Change in unrecognized deferred tax assets   | (558,546)            | 42,603              |
| Others   | 2,146                | 2,827               |
| <b>Income tax expense (benefit)</b>  | <b>202,068</b>       | <b>(40,506)</b>     |

The income taxes recorded directly in equity for the years ended December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| Recognized in other comprehensive income: Gains (loss) of valuation of available-for-sale financial assets | 311                  | (330)               |

The income taxes (charged)/credited directly to equity as of December 31, 2013 and 2012, are as follows:

|   | Before<br>Tax        | 2013<br>Tax<br>(Charge)<br>Credit | After<br>Tax | Before<br>Tax | 2012 (Unaudited)<br>Tax<br>(Charge)<br>Credit | After<br>Tax |
|---|----------------------|-----------------------------------|--------------|---------------|---|--------------|
|   | (In millions of won) |                                   |              |               |   |              |
| Given on valuation of available-for-sale financial assets | 10,825               | (3,001)                           | 7,824        | 11,791        | (3,312)                                       | 8,479        |
| Remeasurements of the net defined benefit liability       | (185,677)            |                                   | (185,677)    | (202,090)     |   | (202,090)    |
|   | (174,852)            | (3,001)                           | (177,853)    | (190,299)     | (3,312)                                       | (193,611)    |

**38. Earnings (Loss) per Share**

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Basic earnings (loss) per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****38. Earnings (Loss) per Share, continued**

Basic earnings (loss) per share for the years ended December 31, 2013 and 2012, are as follows:

|   | 2013  | 2012<br>(Unaudited) |
|---|---|---------------------|
|   | (In millions of won except for<br>shares and per share amounts) |                     |
| Profit (loss) attributable to ordinary shareholders       | 2,872,470   | (158,886)           |
| Weighted average number of ordinary shares outstanding(1) | 710,200,891   | 681,854,577         |
| <b>Basic earnings (loss) per share</b>                    | <b>4,045</b>  | <b>(233)</b>        |

(1) Weighted average number of ordinary shares outstanding is calculated as follows:

|  | 2013               | 2012<br>(Unaudited) |
|--|--------------------|---------------------|
|  | (In shares)        |                     |
| Weighted average number of ordinary shares outstanding | 694,155,767        | 592,171,582         |
| Exercise of conversion rights                          | 16,045,124         | 10,385              |
| Exercise of stock options                              |                    | 66,872              |
| Issuance of share capital                              |                    | 89,605,738          |
| <b>Adjusted number of ordinary shares outstanding</b>  | <b>710,200,891</b> | <b>681,854,577</b>  |

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has potentially dilutive ordinary shares: convertible bond. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense and foreign exchange differences less the tax effect.

|   | 2013  | 2012<br>(Unaudited) |
|---|---|---------------------|
|   | (In millions of won except for<br>shares and per share amounts) |                     |
| Profit (loss) attributable to ordinary shares                             | 2,872,470   | (158,886)           |
| Add : Convertible bond related benefits                                   |   | (438)               |
| <b>Adjusted profit attributable to ordinary shares</b>                    | <b>2,872,470</b>  | <b>(159,324)</b>    |
| <b>Adjusted weighted average number of ordinary shares outstanding(1)</b> | <b>710,200,891</b>  | <b>682,727,787</b>  |

|  |              |              |
|--|--------------|--------------|
| <b>Diluted profit (loss) per share</b> | <b>4,045</b> | <b>(233)</b> |
|--|--------------|--------------|

The effect of the convertible bond related benefits is anti-dilutive for 2013.

(1) Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

|  | 2013               | 2012<br>(Unaudited) |
|--|--------------------|---------------------|
|  | (In shares)        |                     |
| Weighted average number of ordinary shares outstanding                 | 710,200,891        | 681,854,577         |
| Convertible bond   |                    | 873,210             |
| <b>Adjusted weighted average number of ordinary shares outstanding</b> | <b>710,200,891</b> | <b>682,727,787</b>  |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****39. Related Party Transactions**

Details of associate, joint venture and other related parties as of December 31, 2013, is as follows:

| Type                  | Investee  |
|-----------------------|---|
| Associate             | Siliconfile Technologies Inc.   |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)  |
| Other related parties | SK Telecom Co., Ltd., which has significant influence over the Group, SK Holdings Co., Ltd., which have control over SK Telecom Co., Ltd., SK C&C Company Ltd., which are controlled by the same key management personnel of the Group, and their subsidiaries. |

Significant transactions for the years ended December 31, 2013 and 2012, are as follows:

|                       | Company                                 | 2013                 |                |                   |
|-----------------------|---|----------------------|----------------|-------------------|
|                       |   | Sales                | Purchase       | Asset acquisition |
|                       |   | (In millions of won) |                |                   |
| Associate             | Siliconfile Technologies Inc.           | 100,975              | 1,585          |                   |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd.   | 61,368               | 581,374        |                   |
|                       | SK Telecom                              | 954                  | 2,811          | 230               |
|                       | SK Holdings Co., Ltd.(1)                |                      | 20,583         |                   |
|                       | SK C&C Co., Ltd.                        | 150                  | 22,374         | 30,522            |
|                       | SK Engineering & Construction Co., Ltd. | 637                  | 12,056         | 166,423           |
|                       | SK Energy Co., Ltd.                     | 13,103               | 28,258         |                   |
| Other related parties | SK Networks Co., Ltd.(2)                |                      | 927            | 112,360           |
|                       | Ko-one energy service Co., Ltd.         |                      | 20,452         |                   |
|                       | SK solmics Co., Ltd.                    |                      | 24,041         | 300               |
|                       | Chungcheong energy service Co., Ltd.    |                      | 28,231         |                   |
|                       | HAPPYNARAE Co., Ltd.                    | 62                   | 59,624         | 7,763             |
|                       | Others                                  | 261                  | 9,095          | 332               |
|                       |   | <b>177,510</b>       | <b>811,411</b> | <b>317,930</b>    |

(1) The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the year ended December 31, 2013, royalty on use of SK brand amounted to 18,251 million.

(2)



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The Group acquired 5,745 shares of Sky Property Management Ltd. at 112,360 million from SK Networks Co., Ltd., a related party, during 2013, and recognized them as available-for-sale securities as of December 31, 2013 (Note 15).

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****39. Related Party Transactions, continued**

|                          | Company                                | 2012 (Unaudited)     |                |                   |
|--------------------------|--|----------------------|----------------|-------------------|
|                          |  | Sales                | Purchase       | Asset acquisition |
|                          |  | (In millions of won) |                |                   |
| Associate                | Siliconfile Technologies Inc.          | 107,132              | 931            |                   |
| Joint venture            | HITECH Semiconductor (Wuxi) Co., Ltd.  | 67,662               | 625,657        | 17,168            |
|                          | SK Telecom                             | 1,196                | 812            |                   |
|                          | SK Holdings Co., Ltd.(2)               |                      | 7,860          |                   |
|                          | SK C&C Co., Ltd.                       | 43                   | 3,240          | 15,825            |
|                          | SK Engineering & Construction Co., Ltd |                      |                | 1,817             |
| Other related parties(1) | Ko-one energy service Co., Ltd.        |                      | 34,286         |                   |
|                          | SK solmics Co., Ltd.                   |                      | 8,967          | 387               |
|                          | Chungcheong energy service Co., Ltd.   |                      | 18,381         |                   |
|                          | HAPPYNARAE Co., Ltd.                   | 36                   | 24,271         | 563               |
|                          | Others                                 | 135                  | 4,128          | 1,015             |
|                          |  | <b>176,204</b>       | <b>728,533</b> | <b>36,775</b>     |

(1) Transactions that occurred after February 14, 2012, the date when SK telecom Co., Ltd. obtained significant influence over the Group.

(2) The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the year ended December 31, 2012, royalty on use of SK brand amounted to 7,860 million (unaudited).

The balances of significant transactions as of December 31, 2013 and 2012, are as follows:

|                       | Company                                | 2013                         |      |                |
|-----------------------|--|------------------------------|------|----------------|
|                       |  | Trade receivables and others | Loan | Other payables |
|                       |  | (In millions of won)         |      |                |
| Associate             | Siliconfile Technologies Inc.          | 18,102                       |      |                |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd.  | 11,356                       |      | 101,093        |
|                       | SK Telecom                             |                              |      | 419            |
|                       | SK Holdings Co., Ltd.                  |                              |      | 2,332          |
|                       | SK C&C Co., Ltd.                       | 11                           |      | 25,388         |
| Other related parties | SK Engineering & Construction Co., Ltd | 234                          |      | 82,238         |
|                       | SK energy Co., Ltd.                    | 76                           |      | 5,802          |
|                       | SK Networks Co., Ltd.                  |                              |      | 78             |
|                       | SK solmics Co., Ltd.                   |                              |      | 3,116          |
|                       | Chungcheong energy service Co., Ltd.   |                              |      | 3,102          |

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|                      |               |                |                |
|----------------------|---------------|----------------|----------------|
| HAPPYNARAE Co., Ltd. | 22            | 13,670         |                |
| Others               |               | 1,579          |                |
|                      | <b>29,801</b> | <b>140,552</b> | <b>101,093</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****39. Related Party Transactions, continued**

|                       | Company                                | 2012 (Unaudited)<br>Trade<br>receivables<br>and<br>others | Loan | Other<br>payables<br>(In millions of won) | Borrowings     |
|-----------------------|--|---|------|---|----------------|
| Associate             | Siliconfile Technologies Inc.          | 26,299  |      | 1   |                |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd.  | 9,515   |      | 46,670                                    | 179,204        |
|                       | SK Telecom                             | 887   |      | 287                                       |                |
|                       | SK C&C Co., Ltd.                       | 47  |      | 7,590                                     |                |
| Other related parties | SK Engineering & Construction Co., Ltd |   |      | 1,344                                     |                |
|                       | SKC solmics Co., Ltd.                  |   |      | 2,353                                     |                |
|                       | Chungcheong energy service Co., Ltd.   |   |      | 2,927                                     |                |
|                       | HAPPYNARAE Co., Ltd.                   | 14  |      | 8,983                                     |                |
|                       | Others                                 |   |      | 558                                       |                |
|                       |  | <b>36,762</b>   |      | <b>70,713</b>                             | <b>179,204</b> |

**Key management compensation**

Key management includes the chief executive officer, subsidiary s executives, directors and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2013 and 2012, are as follows:

|                              | Details                          | 2013<br>(In millions of won) | 2012<br>(Unaudited)<br>(In millions of won) |
|------------------------------|----------------------------------|------------------------------|---|
| Short-term employee benefits | Wages, salaries, bonus and other | 30,909                       | 23,157                                      |
| Post-employment benefits     | Retirement payment and other     | 4,546                        | 2,859                                       |
| Other long-term benefits     | Long-term employment allowance   | 6                            | 1   |
|                              |                                  | <b>35,461</b>                | <b>26,017</b>                               |

**Guarantees provided to others**

Details of guarantees provided to others as of December 31, 2013, is as follows:

|           | Amount<br>(In millions of won) | Remark   |
|-----------|--------------------------------|--|
| Employees | 28                             | Guarantees for employees borrowings relating to employee stock ownership |

**40. Commitments and Contingencies**

*Significant pending litigations and claims of the Group as of December 31, 2013*

The Group is involved in various alleged patent infringement claims and litigation. No provisions have been made as management believes it not likely an outflow of Group resources will be required to settle these matters.

*Technology and patent license agreements*

The Group has entered into a number of patent license agreements with several companies. The related royalties are paid in a lump sum or running basis in accordance with the respective agreements. Lump-sum royalties are expensed over the contract period using the straight-line method.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****40. Commitments and Contingencies, continued***Contract for supply of industrial water*

In March 2001, the Group and Veolia Water Industrial Development Co., Ltd. ( VWID ) entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. In December 2006, the contract was extended to March 2018, and subsequently amended due to the establishment of additional plants. According to the amended contract, the Group is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the amount of water used.

*Post- process service contract with HITECH*

The Parent Company entered into an agreement with HITECH to be provided with post-process service by HITECH. In addition, HITECH entered into agreements to purchase corresponding machinery from the Parent Company and its subsidiary, SKHYMC. According to the contract, HITECH should use the machinery only for the purpose of providing the post-process service to the Group exclusively for the five years from its establishment. In 2011, the Parent Company entered into an additional contract for the purpose of module service and HITECH purchased corresponding machinery from the Parent Company. According to the agreement, the Group is liable to guarantee a certain level of margin to HITECH.

*Assets provided as collateral*

Details of assets provided as collateral as of December 31, 2013, is as follows:

|           | Book value       | Pledged amount<br>(In millions of won) | Remark    |
|-----------|------------------|--|-----------|
| Land      | 36,013           |  |           |
| Buildings | 86,233           | 1,438,844                              | Borrowing |
| Machinery | 1,392,404        |  |           |
|           | <b>1,514,650</b> | <b>1,438,844</b>                       |           |

Other than the above assets provided as collateral, the finance lease assets of the Group are pledged as collateral for the finance lease liabilities in accordance with finance lease contract.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****40. Commitments and Contingencies, continued***Financing agreements*

Details of credit lines with financial institutions as of December 31, 2013, is as follows:

|  | <b>Financial Institution</b>         | <b>Commitment<br/>(In millions of dollars, won and renminbi)</b>        | <b>Cur.</b> | <b>Amount</b> |
|--|--------------------------------------|---|-------------|---------------|
| The Parent Company                                     | Korea Exchange Bank and Other        | Import finance like usance  | USD         | 440           |
|  |                                      | Export finance like bills bought  | USD         | 375           |
|  |                                      | Comprehensive limit contract about Import & Export                      | USD         | 1,200         |
|  |                                      | Export trade receivables discounting agreements(1)                      | USD         | 90            |
|  |                                      | Trade receivables discount agreement                                    | KRW         | 100,000       |
| SK hynix Semiconductor (China) Ltd. (SKHYCL)           | Agricultural Bank of China and other | Import finance like usance  | RMB         | 1,530         |
|  |                                      |   | USD         | 1,180         |
| SK hynix America Inc. (SKHYA) and other sales entities | Citibank and other                   | Accounts receivable factoring contracts which have no right to recourse | USD         | 883           |

(1) Discount of trade receivables is only applicable to trade receivables from the customers, which were designated and authorized at the export trade receivables discounting agreements.

Details of guarantees provided to others as of December 31, 2013, is as follows:

|           | <b>Amount<br/>(In millions of won)</b> | <b>Remark</b>  |
|-----------|--|--|
| Employees | 28                                     | Guarantees for employees borrowings relating to employee stock ownership |

*Capital commitments*

As of December 31, 2013, the Group has 385,106 million (2012: 114,610 million unaudited) of commitments in relation to the capital expenditures on tangible assets.

**41. Derivative Financial Instruments**

The Group has managed foreign exchange risk and cash-flow interest risk through interest and principal swaps, forward exchange, interest swap and currency option, and other derivative instruments. In addition, the Group bifurcated convertible options and separately accounted for these as derivative instruments which were embedded in the foreign convertible bond. The Group recognized those options at fair value and resulting

gain or loss is reflected in current operations.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****41. Derivative Financial Instruments, continued**

Details of derivative financial assets and liabilities as of December 31, 2013 and 2012, are as follows:

|                                 | 2013       |                | 2012<br>(Unaudited) |               |
|---------------------------------|------------|----------------|---------------------|---------------|
|                                 | Assets     | Liabilities    | Assets              | Liabilities   |
| <b>Current</b>                  |            |                |                     |               |
| Interest rates swap             |            | 2,194          |                     | 3,256         |
| Embedded derivatives            |            |                |                     | 13,764        |
|                                 |            | 2,194          |                     | 17,020        |
| <b>Non-current</b>              |            |                |                     |               |
| Interest rates swap             | 272        | 245            | 198                 | 1,615         |
| Embedded derivative instruments |            | 106,849        |                     |               |
|                                 | 272        | 107,094        | 198                 | 1,615         |
|                                 | <b>272</b> | <b>109,288</b> | <b>198</b>          | <b>18,635</b> |

Details of gains and losses from derivative instruments during the years ended December 31, 2013 and 2012, are as follows:

|                                   | 2013              |                   |                     |                     |
|-----------------------------------|-------------------|-------------------|---------------------|---------------------|
|                                   | Gain on valuation | Loss on valuation | Gain on transaction | Loss on transaction |
| Foreign currency forward contract |                   |                   | 3,630               | 5,308               |
| Interest rates swap               | 2,507             |                   | 26                  | 1,242               |
| Embedded derivative instruments   |                   | 93,085            |                     |                     |
|                                   | <b>2,507</b>      | <b>93,085</b>     | <b>3,656</b>        | <b>6,550</b>        |

  

|  | 2012 (Unaudited)  |                   |                     |                     |
|--|-------------------|-------------------|---------------------|---------------------|
|  | Gain on valuation | Loss on valuation | Gain on transaction | Loss on transaction |
|  |                   |                   |                     |                     |

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|                                   |              |              |              |               |
|-----------------------------------|--------------|--------------|--------------|---------------|
| Foreign currency forward contract |              |              | 913          | 4,924         |
| Interest and principal swap       |              |              | 1,450        | 4,030         |
| Interest rates swap               | 1,359        | 613          | 675          | 1,858         |
| Embedded derivative instruments   |              | 7,305        | 12           |               |
|                                   | <b>1,359</b> | <b>7,918</b> | <b>3,050</b> | <b>10,812</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****42. Cash Generated from Operations**

Reconciliations between operating profit and net cash inflow from operating activities for the years ended December 31, 2013 and 2012, are as follows:

|   | 2013                 | 2012<br>(Unaudited) |
|---|----------------------|---------------------|
|   | (In millions of won) |                     |
| Profit (loss) for the year                          | 2,872,857            | (158,795)           |
| Income tax expense (benefit)                        | 202,068              | (40,506)            |
| Defined benefit cost                                | 125,495              | 107,730             |
| Depreciation  | 2,922,245            | 3,057,856           |
| Amortization  | 156,276              | 145,698             |
| Loss on foreign currency translation                | 24,415               | 24,597              |
| Interest expenses                                   | 256,623              | 317,926             |
| Gain on foreign currency translation                | (94,175)             | (211,345)           |
| Interest income                                     | (66,411)             | (80,154)            |
| Loss on derivative instruments                      | 93,472               | 14,321              |
| Gain on equity method investments                   | (19,256)             | (16,713)            |
| Loss on impairment of property, plant and equipment | 101,532              |                     |
| Others  | 15,205               | 22,050              |
| <b>Changes in operating assets and liabilities</b>  |                      |                     |
| Increase in trade receivables                       | (278,141)            | (322,127)           |
| Decrease (increase) inventories                     | 333,179              | (335,580)           |
| Decrease (increase) in other receivables            | (249,778)            | 69,539              |
| Increase (decrease) in trade payables               | 113,552              | (374)               |
| Increase (decrease) in other payables               | 74,666               | (56,749)            |
| Increase (decrease) in provision                    | (127,052)            | 1,446               |
| Payment of defined benefit liability                | (45,171)             | (69,161)            |
| Increase in other non-trade payables                | 309,974              | 26,604              |
| Others  | (200,022)            | (75,369)            |
| <b>Cash generated from operations</b>               | <b>6,521,553</b>     | <b>2,420,894</b>    |

Details of significant transaction without inflows and outflows of cash for the years ended December 31, 2013 and 2012, are as follows:

|  | 2013                 | 2012<br>(Unaudited) |
|--|----------------------|---------------------|
|  | (In millions of won) |                     |
| Exercise of conversion rights  | 432,878              | 266                 |
| Transferred to non-current convertible bond due to expiration of early redemption rights | 486,569              |                     |
| Acquisition of property, plant and equipment subject to finance lease agreements         |                      | 216,682             |

**43. Transactions with Non-controlling Interests (Unaudited)**

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On September 30, 2012, the Parent Company acquired the non-controlling interest of domestic subsidiaries. The difference between carrying amount of the non-controlling interests in domestic subsidiaries and consideration paid to the owners of non-controlling interest amounted to 76 million and was charged to capital (Note 28).

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2013 and 2012****44. Business Combinations (Unaudited)**

The Group acquired 100% of the share capital of SK hynix memory solutions Inc. (SKHMS) (formerly, Link\_A\_Media Devices Corporation( LAMD )), which is a Nand Flash controller developer, located in United States for 282,293 million and obtained control over SKHMS in August 2012.

The goodwill amounting to 261,047 million arising from the acquisition is attributable to the synergy benefits based on decrease in R&D expenses and expected increase in sales as a result of acquisition of SKHMS.

The following table summarizes the consideration paid for SKHMS, the fair value of assets acquired and liabilities assumed at the acquisition date:

|   | <b>Amount</b><br><b>(In millions of won)</b> |
|---|--|
| <b>Consideration</b>  | <b>282,293</b>                               |
| Recognized amounts of identifiable assets acquired and liabilities assumed(1) |  |
| Current assets  |  |
| Cash and cash equivalents   | 4,542  |
| Trade receivables(2)  | 650  |
| Inventories   | 14   |
| Other current assets  | 822  |
| Non-current assets  |  |
| Property, plant and equipment   | 1,621  |
| Intangible assets   | 24,105                                       |
| Other non-current assets  | 83   |
| Current liabilities   |  |
| Trade payables  | 6,574  |
| Other current liabilities   | 3,627  |
| Non-current liabilities   | 390  |
| Fair value of net identifiable assets   | 21,246                                       |
| <b>Goodwill</b>   | <b>261,047</b>                               |

(1) Assets acquired and liabilities assumed were measured at their fair values.

(2) The gross contractual amount for trade accounts receivable due is 650 million and none of these is expected to be uncollectible. The acquisition-related costs amounting to 5,669 million were all expensed for the year ended December 31, 2012.

The sales revenue of SKHMS included in the consolidated statement of comprehensive income after acquisition date was 4,289 million. SKHMS also contributed a net loss of 5,802 million over the same period.

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Had SKHMS been consolidated from January 1, 2012, the sales of 13,490 million and net loss of 27,240 million would have been included in the consolidated statement of comprehensive income.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**SK TELECOM CO., LTD.**

*(Registrant)*

/s/ Sung Min Ha

Name: Sung Min Ha

Title: President & Chief Executive Officer

Date: April 30, 2014