

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	Average	High	Low
	of Period	Rate(1) (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.

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### **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 (IP TV) 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, 2011 (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 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.

**Table of Contents****Revenues and Rates**

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
Total	13,315.5	13,218.9	13,076.3

(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.

**Table of Contents****Item 4A. UNRESOLVED STAFF COMMENTS**

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

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

You should read the following discussion together with our consolidated financial statements and the related notes thereto which appear elsewhere in this annual report. We prepare our consolidated financial statements in accordance with IFRS as issued by the IASB. In addition, you should read carefully the section titled *Critical Accounting Policies, Estimates and Judgments* as well as note 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, 2012		2011	
	Amount	Percentage of Total Revenue	Amount	Percentage of Total Revenue	Amount	Percentage of Total 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 (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 5 Years
		Less Than 1 Year	1-3 Years (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 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 Employees</b>	<b>Temporary 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 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.

**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 per Share (In Won)</b>	<b>Total Amount of Dividends (In billions of Won)</b>	<b>Number of Shares Entitled 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 Trading Volume (Number of shares)
	High(1)	Low(1) (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 (Number of ADSs)
	High	Low (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;