

SK TELECOM CO LTD  
Form 20-F  
April 30, 2015  
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As filed with the Securities and Exchange Commission on April 30, 2015

**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, 2014**

**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 Common Stock, par value 500 per share	New York Stock Exchange   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**

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

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

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

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, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012 included in this annual report.

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

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

**FORWARD-LOOKING STATEMENTS**

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

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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 2015 for a range of projects, including investments to improve our LTE network and launch our LTE-A services, 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, the Mobile Device Distribution Improvement Act ( MDDIA ), rules related to our status as a market-dominating business entity under the Korean Monopoly Regulation and Fair Trade Act (the Fair Trade Act ) and the effectiveness of steps we have taken to comply with such regulations;

our ability to 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;

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

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

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

our ability to successfully attract and retain subscribers; and

the growth of the telecommunications industry in Korea and other markets in which we do business and the effect that economic, political or social conditions have on our number of subscribers, 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



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

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**PART I**

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

**Item 1.A. Directors and Senior Management**

Not applicable.

**Item 1.B. Advisers**

Not applicable.

**Item 1.C. Auditors**

Not applicable.

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**Item 3. KEY INFORMATION**

**Item 3.A. Selected Financial Data**

You should read the selected consolidated financial and operating data below in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report. The selected consolidated financial data set forth below as of and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements and related notes thereto, which have been prepared in accordance with IFRS as issued by the IASB.

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

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



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	Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>(In billions of Won, except per share and number of shares data)</b>					
<b>STATEMENT OF INCOME DATA</b>					
Operating Revenue and Other Income	17,220.3	16,677.0	16,343.3	15,852.8	15,473.4
Revenue	17,163.8	16,602.1	16,141.4	15,803.2	15,392.7
Other income	56.5	74.9	201.9	49.6	80.7
Operating Expense	15,612.4	15,098.6	14,605.6	13,690.1	13,139.3
Operating Income	1,607.8	1,578.4	1,737.6	2,162.7	2,334.1
Profit before Income Tax	2,253.8	1,827.1	1,519.4	2,212.3	2,363.5
Profit from Continuing Operations	1,799.3	1,426.3	1,231.2	1,610.3	1,813.8
Profit (Loss) from Discontinued Operation, net of income taxes		183.2	(115.5)	(28.3)	(36.1)
Profit for the Year	1,799.3	1,609.5	1,115.7	1,582.1	1,766.8
Basic Earnings per Share(1)	25,154	23,211	16,525	22,848	25,598
Diluted Earnings per Share(2)	25,154	23,211	16,141	22,223	24,942
Basic Earnings per Share from Continuing Operations(1)	25,154	20,708	18,015	23,339	24,843
Diluted Earnings per Share from Continuing Operations(2)	25,154	20,708	17,583	22,699	24,208
Dividends Declared per Share (Won)	9,400	9,400	9,400	9,400	9,400
Dividends Declared per Share (US\$)(3)	8.6	8.9	8.8	8.1	8.3
Weighted Average Number of Shares	70,936,336	70,247,592	69,694,999	70,591,937	71,942,387

	As of December 31,				
	2014	2013	2012	2011	2010
<b>(In billions of Won)</b>					
<b>STATEMENT OF FINANCIAL POSITION DATA</b>					
Working Capital (Deficit)(4)	(337.2)	(945.8)	(880.5)	(556.1)	451.8
Property and Equipment, Net	10,567.7	10,196.6	9,712.7	9,031.0	8,153.4
Total Assets	27,941.2	26,576.5	25,595.6	24,366.0	23,132.4
Non-current Liabilities(5)	7,272.7	6,340.7	6,565.9	4,959.7	4,522.2
Share Capital	44.6	44.6	44.6	44.6	44.6
Total Equity	15,248.3	14,166.6	12,854.8	12,732.7	12,408.0

	Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>(In billions of Won, except percentage data)</b>					
<b>OTHER FINANCIAL DATA</b>					
Capital Expenditures(6)	3,008.0	2,879.1	3,394.3	2,960.6	2,142.3
R&D Expense(7)	397.8	363.7	346.3	295.9	355.9
Depreciation and Amortization Expense	2,714.7	2,661.6	2,421.1	2,286.6	2,118.4
Net Cash Provided by Operating Activities	3,677.4	3,558.6	3,999.7	6,306.4	4,343.4
Net Cash Used in Investing Activities	(3,683.2)	(2,506.5)	(5,309.6)	(4,239.1)	(2,339.0)
Net Cash Provided by (Used in) Financing Activities	(559.4)	(573.2)	585.3	(1,079.3)	(2,246.1)
Margins (% of total sales):					
Operating Margin(8)	9.3%	9.5%	10.6%	13.6%	15.0%
Net Margin(8)	10.4%	9.7%	6.8%	9.9%	11.3%

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	As of or for the Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>SELECTED OPERATING DATA</b>					
Population of Korea (in millions)(9)	51.3	51.1	50.9	50.7	50.5
Our Wireless Penetration(10)	55.7%	53.5%	52.9%	52.3%	50.9%
Number of Employees(11)	25,689	23,789	22,148	20,955	20,143
Wireless Subscribers(12)	28,613,341	27,352,482	26,961,045	26,552,716	25,705,049
Average Monthly Outgoing Voice Minutes per Subscriber(13)	195	182	179	192	199
Average Monthly Churn Rate(14)	2.0%	2.3%	2.6%	2.7%	2.7%
Cell Sites	50,158	44,764	35,584	21,999	17,483

- (1) Basic earnings per share is calculated by dividing profit attributable to owners of SK Telecom by the weighted average number of common shares outstanding during the period. Basic earnings per share from continuing operations is calculated by dividing profit from continuing operations attributable to owners of SK Telecom by the weighted average number of common shares outstanding during the period.
- (2) Diluted earnings per share is calculated by dividing profit attributable to owners of SK Telecom adjusted for dilution by the potential dilutive weighted average number of common shares outstanding during the period, taking into account the conversion of outstanding convertible bonds. Diluted earnings per share from continuing operations is calculated by dividing profit from continuing operations attributable to owners of SK Telecom adjusted for dilution by the potential dilutive weighted average number of common shares outstanding during the period, taking into account the conversion of outstanding convertible bonds.
- (3) The Dollar amounts shown for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 were translated at the rate of Won 1,090.9 to US\$1.00, 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.
- (4) Working capital means current assets minus current liabilities.
- (5) Our monetary assets and liabilities denominated in foreign currencies are valued at the exchange rates prevailing at the end of each reporting period. See note 4(19) of the notes to our consolidated financial statements.
- (6) Consists of cash outflows for the acquisition of property and equipment.
- (7) Consists of research and development costs that are expensed and costs that are amortized during the respective period as well as donations to Korean research institutions and educational organizations in 2012, 2011 and 2010 of Won 4.0 billion, Won 20.0 billion and Won 81.6 billion, respectively.
- (8) Operating revenue and other income and operating income used in the calculation of these ratios exclude the operating revenue and other income and operating income from discontinued operations.
- (9) Population numbers reflect the number of registered residents as published by the Ministry of Government Administration and Home Affairs of Korea.

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- (10) Wireless penetration is determined by dividing our subscribers by total estimated population, as of the end of the period.
  
- (11) Includes regular employees and temporary employees. See Item 6.D. Employees.
  
- (12) Wireless subscribers include those subscribers who are temporarily deactivated, including (i) subscribers who voluntarily deactivate temporarily for a period of up to three months no more than twice a year and (ii) subscribers with delinquent accounts who may be involuntarily deactivated up to two months before permanent deactivation, which we determine based on various factors, including prior payment history. The number of subscribers as of December 31, 2014, 2013, 2012 and 2011 include 2,141,172 subscribers, 1,066,848 subscribers, 406,018 subscribers and 55,449 subscribers, respectively, of mobile virtual network operators ( MVNO ) that lease our wireless networks.

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- (13) 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.
- (14) 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)		
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
2014	1,090.9	1,052.3	1,117.7	1,008.9

  

	Past Six Months	
	High	Low
	(Won per US\$1.00)	
October 2014	1,074.4	1,043.9
November 2014	1,114.7	1,077.0
December 2014	1,117.7	1,080.8
January 2015	1,109.1	1,075.3
February 2015	1,112.8	1,086.8
March 2015	1,135.7	1,095.7
April 2015 (through April 24)	1,100.4	1,075.9

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 24, 2015, the noon buying rate was Won 1,075.9 to US\$1.00.

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

Not applicable.

**Item 3.C. *Reasons for the Offer and Use of Proceeds***  
Not applicable.



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**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 transmission 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 subscribers, as of December 31, 2014. 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 2014, the churn rate in our wireless telecommunications business ranged from 1.7% to 2.3%, with an average churn rate of 2.0%, which was a decrease from 2.3% in 2013. 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.

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 were required to lease our networks to any 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, ten MVNOs have commenced providing wireless telecommunications services using the networks leased from us. Furthermore, CJ HelloVision Co., Ltd. commenced providing wireless voice and data transmission services as an MVNO using the networks leased from KT in January 2012. In addition, other companies may enter the telecommunications service market by applying for the required licenses from the MSIP. For example, between 2010 and 2014, Korea Mobile Internet and Internet Space Time Co., Ltd. applied for such licenses multiple times but all of their applications were either rejected or withdrawn. We believe the introduction of bundled services and the entrance of MVNOs or another wireless telecommunications 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

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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 telecommunications industry will likely have a material adverse effect on our financial condition, results of operation, cash flows and business.***

The telecommunications industry has been characterized by continual improvement and advances in technology, and this trend is expected to continue. We and our competitors have continually implemented technology upgrades from our basic code division multiple access ( CDMA ) network to WCDMA, which is the third generation technology implemented by us, and to LTE technology, which is generally referred to as a fourth generation technology. We commenced commercial LTE services in July 2011 at the same time with LG U+, while KT commenced its commercial LTE services in January 2012. In June 2013, we commenced providing commercial LTE-A services using carrier aggregation technology which combines spectrum frequencies to improve data transmission speeds and since then, we have continued to deploy improved LTE-A technology to increase the maximum data transmission speed of our services. KT and LG U+ have also launched similar LTE-A services around the same time as us. The more successful operation of an LTE network or development of improved LTE technology by a competitor, including better market acceptance of a competitor's LTE services, could materially and adversely affect our existing wireless telecommunications businesses as well as the returns on future investments we may make in our LTE network or our other businesses.

For a more detailed description of our backbone networks, see Item 4.B. Business Overview 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 2014, 2013 and 2012, we spent Won 1,357.2 billion, 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. While we believe that entering into new businesses enables us to diversify our business portfolio, we may be exposed to additional risks. For example, in February 2012, we acquired a 21.1% equity stake in SK Hynix, one of the world's largest memory-chip makers by revenue, for an aggregate purchase price of approximately Won 3.4 trillion, and became its largest shareholder. 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.

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From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged downturns, which often occur in connection with a deterioration of global economic conditions, and is subject to intense competition. For example, SK Hynix and its subsidiaries, on a consolidated basis, incurred net losses of Won 158.8 billion and Won 56.0 billion in 2012 and 2011, respectively, primarily due to increased supply and weak demand for semiconductor products. Accordingly, SK Hynix's operating results would be adversely affected if it fails to compete successfully or decrease manufacturing costs at an adequate level. Since our share of any net losses incurred by SK Hynix would be reflected in our income statement as share of losses related to investments in associates, any significant loss of SK Hynix could have a material adverse effect on our results of operations.

We 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 US\$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 continue to seek opportunities to develop new businesses that we believe are complementary to our existing product and service portfolio and expand our global business through selective acquisitions. In 2014, we acquired a 66.7% interest in Neosnetworks Co., Ltd. ( Neosnetworks ), a provider of residential and small business electronic security and other related alarm monitoring services, for an aggregate purchase price of approximately Won 24.0 billion and a 49.0% equity stake in Iriver Ltd. ( Iriver ), a manufacturer of digital audio players and other portable media devices, for an aggregate purchase price of approximately Won 54.5 billion. In 2014, SK Planet acquired (through its 95.2%-owned subsidiary) a 100.0% ownership interest in Shopkick Inc. ( Shopkick ), a developer of a shopping app for mobile devices that provides benefits to customers for visiting stores, in order to penetrate the mobile commerce market in the United States. For a more detailed description of our recent investments in new businesses, see Item 5.B. Liquidity and Capital Resources Capital Requirements Investments in New Businesses and Global Expansion and Other Needs.

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

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

According to data published by the MSIP and the historical population data published by the Ministry of Government Administration and Home Affairs, the penetration rate for the Korean wireless telecommunications industry as of December 31, 2014 was approximately 111.5%, 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 telecommunications services coupled with our leading market share, we expect our subscriber growth rate to decrease. Slowed growth in the penetration rate without a commensurate increase in revenues through the introduction of new services and increased use of our services by existing subscribers would likely have a material adverse effect on our financial condition, results of operations and cash flows.

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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 network. We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our CDMA services, 40 MHz of bandwidth in the 2.1 GHz spectrum for our WCDMA services, 20 MHz of bandwidth in the 2.1 GHz spectrum, 20 MHz of bandwidth in the 800 MHz spectrum and 35 MHz of bandwidth in the 1.8 GHz spectrum for our LTE services, as well as 27 MHz of spectrum in the 2.3 GHz band for our WiBro services.

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

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.

**Table of Contents*****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 3,008.0 billion for capital expenditures in 2014. We expect to spend less for capital expenditures in 2015 compared to 2014 for a range of projects, including investments to improve our LTE network and launch our LTE-A services, 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, 2014, we had approximately Won 1,755.5 billion in contractual payment obligations due in 2015, almost all of which involve repayment of debt obligations. See Item 5.B. Liquidity and Capital Resources Contractual Obligations and Commitments.

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

***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 ). 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

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could have an adverse effect on our results of operations. Inability to lease adequate lines at commercially reasonable rates may impact the quality of the services we offer and may also damage our reputation and our business.

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

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

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

### ***Malicious and abusive Internet practices could impair our services.***

Our wireless and fixed-line subscribers increasingly utilize our network to access the Internet and, as a consequence, we or they may become victim to common malicious and abusive Internet activities, such as unsolicited mass advertising (i.e., spam), hacking of personal information and dissemination of viruses, worms and other destructive or disruptive software. These activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers and damage to our or our customers equipment and data. Significant incidents could lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to us to service our customers and protect our network. For example, in July 2011, there was a leak of personal information of subscribers of the NATE and Cyworld websites operated by SK Communications Co., Ltd. (SK Communications), our consolidated subsidiary. Various lawsuits have been filed against SK Communications alleging that the leak was caused by its poor management of subscribers personal information. With respect to three of the lawsuits for which final judgments have been rendered, the relevant courts have rendered judgments in favor of SK Communications. As of March 31, 2015, nineteen of the lawsuits, seeking damages of approximately Won 1.2 billion in aggregate, were pending at various district courts, various high courts and the Supreme Court of Korea. Any significant loss of our subscribers or revenue due to incidents of malicious and abusive Internet practices or significant increase in costs of serving those subscribers could adversely affect our business, financial condition and results of operations.

### ***Labor disputes may disrupt our operations.***

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

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's ordinary wage is a key legal construct used to calculate many statutory benefits and entitlements in Korea. Increasing or decreasing the amount of compensation included in employees' ordinary wages has the effect of increasing or decreasing the amounts of various statutory entitlements.

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that are calculated based on ordinary wage, such as overtime premium pay. Under guidelines previously issued by the Ministry of Employment and Labor (formerly the Ministry of Labor), an employee's ordinary wage included base salary and certain fixed monthly allowances. Prior to the Supreme Court of Korea's decision described below, we and other companies in Korea had, in reliance on these guidelines, excluded 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 employees' ordinary wages will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court of Korea further ruled that employees' claims for underpayments during the past three years (within the statute of limitations) due to failure to include a regular bonus in employees' ordinary wages, may be denied based on principles of good faith if (i) there has been an agreement between the employer and employees that the regular bonus shall be excluded from employees' ordinary wages in determining the total amount of wages, (ii) such claims, if successful, would result in further wage payments that far exceed the total amount of wages agreed between the employer and employees, and (iii) such payments would cause an unexpected financial burden to the employer leading to material managerial difficulty or a threat to the employer's existence. These 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 for us in the form of additional payments required under the expanded scope of ordinary wages, both those incurred during the past three years and those 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. When the current president Park Geun-hye took office in February 2013, she announced that the Government will work toward reducing telecommunications service charges and promoting transparency in the decision making of telecommunications service providers. Accordingly, the Government has set detailed policy objectives to (1) gradually reduce and abolish initial subscription fees by 2015, (2) expand MVNO and mobile VoIP ( 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. Accordingly, we gradually reduced our initial subscription fees by 40% in August 2013 and again by an additional 50% in August 2014. Starting in November 2014, we ceased charging initial subscription fees to new subscribers. KT and LG U+ also gradually reduced the initial subscription fees that they charge and have ceased charging initial subscription fees to new subscribers as of March 31, 2015. Similarly, the Government has periodically reviewed the tariffs charged by wireless telecommunications service providers and has, from time to time, suggested tariff reductions. Although these suggestions were not binding, we have implemented some tariff reductions in response to such recommendations. The MSIP may suggest other tariff reductions in the future and any further tariff reductions we make in response to such suggestion may adversely affect our results of operations.

In furtherance of the above policy objectives, the Government also enacted the MDDIA, which became effective on October 1, 2014. The MDDIA was enacted for the purpose of establishing a transparent and fair distribution practice for mobile devices, and it limits the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers. Pursuant to the MDDIA, wireless telecommunications service providers are prohibited from (i) unfairly providing discriminatory subsidies based on criteria such as type of subscription, subscription plan and characteristics of the subscriber, (ii) providing subsidies exceeding a maximum limit established by the KCC (such

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limit to be determined between Won 250,000 and Won 350,000, which may be adjusted every six months, with the current limit set at Won 330,000, effective as of April 24, 2015) for the purchase of mobile phone models that were launched within the last 15 months, and (iii) entering into a separate agreement with subscribers imposing obligations to use a specific subscription plan as a condition for providing subsidies. In addition, under the MDDIA, wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving subsidies, in an amount corresponding to such subsidies. It is difficult to estimate the impact the MDDIA will have on our results of operations as we believe the imposition of the MDDIA may affect the wireless telecommunications industry in various ways that we cannot fully predict, including the impact on our competitors and consumer behavior, which may have an adverse impact on our business. See Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation.

The Government also plays an active role in the selection of technology to be used by telecommunications operators in Korea. For example, the MIC adopted the WCDMA and CDMA2000 technologies as the only standards available in Korea for implementing third generation ( 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. See Item 4.B. Business Overview Law and Regulation Competition Regulation Frequency Allocation. The reallocation of the spectrum to our existing competitors could increase competition among wireless telecommunications service providers, which may have an adverse effect on our business.

Pursuant to the Telecommunications Business Act, certain wireless telecommunications service providers designated by the MSIP, which currently include only us, are required to lease their networks or allow use of their networks (collectively, wholesale lease ) to other network service providers, such as an MVNO, that have requested such wholesale lease in order to provide their own services using the leased networks. To date, ten 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 telecommunications service providers 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 telecommunications service providers and higher costs of marketing, increased subscriber



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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 2013, the KCC imposed 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 discriminatory 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 discriminatory handset subsidies to subscribers. 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. On March 26, 2015, the KCC imposed a fine of Won 23.5 billion on us and imposed a suspension on acquiring new subscribers for a period of seven days for providing subsidies to subscribers in excess of the amounts permitted under the MDDIA. For more information about the penalties imposed for violating Governmental regulations, see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings MIC, KCC and MSIP Proceedings. 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.

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

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

We also qualify as a market-dominating business entity under the Fair Trade Act, which subjects us to additional regulations. 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.

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

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

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

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

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

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. 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 2015 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 financial difficulties affecting many other governments worldwide, in particular in Southern Europe and Latin America and the slowdown of economic growth in China and other major emerging market economies, as well as political instability in various countries in the Middle East and Northern Africa, including in Iraq, Syria and Yemen, as well as in the Ukraine and Russia. 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

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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

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 2,147.67 on April 28, 2015, 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;

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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;

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 including the recent Ebola outbreak;

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

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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.

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, which may further aggravate social and political pressures within North Korea.

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

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

The Securities-related Class Action Act of Korea enacted in January 2004 allows class action suits to be brought by shareholders of companies (including us) listed on the KRX KOSPI Market for losses incurred in connection with purchases and sales of securities and other securities transactions arising from (1) false or inaccurate statements provided in the registration statements, prospectuses, business reports, audit reports, semi-annual or quarterly reports and material fact reports and omission of material information in such documents, (2) insider trading, (3) market manipulation and (4) unfair trading. This law permits 50 or more shareholders who collectively hold 0.01% of the shares of a company to bring a class action suit against, among others, the issuer and its directors and officers. Because of the relatively recent enactment of the act, there is not enough judicial precedent to predict how the courts will apply the law. Litigation can be time-consuming and expensive to resolve, and can

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divert management time and attention from the operation of a business. We are not aware of any basis upon which such suit may be brought against us, nor are any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

**Risks Relating to Securities**

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

The Telecommunications Business Act currently sets a 49.0% limit on the aggregate foreign ownership of our issued shares. Under the Telecommunications Business Act, as amended, a Korean entity, such as SK Holdings Co., Ltd. ( SK Holdings ), is deemed to be a foreign entity if its largest shareholder (determined by aggregating the shareholdings of such shareholder and its related parties) is a foreigner and such shareholder (together with the shareholdings of its related parties) holds 15.0% or more of the issued voting stock of the Korean entity. As of December 31, 2014, 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, 2014, which we believe was 43.47%) would exceed the 49.0% ceiling on foreign shareholding. As of December 31, 2014, 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 will be prohibited from exercising its voting rights with respect to the shares held in excess of the 49.0% ceiling, which may result in a change in control of us. In addition, the MSIP will be prohibited from granting us licenses or permits necessary for entering into new telecommunications businesses until our aggregate foreign shareholding is reduced to below 49.0%. For a description of further actions that the MSIP could take, see Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements.

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

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

As of December 31, 2014, SK Holdings owned 25.22% of our total issued common shares and has not agreed to any restrictions on its ability to dispose of our shares. See Item 7.A. Major Shareholders. We can make no prediction as to the timing or amount of any sales of our common shares. We cannot assure you that future sales of our common shares, or the availability of our common shares for future sale, will not adversely affect the prevailing market value of our common shares or ADSs from time to time.

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

Under the deposit agreement, holders of our common shares may deposit those shares with the ADR depositary's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the ADR depositary and receive our common shares. However, under the terms of the deposit agreement, as amended, the depositary bank is required to obtain our prior consent to any such deposit if, after giving effect to such deposit, the total number of our common shares represented by ADSs, which was 10,000,488 shares as of March 31, 2015, exceeds a specified maximum, subject to adjustment under certain circumstances. In addition, the depositary bank or the custodian may not accept deposits of our common shares for issuance of ADSs under certain circumstances, including (1) if it has been determined by us that we should block the deposit to prevent a violation of applicable



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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 Depositary Shares. It is possible that we may not give the consent. Consequently, an investor who has surrendered his or her ADSs and withdrawn the underlying shares may not be allowed to deposit the shares again to obtain ADSs.

*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 depository, 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 depository, 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

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NYSE ), we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ). However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the NYSE. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information available could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

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

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

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

**Item 4. INFORMATION ON THE COMPANY****Item 4.A. History and Development of the Company**

As Korea's first wireless telecommunications service provider, we have a recognized history of leadership and innovation in the domestic telecommunications sector. Today, we remain Korea's leading wireless telecommunications services provider and have continued to pioneer the commercial development and implementation of state-of-the-art wireless technologies. We 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% 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 networks, 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, 2014, we had approximately 28.6 million wireless subscribers throughout Korea, including the number of MVNO subscribers leasing our networks, of which 26.3 million owned Internet-enabled handsets capable of accessing our wireless Internet services. As of December 31, 2014, our share of the Korean wireless market was approximately 50.0%, based on number of subscribers, according to the MSIP. MVNOs leasing our networks had a total of 2.1 million subscribers, representing a market share of approximately 3.7%.

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%, which we intend to increase to 100.0% pursuant to a share exchange transaction described in Recent Developments below. 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

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services. As of December 31, 2014, we had approximately 4.8 million broadband Internet access subscribers, 2.8 million IP TV subscribers and 4.8 million fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink Co., Ltd. ( SK Telink )).

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

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

On March 31, 2015, we had a market capitalization of approximately Won 22.0 trillion (US\$19.9 billion, as translated at the noon buying rate of March 31, 2015) or approximately 1.7% of the total market capitalization on the KRX KOSPI Market, making us the seventh 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.

## **Recent Developments**

On March 20, 2015, each of the board of directors of SK Telecom and SK Broadband resolved to approve a share exchange transaction (the Share Exchange ) through which we plan to acquire all of the shares of SK Broadband that we do not otherwise own in exchange for our treasury shares such that SK Broadband will become our wholly-owned subsidiary. We believe that by SK Broadband becoming our wholly-owned subsidiary, we will be able to strengthen our competitiveness by improving management efficiency of, and maximizing synergies between, us and SK Broadband. The Share Exchange is currently scheduled for June 9, 2015, but remains subject to the approval of SK Broadband's shareholders and our board of directors pursuant to applicable Korean law. In certain circumstances, the Share Exchange may require the approval of SK Telecom's shareholders in lieu of the approval of our board of directors. We expect to exchange 2,471,883 treasury shares for the common shares of SK Broadband at a share exchange ratio of 1:0.0168936, subject to adjustments.

Upon the completion of the Share Exchange, (i) there will be no change in the share ownership interest of our existing shareholders, our corporate governance structure or our management, (ii) SK Telecom will be the parent company of SK Broadband with 100% ownership and will remain a listed corporation on the KRX KOSPI Market and the NYSE and (iii) SK Broadband will become a wholly-owned subsidiary of SK Telecom and will be delisted from the KRX KOSDAQ Market of the Korea Exchange (the KRX KOSDAQ Market ). For further details regarding the Share Exchange, refer to the Form 6-K furnished to the SEC on March 20, 2015 and the Form 6-K/A furnished to the SEC on April 8, 2015 as well as our Form CB filed with the SEC on April 21, 2015.

## **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 telecommunications services under Government licenses to provide wireless telecommunications services.

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In 2000 and 2001, the Korean wireless telecommunications market experienced significant consolidation. In January 2002, Shinsegi was merged into us. Additionally, two of the other wireless telecommunications services providers merged. See Item 4.B. Business Overview Competition.

There are currently three providers of wireless telecommunications services in Korea: our company, KT (into which KTF merged) and LG U+ (formerly, LG Telecom). According to the MSIP, as of December 31, 2014, the market share of the Korean wireless telecommunications market in terms of number of subscribers of KT and LG U+ was approximately 30.3% and 19.7%, respectively (compared to our market share of 50.0%), each including the number of MVNO subscribers leasing the respective networks. As of December 31, 2014, MVNOs had a combined market share of 8.0%, of which MVNOs leasing our networks represented 3.7%, MVNOs leasing KT's networks represented 3.6% and MVNOs leasing LG U+'s networks represented 0.6%.

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 telecommunications service providers may transfer to any other wireless telecommunications service provider. During 2014, 2013 and 2012, approximately 3.6 million, 4.2 million and 4.5 million, respectively, of our subscribers migrated to our competitors and approximately 3.4 million, 3.8 million and 4.5 million, respectively, of our competitors' subscribers migrated to our service.

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

Telecommunications industry growth in Korea has been among the most rapid in the world, with fixed-line penetration being under five lines per 100 population in 1978 and increasing to 47.9 lines per 100 population as of December 31, 2006 before decreasing to 33.0 lines per 100 population as of December 31, 2014, and wireless penetration increasing from 7.0 subscribers per 100 population in 1996 to 111.5 subscribers per 100 population as of December 31, 2014. The table below sets forth certain subscription and penetration information regarding the Korean telecommunications industry as of the dates indicated:

	As of December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except for per population amounts)				
Population of Korea(1)	51,328	51,141	50,948	50,734	50,516
Wireless Subscribers(2)	57,208	54,681	53,624	52,507	50,767
Wireless Subscribers per 100 Population	111.5	106.9	105.3	103.5	100.5
Telephone Lines in Service(2)	16,939	17,620	18,261	18,633	19,273
Telephone Lines per 100 Population	33.0	34.5	35.8	36.7	38.2

(1) Source: The Ministry of Government Administration and Home Affairs.

(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 111.5% as of December 31, 2014 and the number of wireless subscribers has increased from approximately 3.2 million in 1996 to approximately 57.2 million as of December 31, 2014.

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 telecommunications service providers have developed extensive wireless Internet service portals.

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As of December 31, 2014, approximately 52.8 million Korean wireless subscribers owned Internet-enabled handsets capable of accessing wireless Internet services, including 40.6 million subscribers that own smartphones that have direct access to the Internet using mobile Internet technology. The table below sets forth certain penetration information regarding the number of Internet-enabled handsets, smartphones and wireless subscribers in Korea as of the dates indicated:

	2014	As of December 31,			
		2013	2012	2011	2010
		(In thousands, except for percentage data)			
Number of Wireless Internet-Enabled Handsets	52,833	50,858	50,420	49,297	48,085
Number of Smartphones	40,560	37,517	32,727	22,578	N/A
Total Number of Wireless Subscribers	57,208	54,681	53,624	52,507	50,767
Penetration of Wireless Internet-Enabled Handsets	92.4%	93.0%	94.0%	93.9%	94.7%
Penetration of Smartphones	68.2%	66.9%	61.0%	43.0%	N/A

Source: MSIP.

N/A = Not available.

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 41.1 million as of July 2014, representing a 17.6% compound annual growth rate. From the end of 2005 to the end of 2014, the number of broadband Internet access subscribers increased from approximately 12.2 million to approximately 19.2 million, representing a 5.2% compound annual growth rate. In connection with such growth in broadband Internet usage, the number of IP TV subscribers has also increased rapidly. The table below sets forth certain information regarding Internet users and broadband Internet access subscribers as of the dates indicated:

	2014	As of December 31,			
		2013	2012	2011	2010
		(In thousands)			
Number of Internet Users(1)	41,118(2)	40,080(2)	38,120(2)	37,180(2)	37,010(3)
Number of Broadband Internet Access Subscribers(4)	19,199	18,738	18,253	17,860	17,224
Number of IP TV Subscribers(5)	10,840	8,738	6,457	4,894	3,646

(1) Source: KISA.

(2) As of July 2014, 2013, 2012 and 2011, respectively.

(3) As of May 2010.

(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.

(5) Source: MSIP.

**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.)

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*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, IP TV and fixed-line telephone services.* Through SK Broadband, we provide broadband Internet access service and other Internet-related services, including video-on-demand and IP TV services. We also provide local, domestic long-distance and international long-distance fixed-line telephone services to residential and commercial subscribers.

*New businesses.* We also strive to continually diversify our services by engaging in various new businesses that we believe are complementary to our existing product and service portfolio. The principal new businesses that we are engaged in include the following:

our platform business, which is operated by our wholly-owned subsidiary, SK Planet Co., Ltd. ( SK Planet ) and includes platforms such as 11th Street, Syrup, T Store, T-Map Navigation and Hoppin;

our B2B solutions business, through which we provide customized business solutions and applications to corporate customers;

our healthcare business; and

our other businesses, including our multimedia and audio/video product business through which we provide products such as smart beams, smart speakers and other audio products developed by Iriver, which we acquired in 2014.

We provide our wireless telecommunications 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 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 telecommunications 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. 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. In June 2013, we commenced providing commercial LTE-A services using carrier aggregation technology which combines spectrum frequencies to improve data transmission speed of up to 150 Mbps. In June 2014, we launched wideband LTE-A services of up to 225 Mbps and expanded coverage nationwide in 2014. In December 2014, we commenced tri-band LTE-A services which bundles three different bandwidths to allow faster network service at speeds of up to 300 Mbps in Seoul and other metropolitan areas and we expect to expand our coverage for such services in 2015. We 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



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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 by securing a competitive line-up of various devices including smartphones and tablets 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 wireless telecommunications 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 mobile 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.

*Create increasing synergies with the businesses operated by our subsidiaries.* We continue to create synergies among our various product and service offerings to increase customer loyalty from our subscribers and increase our competitiveness. For example, we provide various bundled fixed-line, mobile telecommunications, broadband Internet and IP TV, including mobile IP TV, services together with SK Broadband, and we believe such bundled service offerings contribute to increased customer retention for both SK Telecom and SK Broadband and also increase our competitiveness in acquiring new subscribers due to more competitive pricing and increased convenience. In addition, while SK Planet's various platform services generate independent revenue streams, certain of their services are offered as value-added services to SK Telecom's wireless subscribers free of charge, which we believe increases customer loyalty. For example, T-Map Navigation is provided to SK Telecom's wireless subscribers free of charge whereas wireless subscribers to KT and LG U+ pay a fee to use this service.

*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. 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 Neosnetworks, 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 M&A opportunities.* We continue to seek opportunities to develop new businesses that we believe are complementary to our existing product and service portfolio and expand our global business through selective acquisitions. For example, in 2014, we acquired interests in Neosnetworks, a provider of residential and small business electronic security and other related alarm monitoring services, and Iriver, a manufacturer of digital audio players and other portable media devices, and SK Planet acquired Shopkick, a developer of a shopping app for mobile devices that provides benefits to customers for visiting stores, in order to penetrate the mobile commerce market in the United States.

**Table of Contents****Digital Wireless Network**

We offer wireless voice and data transmission 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. The table below sets forth the number of subscribers, including subscribers of MVNOs that lease our wireless networks, using our various digital wireless networks as of the dates indicated:

	2014	2013	As of December 31, 2012 (In thousands)	2011	2010
<b>Network</b>					
CDMA	3,521,205	3,956,520	4,972,306	6,881,756	9,804,407
WCDMA	8,354,711	9,909,196	14,458,523	19,036,649	15,900,632
LTE	16,737,425	13,486,766	7,530,216	634,311	

Source: MSIP.

**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. In 2004, we completed the full upgrade of our CDMA network to CDMA 1xEV-DO technology which enables data to be transmitted at speeds of up to 2.4 Mbps allowing for interactive transmission of data required for videophone services, a high-speed wireless Internet connection, as well as a multitude of multimedia services.

**WCDMA Network**

WCDMA is a high capacity wireless communication system that enables us to offer 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 CDMA networks. We commenced provision of our WCDMA services using our HSDPA-upgraded WCDMA network on a limited basis in Seoul at the end of 2003. 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 technology than the initial WCDMA technology we implemented. In March 2007, we completed the nationwide expansion of our HSDPA-capable WCDMA network. In May 2010, we commenced commercial HSUPA services and in October 2010, we commenced HSPA+ services. 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, within our WCDMA network.

**WiBro Network**

We received a license from the MIC in 2005 to provide WiBro services which we believe complements 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 provide service nationwide. We 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 access point is smaller than that of our WCDMA or WiBro networks. We started to build Wi-Fi



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access points in 2010 and, as of December 31, 2014, we had more than 142,000 Wi-Fi access points in public areas such as shopping malls, restaurants, coffee shops, subways and airports where, generally, the demand for high-speed wireless Internet service is high. While each Wi-Fi access point typically has a radius of approximately 20-30 meters, some of our Wi-Fi hot zones, which have multiple Wi-Fi access points, including those installed at public transportation facilities and amusement parks, have much wider service areas. We plan to continue to increase the number of Wi-Fi access points in 2015.

**LTE Network**

We commenced commercial wireless telecommunications services based on LTE technology, which is generally referred to as a fourth generation technology, on July 1, 2011 and expanded the coverage area of our LTE services to nationwide by the end of April 2012. We launched our LTE multi-carrier service in the 1.8 GHz spectrum in July 2012. In June 2013, we commenced providing commercial LTE-A services at speeds of up to 150 Mbps using carrier aggregation technology which combines spectrum frequencies to improve data transmission speed and capacity, and in June 2014, we launched wideband LTE-A services at speeds of up to 225 Mbps and expanded coverage nationwide in 2014. In December 2014, we commenced tri-band LTE-A services which bundles three different bandwidths to allow faster network service at speeds of up to 300 Mbps in Seoul and other metropolitan areas and we expect to expand our coverage for such services in 2015. Several wireless carriers in the United States, Europe and Asia commenced LTE services in 2010 and 2011 and LTE technology has become widely accepted globally as the standard fourth generation technology. LTE technology enables data to be transmitted at speeds faster than our CDMA, WCDMA or WiBro networks. Our continued upgrades to our LTE technology enables even faster data transmission speeds, as shown below.

**Wireless network technology**

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

The faster data transmission speed of our LTE network has allowed us to offer significantly improved wireless data transmission services, providing our subscribers with faster wireless access to multimedia content. We have been building new access networks and evolved packet cores for our LTE network, while we utilize our existing WCDMA network for other parts of our LTE network. For more information about our capital expenditures relating to our LTE network, see Item 5.B. Liquidity and Capital Resources. As of December 31, 2014, we had 16.7 million LTE subscribers.

**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, 2014, our CDMA, WCDMA, LTE and WiBro networks had an aggregate of 50,158 cell sites.



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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 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.

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 one of our core business areas. 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 2014 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

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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 telecommunications 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 109 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 153 countries, WCDMA data roaming services in 108 countries and LTE data roaming services in 32 countries. In 2014, approximately 12.0 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. For more information on our backbone networks, see [Digital Wireless Network](#).

***Wireless Data, SMS and MMS Services.*** We provide wireless data communication services, including our basic short text message service ( SMS ), which allows subscribers to send and receive short text messages to and from their mobile phones and other devices. 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. While our subscribers continue to use our SMS, MMS and joyn.T services, usage of such services has not increased in 2014, in part due to the widespread use of free text message services such as Kakao Talk and Line.

***Wireless Internet Services.*** We provide our smartphone subscribers with direct access to the Internet using mobile Internet technology. Prior to the introduction of smartphones, we offered our feature phone subscribers wireless Internet access to a wide variety of multimedia contents and interactive services through our NATE portal. As of December 31, 2014, approximately 19.5 million, or 68.1%, of our subscribers owned smartphones compared to approximately 18.3 million subscribers, or 66.9%, as of December 31, 2013.

In connection with the continued increase in smartphone usage by our subscribers and the faster data transmission speeds made available by our LTE network, we offer various rate plans that we believe are tailored to meet the increased data usage of our subscribers. Examples of our rate plans that target various data usage patterns include data plans that offer 8GB, 12 GB or 16 GB a month for a monthly fixed rate and up to 2GB of daily usage for any data usage over the monthly fixed amount as well as data plans that offer unlimited data based on time, place and occasion such as our Subway Free plan, which offers unlimited wireless data usage on subway platforms and inside subways and our Commuter Free plan, which offers unlimited wireless data usage during

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rush hour, each for a monthly fixed rate. We believe that such rate plan offerings contribute to a continual increase in data usage by our LTE and smartphone subscribers such that the monthly data usage per LTE subscriber increased to 3.0 GB in December 2014 from 2.0 GB in December 2013. For more detailed information relating to our various rate plans, see Revenue and Rates.

***Broadband Internet, IP TV 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%, which we intend to increase to 100.0% pursuant to the Share Exchange through which we plan to acquire all of the shares of SK Broadband that we do not otherwise own in exchange for our treasury shares. For additional details relating to the Share Exchange, see Item 4.A. History and Development of the Company Recent Developments. 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 covered more than 80% of households in Korea as of December 31, 2014. 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. In addition, SK Broadband offers B tv Mobile, a mobile IP TV service that currently provides subscribers access to a wide variety of media contents, including various television programs, movies and other video contents that can be downloaded to wireless devices. For the year ended December 31, 2014, SK Broadband had revenues of Won 2,654.4 billion and net profit of Won 4.3 billion, compared to revenues of Won 2,539.4 billion and net profit of Won 12.3 billion in 2013.

As of December 31, 2014, SK Broadband had approximately 4.8 million broadband Internet access subscribers. According to the MSIP, its market share of Korean broadband Internet access subscribers was approximately 25.1%. Broadband Internet access services accounted for 32.4% of SK Broadband's revenues for the year ended December 31, 2014.

As of December 31, 2014, SK Broadband had approximately 2.8 million IP TV subscribers with a market share of approximately 26.6%. IP TV services (including revenues from video-on-demand services and B tv Mobile) accounted for 18.0% of SK Broadband's revenues for the year ended December 31, 2014.

As of December 31, 2014, SK Broadband had approximately 4.5 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 21.5% of SK Broadband's revenues for the year ended December 31, 2014.

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, 2014, SK Telink had 261,190 subscribers to its VoIP services.



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***New Businesses***

We strive to continually diversify our services by engaging in various new businesses that we believe are complementary to our existing products and services. The principal new businesses that we are engaged in are the platform business, the B2B solutions business and the healthcare business as well as other businesses.

*Platform Business.* Our platform business provides business platforms and technological support systems for third-party content developers and merchants. We plan to grow our platform business by sharing our telecommunication infrastructure with other service providers and application developers. 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. Our principal platforms are set forth below:

*11th Street*, an online shopping mall that links wired and wireless shopping services. As of December 31, 2014, 11th Street continues to be one of the three biggest enterprises in its field. In 2015, 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 mobile commerce markets;

*Syrup*, a mobile wallet service that is the successor to our Smart Wallet 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 Store*, an online open marketplace for mobile applications. T Store is open to, and operates with, other open markets such as the Android market and manufacturers' open markets;

*T-Map Navigation*, an interactive navigation service that uses global positioning system ( GPS ) technology to transmit driving directions, real-time traffic updates and emergency rescue assistance to wireless devices, including vehicle-mounted devices and portable handsets; and

*Hoppin*, a network-based personalized media platform through which we provide various video contents that can be viewed from multiple devices seamlessly, including smartphones, tablets, personal computers and TVs. We provide a broad selection of movies, television programs and music videos through Hoppin.

*B2B Solutions Business.* Our B2B solutions business provides customized business solutions and applications to corporate customers. 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.

In April 2014, we acquired a 66.7% controlling interest in Neosnetworks, a provider of residential and small business electronic security and other related alarm monitoring services, for an aggregate purchase price of approximately Won 24.0 billion. We acquired additional interests in Neosnetworks in April 2015 for Won 40.0 billion, resulting in an increase in our ownership of Neosnetworks to 83.9%. 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.

*Healthcare Business.* We believe that the healthcare business is one of the new growth industries as society ages and medical and health technologies evolve and become integrated with information and communication technologies ( ICT ). In 2011, we began pursuing new opportunities in the healthcare business area by acquiring a 9.3% equity interest in NanoEnTek Inc. ( NanoEnTek ), a biotechnology and nanotechnology company manufacturing, among others, point-of-care diagnostics devices. In April 2014, we became the largest shareholder of NanoEnTek with a 26.0% equity interest. In January 2012, we established a joint venture, Healthconnect Co., Ltd. ( Healthconnect ), with Seoul National University Hospital to develop a health management service model for mobile device users utilizing ICT and currently hold a 49.5% equity interest in Healthconnect. In March 2012, we established a new internal organization, the Health Group, dedicated to developing our healthcare business and related research and development efforts.

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We are also seeking opportunities in global healthcare markets. In the first quarter of 2013, we acquired a 49.0% equity interest in Xian Tianlong Service and Technology Co., Ltd. ( 天隆 ), a Chinese medical device manufacturer. In July 2014, we established the SK Telecom Healthcare R&D Center in Shenzhen, China and the Shenzhen VISTA-SK Medical Center, which we believe will provide us with a strong foothold in expanding our healthcare business in China. Shenzhen VISTA-SK Medical Center was established through a joint venture with Vista Medical Center, a major private healthcare service provider based in Beijing, China, and has the capacity to

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provide medical examinations and checkups to approximately 30,000 people annually. We believe that there are opportunities to create synergies among these centers and the medical device business of Tianlong in expanding our healthcare business in China.

In June 2014, we also entered into a contract to provide medical information systems to six Saudi Arabian hospitals for approximately Won 70.0 billion through a consortium with Seoul National University Bundang Hospital. We expect to further expand our healthcare business in Saudi Arabia and other Middle Eastern countries in the future.

*Other Businesses.* We also engage in other businesses, including the IoT business (our multimedia and audio/video product business through which we provide products such as smart beams, smart speakers and audio products developed by Iriver), the portal service business and the social networking services business.

In August 2014, we acquired a 39.3% equity interest of Iriver, a manufacturer of digital audio players and other portable media devices, which we increased to 49.0% in December 2014, for an aggregate purchase price of approximately Won 54.5 billion. We also acquired Won 5.0 billion of convertible bonds issued by Iriver, which may be converted into additional equity interests of Iriver when certain conditions are met. We expect that the Internet of Things (IoT) business, which refers to the network of physical electronic devices embedded with various software and connectivity, among other things, will continue to grow and that various smart devices offering advanced features utilizing wireless data networks will continue to be developed and commercialized. We believe the IoT business is one of the main features of the changing ICT business environment and with our acquisition of Iriver, we believe we have established a strong foundation to further engage in the smart device business and develop products such as smart beams, smart speakers, smart robots and other audio/video products which leverage our expertise in telecommunications and healthcare technology.

SK Communications offers a portal service under our NATE brand name 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 that allows users to chat online using a variety of mobile devices.

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.

## **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 US\$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.

In October 2014, SK Planet acquired (through its 95.2%-owned subsidiary) a 100.0% ownership interest in Shopkick, a developer of a shopping app for mobile devices that provides benefits to customers for visiting stores, in order to penetrate the mobile commerce business in the United States for an aggregate purchase price of Won 230.9 billion and the assumption of Won 18.7 billion in current liabilities.

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*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.

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.

We are also expanding into the healthcare business in China through our acquisition of Tianlong and the establishment of SK Telecom Healthcare R&D Center in Shenzhen, China and the Shenzhen VISTA-SK Medical Center described in Our Services New Businesses Healthcare Business above.

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

In November 2014, SK Planet and Celcom Axiata, which is a leading telecommunications service provider in Malaysia, established a joint venture, Celcom Planet, to launch online commerce services tailored to the Malaysian market in the first half of 2015 by combining SK Planet's expertise in operating 11th Street and the local business capabilities of Celcom Axiata.

*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 a mobile commerce business, and in March 2014, launched an online shopping mall Elevenia.

*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 mobile 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. The revenue of n11.com increased by 183% to Won 385.7 billion in 2014 from Won 136.3 billion in 2013 and with revenue of Won 157.1 billion in the fourth quarter of 2014, n11.com became the market leading service provider in Turkey in terms of quarterly revenue.

We also provide healthcare-related services in Saudi Arabia as described in Our Services Healthcare Business above and social networking services in Southeast Asia, United States and Turkey as described in Our Services New Businesses Other Businesses above.

*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 telecommunications service providers. In June 2007, we also signed a memorandum of understanding with FreeMove, an alliance of leading European wireless telecommunications service providers, including Orange SA of

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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 telecommunications 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.

## **Revenues and Rates**

We offer our wireless telecommunications services on both a postpaid and prepaid basis. Postpaid accounts primarily represent retail subscribers under contract with SK Telecom under which a subscriber is billed in advance a monthly fixed rate in return for a monthly network service allowance, and usage for outgoing voice calls and wireless data services beyond the allowance is billed in arrears. The standard contract period for our rate plans is 24 months, although our subscribers have the option to enter into shorter term contracts or no contract at all. We provide various subsidies, including handset subsidies depending on the length of the contract. Our prepaid service enables individuals to obtain wireless telecommunications services without a long-term contract by paying for all services in advance according to expected usage. Approximately 4.9% of our subscribers received our wireless telecommunications services on a postpaid basis as of February 28, 2015. 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](#).

We offer various postpaid account plans designed to meet a wide range of subscriber needs and interests, including the following popular plans for subscribers to our LTE network, which accounted for approximately 90% of our new or renewed subscriptions in 2014:

- our LTE Between T plans, which feature unlimited domestic voice minutes with other SK Telecom subscribers, a fixed domestic voice minute allowance for calls to other wireless subscribers and a fixed data transmission allowance per month; and

- our LTE Nationwide plans, which feature unlimited domestic voice minutes regardless of the call counterparty's subscription network, a fixed data transmission allowance per month and depending on the plan, an additional 2GB of daily usage for any data usage over the monthly fixed amount.

Our fixed-rate LTE plans range from Won 35,000 to Won 100,000 per month and our fixed-rate WCDMA plans range from Won 34,000 to Won 100,000 per month. We also offer a standard rate plan for Won 11,000 per month, through which the subscriber is charged per usage amount, other than on SMS usage up to 50 messages per month.

In connection with the increase in data usage due to the widespread use of smartphones and faster transmission speeds made possible by LTE technology, rate plans that provide for increased data usage are our most popular plans. We offer a variety of differentiated optional add-on rate plans that are designed to meet a wide range of subscriber needs and interests, particularly with respect to increased data usage. For example, in the first half of 2014, we launched data plans that offer unlimited data based on time, place and occasion such as our Subway Free plan, which offers unlimited wireless data usage on subway platforms and inside subways and our Commuter Free plan, which offers unlimited wireless data usage during rush hour, each for a fixed rate of Won 9,000 per month. We also offer a daily allowance of 2GB of B tv Mobile access through our Btv Mobile plan for Won 9,000 per month.

We also provide fixed-rate international roaming plans such as our T Roaming Data Unlimited OnePass, which provides unlimited data roaming services for Won 9,000 per day and is available in 147 countries and our

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T Roaming Data OnePass Premium, which provides unlimited data roaming services and a usage charge for outgoing voice calls of Won 500 per minute for Won 12,000 per day and is available in 23 countries.

The Government has periodically reviewed the tariffs charged by wireless telecommunications service providers and has, from time to time, suggested tariff reductions. Although these suggestions were not binding, we have implemented some tariff reductions in response to such recommendations, including gradually reducing and abolishing initial subscription fees charged to new customers. 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, Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation and 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 fixed rate 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. In addition, we charge subscribers for purchases of certain digital contents and for certain wireless telecommunications services, such as our mobile commerce transaction services.

Because we have been designated by the MSIP as a dominant network 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 28.6 million wireless subscribers, including the number of MVNO subscribers leasing our networks, as of December 31, 2014, representing a market share of 50.0%, the largest market share among Korean wireless telecommunications 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 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,		
	2014	2013	2012
<b>Wireless:</b>			
Subscribers(1)	28,613,341	27,352,482	26,961,045
Subscriber Growth Rate	4.6%	1.5%	1.8%
Activations	7,834,510	7,755,292	8,643,852
Deactivations	6,573,651	7,363,858	8,235,523
Average Monthly Churn Rate(2)	2.0%	2.3%	2.6%
<b>Broadband Internet:</b>			
Subscribers	4,810,493	4,569,105	4,394,123
Subscriber Growth Rate	5.3%	4.0%	4.8%
<b>Fixed-line Telephone (including VoIP):</b>			
Subscribers	4,774,748	4,801,047	4,757,152
Subscriber Growth Rate	(0.5)%	0.9%	7.6%

(1) The number of subscribers as of December 31, 2014, 2013 and 2012 include 2,141,172 subscribers, 1,066,848 subscribers and 406,018 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.

For the year ended December 31, 2014, we had 7.8 million activations and 6.6 million deactivations. For 2014, our churn rate ranged from 1.7% to 2.3%, with an average churn rate of 2.0% for 2014, which decreased by 0.3%p from 2013. 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 wireless telecommunications service provider. We were assigned the 011 prefix, and all of our subscriber's 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 telecommunications service provider 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 telecommunications service providers while retaining the same mobile phone number. As mandated by the MIC, we were the first wireless telecommunications service 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 telecommunications service provider have the right to return to their original service provider without paying any penalties within 14 days of their initial transfer.

During 2014, 2013 and 2012, approximately 3.6 million, 4.2 million and 4.5 million, respectively, of our subscribers migrated to our competitors and approximately 3.4 million, 3.8 million and 4.5 million, respectively, of our competitors' subscribers migrated to our service.

During 2014, 2013 and 2012, respectively, we gained approximately 1.3 million, 0.4 million and 0.4 million new subscribers, which represented approximately 49.9%, 37.1% and 36.6% 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 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 2014, our total interconnection revenues were Won 874.4 billion and our total interconnection expenses were Won 997.3 billion. 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.

Our interconnection revenue decreased in 2014 by Won 49.3 billion and our interconnection expenses decreased in 2014 by Won 46.4 billion, primarily due to decreases in interconnection rates in 2014, which were partially offset by an increase in total call volume to mobile devices.

### ***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 13.44 per minute, Won 16.57 per minute and Won 16.58 per minute for 2014, 2013 and 2012, respectively.

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

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The interconnection rates paid by fixed-line network service providers to each wireless network service provider are set out below. In December 2010, the KCC announced that a single interconnection rate will apply to all wireless telecommunications service providers starting from 2013, which will eliminate the cost benefit that KT and LG U+ currently derive from the differences in interconnection rates. However, in November 2012, the KCC announced that it would continue to apply varied interconnection rates for the year 2013 considering the cost difference among wireless network service providers and our position as a dominant network service provider. These regulations remain effective, as the MSIP, in announcing the interconnection rates for 2015, maintained the varied interconnection rates due to our dominant market position.

Applicable Year	Rate per Minute		
	SK Telecom	KT	LG U+
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
2014	22.22	22.73	22.78
2015	19.53	19.92	19.96

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

Our revenues from the wireless-to-wireless charge were Won 651.2 billion in 2014, Won 641.2 billion in 2013 and Won 601.5 billion in 2012. Our expenses from these charges were Won 700.3 billion in 2014, Won 615.6 billion in 2013 and Won 639.8 billion in 2012. 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 approximately 20 marketing teams, 30 branch offices and a network of approximately 3,690 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 12,400 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 rate for the first four years. In order to strengthen our relationships with our exclusive dealers, we offer a dealer financing plan, pursuant to which we provide to each authorized dealer an interest-free or low-interest loan of up to Won 4.0 billion with a repayment period of up to three years. As of December 31, 2014, we had an aggregate of Won 82.7 billion in loans to authorized dealers outstanding.

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In April 2009, we established a wholly-owned subsidiary, PS&Marketing Co., Ltd. ( PS&Marketing ), with an investment of Won 150.0 billion to diversify our sales activities. PS&Marketing began operating 13 stores in May 2009. In April 2014, PS&Marketing acquired the retail distribution business of SK Networks and as of December 31, 2014, PS&Marketing had 560 stores nationwide with 2,357 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 telecommunications 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.

Over the last several years, competition in the wireless telecommunications business has caused us to significantly increase our marketing and advertising expenses. Between 2012 and 2014, marketing expenses as a percentage of SK Telecom's revenue, on a separate basis, fluctuated heavily between 23.9% to 33.7%, depending on the competitive landscape. However, we expect such percentage to stabilize due to the implementation of the MDDIA. Pursuant to the MDDIA, wireless telecommunications service providers are prohibited from unfairly providing discriminatory subsidies based on criteria such as type of subscription, subscription plan and characteristics of the subscriber and from providing subsidies exceeding a maximum limit established by the KCC (such limit to be determined between Won 250,000 and Won 350,000, which may be adjusted every six months, with the current limit set at Won 330,000, effective as of April 24, 2015) for the purchase of mobile phone models that were launched within the last 15 months, among other restrictions and requirements. For a more detailed discussion of the MDDIA, 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 Membership.* We strive to improve subscriber retention through our T Membership program, which is a membership service available to our wireless subscribers. Our T Membership program provides various membership benefits to its members such as discounts with our membership partners for dining, shopping, entertainment and travel, access to our online membership shopping mall and invitations to various promotional events. As of December 31, 2014, more than 10 million of our wireless subscribers joined our T Membership program. Although our competitors also have similar membership programs, we believe that our T Membership program has a competitive advantage over our competitors' membership programs due to our large subscriber base and breadth of membership benefits. In addition, we expect that due to the limitations on subsidies pursuant to the MDDIA, the competitiveness of our T Membership program will play a greater role in enhancing the loyalty of our wireless subscribers.

*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.

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### **Other Investments and Relationships**

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

#### ***SK Hynix***

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

In 2014, 2013 and 2012, SK Hynix and its subsidiaries, on a consolidated basis, had revenues of Won 17,125.6 billion, Won 14,165.1 billion and Won 10,162.2 billion, respectively, profit before income tax of Won 5,047.7 billion and Won 3,074.9 billion and loss before income benefit of Won 199.3 billion, respectively, and profit for the year of Won 4,195.2 billion and Won 2,872.9 billion and loss for the year of Won 158.8 billion, respectively. As of December 31, 2014, 2013 and 2012, SK Hynix and its subsidiaries, on a consolidated basis, had total assets of Won 26,883.3 billion, Won 20,797.3 billion and Won 18,648.7 billion, respectively, and total equity of Won 18,036.3 billion, Won 13,066.9 billion and Won 9,739.4 billion, respectively.

#### ***KEBHana Card***

In February 2010, we purchased shares newly issued by Hana SK Card Co., Ltd. (which was subsequently merged into KEB Card Co., Ltd. and renamed KEBHana Card Co., Ltd. (KEBHana Card) in November 2014), a credit card services provider, for a total purchase price of Won 400.0 billion. We currently hold 25.4% of the total outstanding shares of KEBHana Card. KEBHana Card offers certain credit card products that provide for discounts on some of our wireless network services and integrate T Membership benefits, among other features.

#### ***Other Investments***

Our other investments include:

*POSCO.* We currently own a 1.42% interest in the outstanding capital stock of POSCO, with a book value as of December 31, 2014 of Won 341.8 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, 2014 of Won 248.5 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 9 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, 2014, according to the MSIP, KT and LG U+ had 17.3 million and 11.3 million subscribers, respectively, representing approximately 30.3% and 19.7%, 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, 2014, we had 28.6 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 2.1 million subscribers, representing a market share of approximately 3.7%.

As of December 31, 2014, according to the MSIP, KT and LG U+ had 10.8 million and 8.5 million LTE subscribers, respectively, compared to our 16.7 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;

interconnection and revenue-sharing between telecommunications service providers;

research and development budgeting and objectives of telecommunications service providers; and

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competition among telecommunications service providers.

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



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

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

### ***Competition Regulation***

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

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

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.

*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,



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

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

*Number Portability.* In January 2003, the MIC announced its plan to implement number portability with respect to wireless telecommunications service in Korea. The number portability system allows wireless subscribers to switch wireless telecommunications service providers while retaining the same mobile phone number. 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 service provider for specific services (based on having the largest market share in terms of number of subscribers and meeting certain revenue thresholds), we must obtain prior approval of the MSIP on our rates and terms of service; provided, however, that such pre-approval of the MSIP is not required, if we are planning to reduce the rates for any type of services that we provide under the 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.

Furthermore, in 2007, the Government announced a road map highlighting revisions in regulations to promote deregulation of the telecommunications industry. In accordance with the road map and pursuant to the Combined Sales Regulation, promulgated in May 2007, telecommunications service providers are now permitted to bundle their services, such as wireless data transmission service, wireless voice transmission service, broadband Internet access service, fixed-line telephone service and 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

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services. In September 2007, the regulations and provisions under the Telecommunications Business Act were amended to permit licensed transmission service providers to offer local, domestic long-distance and international telephone services, as well as broadband Internet access and Internet phone services, without additional business licenses.

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

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

*Interconnection.* Dominant network service providers such as ourselves that own essential infrastructure facilities or possess a certain market share are required to provide interconnection of their telecommunications network facilities to other service providers upon request. The MSIP sets and announces the standards for determining the scope, procedures, compensation and other terms and conditions of such provision, interconnection or co-use. We have entered into interconnection agreements with KT, LG U+, 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 and may auction off the rights to certain frequency bands. 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 2014, 2013 and 2012, the fee amounted to Won 188.1 billion, Won 206.5 billion and Won 204.2 billion, respectively.

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

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

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### ***Mandatory Contributions and Obligations***

**Universal Service Obligation.** All telecommunications service providers other than value-added service providers, specific service providers and regional paging service providers or any telecommunications service providers whose net annual revenue is less than an amount determined by the MSIP (currently set at Won 30.0 billion) are required to provide universal telecommunications services including local telephone services, local public telephone services, telecommunications services for remote islands and wireless communication services for ships and telephone services for handicapped and low-income citizens, or contribute toward the supply of such universal services. The MSIP designates universal services and the service provider who is required to provide each service. Currently, under the MSIP guidelines, we are required to offer free subscription and a discount of between 35.0% to 50.0% of our monthly fee for wireless telecommunications services to handicapped and low-income citizens.

In addition to such universal services for handicapped and low-income citizens, we are also required to make certain monetary contributions to compensate for other service providers' costs for the universal services. The size of a service provider's contribution is based on its net annual revenue (calculated pursuant to the MSIP guidelines, which differ from our accounting practices). In 2014, our contribution amount was Won 21.8 billion for our fiscal year 2013. In 2013, our contribution amount was Won 19.2 billion for our fiscal year 2012. In 2012, our contribution amount was Won 20.2 billion for our fiscal year 2011. 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, 2014, SK Holdings owned 20,363,452 shares of our common stock, or approximately 25.22% of our issued shares. As of December 31, 2014, 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, 2014 (which we believe was 43.47%), would reach 68.69%, 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 will be prohibited from exercising its voting rights with respect to the shares held in excess of the 49.0% ceiling, which may result in a change in control of us. In addition, the MSIP will be prohibited from granting us licenses or permits necessary for entering into new telecommunications businesses until our aggregate foreign shareholding is reduced to below 49.0%. If a corrective order is issued to us by the MSIP arising from the violation of the foregoing foreign ownership limit, and we do not comply within the prescribed period under such corrective order, the MSIP may:

revoke our business license;

suspend all or part of our business; or

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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 service providers. The following events would be subject to review by the Public Interest Review Committee:

the acquisition by an entity (and its related parties) of 15.0% or more of the equity of a network service provider;

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

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

a change in the shareholder that actually controls a network service provider.

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

## **Patents and Licensed Technology**

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

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

## **Seasonality of the Business**

Our business is not affected by seasonality.



**Table of Contents****Item 4.C. Organizational Structure**  
**Organizational Structure**

We are a member of the SK Group, based on the definition of "group" under the Fair Trade Act. As of December 31, 2014, 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, 2014:

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

(1) Includes cell sites.

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.

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

**Item 4A. UNRESOLVED STAFF COMMENTS**

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



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

You should read the following discussion together with our consolidated financial statements and the related notes thereto which appear elsewhere in this annual report. We prepare our consolidated financial statements in accordance with IFRS as issued by the IASB. In addition, you should read carefully the section titled Critical Accounting Policies, Estimates and Judgments as well as note 4 of the notes to our consolidated financial

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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 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 telecommunications 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 (including IP TV services) 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 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 presented in accordance with IFRS by IASB as segment operating income does not include certain items such as gain and loss from disposal of property and equipment and intangible assets and impairment loss on property and equipment and intangible assets. For a reconciliation of operating income presented in accordance with IFRS by IASB and operating income presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

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

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

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

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It is difficult to estimate the impact such Government regulations will have on our results of operations as we believe the imposition of such regulations may affect the cellular telecommunications industry in various ways that we cannot fully predict. We believe that handset subsidies will not increase to the extent they did in the past when wireless telecommunications service providers were engaged in intense competition to acquire new subscribers as the MDDIA imposes a maximum limit on handset subsidies. However, as we provided lower subsidies to existing subscribers who purchased new handsets than to new subscribers that switched wireless telecommunications service providers in the past but under the MDDIA, we are required to provide the same level of subsidies to both types of subscribers, if the number of existing subscribers who purchase new handsets increases, our marketing expenses may increase. Failure to comply with the MDDIA may lead to suspension of our business or imposition of monetary penalties. For more information about the MDDIA and the penalties imposed for violating Government regulations, see Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation and Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings MIC, KCC and MSIP Proceedings.

*Abolishment of Initial Subscription Fees.* Upon recommendation by the MSIP, we, KT and LG U+ agreed to gradually reduce initial subscription fees charged to new customers and in August 2013, reduced the initial subscription fee by 40% and again by an additional 50% in August 2014. Starting in November 2014, we ceased charging any initial subscription fees to new customers. The gradual reduction and ultimate abolishment of initial subscription fees adversely impacted our wireless service revenue in 2014 compared to 2013 and may continue to have a material impact on our results of operations in 2015. 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.

*Decrease in Interconnection Fees.* Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Charges for interconnection affect our revenues and operating results. The MSIP determines the basic framework for interconnection arrangements, including policies relating to interconnection rates in Korea. Under our interconnection agreements, we are required to make payments in respect of calls which originate from our networks and terminate in the networks of other Korean telecommunications operators, and the other operators are required to make payments to us in respect of calls which originate in their networks and terminate in our network. The MSIP has continued to gradually decrease the interconnection rates in Korea, which has led to a continued decrease in our interconnection revenue as well as interconnection expenses from 2012 to 2014 and any further reduction in interconnection rates by the MSIP may continue to impact our results of operations. For more information about our interconnection revenue and expenses, see Item 4.B. Business Overview Interconnection.

*Increase in Average Monthly Revenue per Subscriber.* 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 total average monthly revenue per subscriber increased by 4.1% to Won 44,123 in 2014 from Won 42,377 and increased by 5.6% in 2013 from Won 40,128 in 2012. The increases in total average monthly revenue per subscriber in 2014 and 2013 were primarily due to increases in LTE subscribers who subscribe to data plans with higher monthly basic charges than our other wireless telecommunications services and data service usage attributable to increases in the number of smartphone users. However, the decrease in the growth rate of our total average monthly revenue per subscriber to 4.1% in 2014 from 5.6% in 2013 is attributable to the higher relative increase in LTE subscribers that subscribe to fixed-rate plans with lower monthly fees compared to those that subscribe to fixed-rate plans with higher monthly fees in connection with the continual migration of wireless subscribers with low data usage (unlike early LTE adopters that generally have high data usage) to LTE services.

*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, 2014, we held a 20.1% equity stake in SK Hynix. SK Hynix's profit for the year was Won 4,195.2 billion in 2014 and Won 2,872.9 billion in 2013 and

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recorded a loss for the year of Won 158.8 billion in 2012. Our investment in SK Hynix is accounted for using the equity method and the results of SK Hynix's performance is reflected in our operating results as gains (loss) related to investments in subsidiaries and associates.

*Acquisition of SK Networks Retail Distribution Business.* In April 2014, PS&Marketing acquired the retail distribution business of SK Networks. As a result of such acquisition, there was an increase in digital handset sales in 2014 compared to 2013 as well as an increase in various related operating expenses, including cost of products that have been resold and labor costs.

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

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

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

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In our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report, such changes in presentation were not adopted. As a result, the presentation of operating income in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report differs from the presentation of operating income in the consolidated statements of income prepared in accordance with K-IFRS for the corresponding periods. The table below sets forth a reconciliation of our operating income as presented in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB for the years ended December 31, 2014, 2013 and 2012 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.

	<b>For the Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(In billions of Won)</b>		
Operating income pursuant to IFRS by IASB	1,607.9	1,578.4	1,737.7
Differences:			
Other income pursuant to IFRS			
Fee revenues	(8.2)	(7.3)	(4.0)
Gain on disposal of property and equipment and intangible assets	(8.8)	(8.0)	(162.6)
Others	(39.5)	(59.7)	(35.3)
	(56.5)	(75.0)	(201.8)
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	47.5	13.8	37.0
Loss on disposal of property and equipment and intangible assets	33.0	267.5	15.1
Donations	67.8	82.1	81.3
Bad debt for accounts receivable other	17.9	22.2	30.1
Others	107.5	122.2	30.7
	273.8	507.7	194.2
Operating income pursuant to K-IFRS	1,825.1	2,011.1	1,730.0

However, there is no impact on profit for the year or earnings per share for the years ended December 31, 2014, 2013 and 2012.

**Accounting Standards Updates**

We have adopted amendments to IAS 32, Financial Instruments: Presentation, for the year ended December 31, 2014. See note 3 of the notes to our consolidated financial statements for a summary of IAS 32, Financial Instruments: Presentation. The adoption of these amendments 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:

	For the Year Ended December 31,					
	2014	2013		2012		
	(In billions of Won, except percentage data)					
Operating Revenue and Other Income	17,220.3	100.0%	16,677.0	100.0%	16,343.3	100.0%
Revenue	17,163.8	99.7	16,602.1	99.6	16,141.4	98.8
Other income	56.5	0.3	74.9	0.4	201.9	1.2
Operating Expense	15,612.4	90.7	15,098.6	90.5	14,605.6	89.4
Operating Income	1,607.8	9.3	1,578.4	9.5	1,737.6	10.6
Profit before Income Tax	2,253.8	13.1	1,827.1	11.0	1,519.4	9.3
Income Tax Expense from Continuing Operations	454.5	2.6	400.8	2.4	288.2	1.8
Profit from Continuing Operations	1,799.3	10.4	1,426.3	8.6	1,231.2	7.5
Profit (Loss) from Discontinued Operation, Net of Income Taxes(1)			183.2	1.1	(115.5)	(0.7)
Profit (Loss) for the Year Attributable to:						
Owners of the Parent Company	1,801.2	10.5	1,638.9	9.8	1,151.7	7.0
Non-controlling Interests	(1.9)	(0.0)	(29.4)	(0.2)	(36.0)	(0.2)
Profit for the Year	1,799.3	10.4	1,609.5	9.6	1,115.7	6.8

(1) Relates to results of operations of Loen Entertainment, which ceased being our consolidated subsidiary in July 2013 and SK Telink's digital media broadcasting business, which was ceased in August 2012, which have been classified as discontinued operations after such cessation.

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

	2014		Year Ended December 31, 2013		2012	
	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)	11,010.6	64.2%	11,001.1	66.3%	10,591.5	65.6%
Cellular Interconnection	817.0	4.8	845.0	5.1	860.3	5.3
Digital Handset Sales (2)	761.6	4.4	645.9	3.9	1,131.7	7.0
Miscellaneous(3)	938.6	5.5	823.5	5.0	635.5	3.9
<b>Total Cellular Services Revenue</b>	<b>13,527.9</b>	<b>78.8</b>	<b>13,315.5</b>	<b>80.2</b>	<b>13,218.9</b>	<b>81.9</b>
<b>Fixed-line Telecommunication Services Revenue</b>						
Fixed-line Telephone Service(4)	467.3	2.7%	474.4	2.9%	485.9	3.0%
Fixed-line Interconnection	57.4	0.3	78.7	0.5	98.5	0.6
Broadband Internet Service(4)	1,152.7	6.7	1,023.2	6.2	865.0	5.4
International Calling Service(5)	112.0	0.7	127.0	0.8	144.1	0.9
Miscellaneous(6)	660.5	3.8	621.1	3.7	600.4	3.7
<b>Total Fixed-line Telecommunication Services Revenue</b>	<b>2,449.9</b>	<b>14.3</b>	<b>2,324.4</b>	<b>14.0</b>	<b>2,193.9</b>	<b>13.6</b>
<b>Other Revenue</b>						
Commerce Service(7)	911.5	5.3%	742.6	4.5%	391.9	2.4%
Portal Service(8)	73.0	0.4	92.2	0.6	167.8	1.0
Miscellaneous(9)	201.6	1.2	127.4	0.8	168.9	1.0
<b>Total Other Revenue</b>	<b>1,186.0</b>	<b>6.9</b>	<b>962.2</b>	<b>5.8</b>	<b>728.6</b>	<b>4.5</b>
<b>Total Revenue</b>	<b>17,163.8</b>	<b>100.0%</b>	<b>16,602.1</b>	<b>100.0%</b>	<b>16,141.4</b>	<b>100.0%</b>
Total Revenue Growth	3.4%		2.9%		2.1%	
<b>Segment Operating Expense(10)</b>						
Cellular Services	11,773.5	68.6%	11,329.4	68.2%	11,535.5	71.5%
Fixed-line Telecommunication Services	2,369.5	13.8	2,268.8	13.7	2,140.7	13.3
Others	1,195.8	7.0	992.8	6.0	735.1	4.6
<b>Total Segment Operating Expense</b>	<b>15,338.7</b>	<b>89.4%</b>	<b>14,591.0</b>	<b>87.9%</b>	<b>14,411.3</b>	<b>89.3%</b>
<b>Segment Operating Income</b>						
Cellular Services	1,754.4	10.6 %	1,986.1	12.0 %	1,683.4	10.4%
Fixed-line Telecommunication Services	80.4	0.5	55.6	0.3	53.1	0.3
Others	(9.8)	(0.1)	(30.6)	(0.2)	(6.5)	(0.0)
<b>Total Segment Operating Income</b>	<b>1,825.1</b>	<b>10.6%</b>	<b>2,011.1</b>	<b>12.1%</b>	<b>1,730.0</b>	<b>10.7%</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. Until November 2014, such revenue also included initial subscription fees, which we have since ceased charging.



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- (2) Digital handsets are sold by PS&Marketing, our consolidated subsidiary.
- (3) Miscellaneous cellular services revenue includes revenue from the resale of fixed-line telecommunication services, leased lines, Internet solutions business and other miscellaneous cellular services provided by SK Telecom.
- (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.
- (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.
- (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.

***2014 Compared to 2013***

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

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

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

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

**Cellular Services 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 1.6% to Won 13,527.9 billion in 2014 from Won 13,315.5 billion in 2013.

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

Digital handset sales increased by 17.9% to Won 761.6 billion in 2014 from Won 645.9 billion in 2013, primarily due to the acquisition by PS&Marketing of 190 retail stores as part of its acquisition of the retail

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distribution business of SK Networks in April 2014. Miscellaneous cellular services revenue increased by 14.0% to Won 938.6 billion in 2014 from Won 823.5 billion in 2013, primarily due to an increase in revenue from our Internet solutions business.

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

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

**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 14.3% to Won 2,449.9 billion in 2014 from Won 2,324.4 billion in 2013, primarily due to an increase in revenue from our broadband Internet service, partially offset by decreases in revenue from fixed-line interconnection and international calling service.

Revenue from our broadband Internet service increased by 12.7% to Won 1,152.7 billion in 2014 from Won 1,023.2 billion in 2013, primarily attributable to an increase in the number of IP TV subscribers to 2.8 million subscribers as of December 31, 2014 from 2.1 million subscribers as of December 31, 2013. Fixed-line interconnection revenue decreased by 27.1% to Won 57.4 billion in 2014 from Won 78.7 billion in 2013, primarily due to a decrease in residential calling volume. Revenue from international calling service decreased by 11.8% to Won 112.0 billion in 2014 from Won 127.0 billion in 2013, primarily due to a decrease in international calling volume.

**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 3.4% to Won 1,186.0 billion in 2014 from Won 962.2 billion in 2013, due to increases in commerce service revenue and miscellaneous other revenue, partially offset by a decrease in portal service revenue.

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

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

**Operating Expense.** Our consolidated operating expense increased by 3.4% to Won 15,612.4 billion in 2014 from Won 15,098.6 billion in 2013, primarily due to a 29.2% increase in cost of products that have been resold to Won 1,680.1 billion in 2014 from Won 1,300.4 billion in 2013, which was attributable mainly to the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014; a 3.5% increase in commissions paid to Won 5,692.7 billion in 2014 from Won 5,498.7 billion in 2013, which was primarily attributable to an increase in marketing expenses to acquire new LTE subscribers in the first half of 2014 amidst intensified competition among us, KT and LG U+; and a 6.3% increase in labor costs to Won 1,659.8 billion in 2014 from Won 1,561.4 billion in 2013, which was primarily due to the significant increase in the number of employees in

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connection with several acquisitions in 2014, including the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014, the acquisitions by SK Telecom of Neosnetworks in April 2014 and Iriver in August 2014 and the acquisition by SK Planet of Shopkick in October 2014. Such increase was partially offset by an 8.8% decrease in other operating expenses to Won 1,592.6 billion in 2014 from Won 1,746.3 billion in 2013, which was attributable mainly to a decrease in loss on disposal of property and equipment and intangible assets to Won 33.0 billion in 2014 from Won 267.5 billion in 2013.

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

**Cellular Services Segment**

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

**Fixed-line Telecommunication Services Segment**

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

**Others Segment**

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

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

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

The segment operating income of our cellular services segment decreased by 11.7% to Won 1,754.4 billion in 2014 from Won 1,986.1 billion in 2013, primarily due to an increase in marketing expenses to acquire new LTE subscribers in the first half of 2014 amidst intensified competition among us, KT and LG U+. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating income divided by revenue from such segment, expressed as a percentage) of our cellular services segment decreased to 13.0% in 2014 from 14.9% in 2013. The segment operating income of our fixed-line telecommunication services segment increased by 44.6% to Won 80.4 billion in 2014 from Won 55.6 billion in 2013, due to an increase in revenue from our broadband Internet service, which is mainly attributable to the growth in our IP TV service. Driven by strong growth in our IP TV service, the segment operating margin of our fixed-line telecommunication services segment increased to 3.3% in 2014 from 2.4% in 2013. The segment operating loss of our others segment decreased to Won 9.8 billion in 2014 from Won 30.6 billion in 2013. As discussed above, while our commerce service revenue increased in 2014, intense competition in the commerce service industry led to increased marketing costs, and thus, the profitability of our commerce service business did not improve in 2014; however, while our portal service

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revenue decreased in 2014, our operating expenses related to this business decreased to a greater degree such that the profitability of our commerce service business improved in 2014 resulting in the aforementioned decrease in the segment operating loss of our others segment.

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

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

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

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

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

**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 refunds 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.

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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 0.7% to Won 13,315.5 billion in 2013 from Won 13,218.9 billion in 2012.

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 telecommunications 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,

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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 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.* Our consolidated operating income 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 presented in accordance with IFRS by IASB. For a reconciliation of operating income presented in accordance with IFRS by IASB and operating income presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

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 telecommunications services, which was enhanced by a decrease in commissions paid relating to marketing expenses to acquire new

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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.

*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 2,872.9 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.

**Inflation**

We do not consider inflation in Korea to have had a material impact on our results of operations in recent years. According to data published by The Bank of Korea, annual inflation in Korea was 1.3% in 2014, 1.3% in 2013 and 2.2% in 2012.



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We had a working capital deficit (current liabilities in excess of current assets) of Won 337.2 billion as of December 31, 2014 and Won 945.8 billion as of December 31, 2013. The working capital deficit as of December 31, 2014 was primarily due to cash expenditures in 2014 used to fund SK Planet's acquisition of Shopkick and SK Telecom's acquisitions of Neosnetworks and Iriver. 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 a 21.05% equity stake in SK Hynix in February 2012. 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 1,427.7 billion as of December 31, 2014 and Won 1,816.2 billion as of December 31, 2013. We had outstanding short-term borrowings of Won 366.6 billion as of December 31, 2014 and Won 260.0 billion as of December 31, 2013. As of December 31, 2014, we had credit lines with several local banks that provided for borrowing of up to Won 566.0 billion, all of which was available for borrowing.

Cash flows from operating activities and debt financing have been our principal sources of liquidity. We had cash and cash equivalents of Won 834.4 billion as of December 31, 2014 and Won 1,398.6 billion as of December 31, 2013. 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			
	2014	2013	2012	2014 to 2013		2013 to 2012	
	(In billions of Won, except percentages)						
Net Cash Provided by Operating Activities	3,677.4	3,558.6	3,999.7	118.8	3.3%	(441.1)	(11.0)%
Net Cash Used in Investing Activities	(3,683.2)	(2,506.5)	(5,309.6)	(1,176.7)	46.9	2,803.1	(52.8)
Net Cash Provided by (Used in) Financing Activities	(559.4)	(573.2)	585.3	13.8	(2.4)	(1,158.5)	N/A
Effect of Exchange Rate Changes on Cash and Cash Equivalents Held in Foreign Currencies	1.0	(0.4)	(6.0)	1.4	N/A	5.6	(93.3)
Net Increase (Decrease) in Cash and Cash Equivalents	(565.2)	478.9	(724.7)	(1,044.1)	N/A	1,203.6	N/A
Cash and Cash Equivalents at Beginning of Period	1,398.6	920.1	1,650.8	478.5	52.0	(730.7)	(44.3)
Cash and Cash Equivalents at End of Period	834.4	1,398.6	920.1	(564.2)	(40.3)%	478.5	52.0%

N/A = Not applicable.

*Cash Flows from Operating Activities.* Net cash provided by operating activities was Won 3,677.4 billion in 2014, Won 3,558.6 billion in 2013 and Won 3,999.7 billion in 2012. Profit for the year was Won 1,799.3 billion in 2014, Won 1,609.5 billion in 2013 and Won 1,115.7 billion in 2012. Net cash provided by operating activities in 2014 increased by 3.3% from 2013, primarily due to an 11.8% increase in profit for the year to Won 1,799.3 billion in 2014 from Won 1,609.5 billion in 2013. 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. There have been no additional other accounts receivable related to sales of handsets on installment payment plans since September 2010, when Hana SK Card (which has subsequently merged into KEB Card) took over this financing from us.

*Cash Flows from Investing Activities.* Net cash used in investing activities was Won 3,683.2 billion in 2014, Won 2,506.5 billion in 2013 and Won 5,309.6 billion in 2012. Cash inflows from investing activities were Won 341.4 billion in 2014, Won 1,251.8 billion in 2013 and Won 1,831.2 billion in 2012. Cash inflows in 2014 were primarily attributable to collection of short-term loans of Won 207.4 billion. Cash inflows in 2013 were primarily attributable to collection of short-term loans of Won 290.9 billion, proceeds from disposal of long-term investment

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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 outflows for investing activities were Won 4,024.6 billion in 2014, Won 3,758.3 billion in 2013 and Won 7,140.8 billion in 2012. Cash outflows in 2014 were primarily attributable to expenditures related to the acquisition of property and equipment of Won 3,008.0 billion, primarily in connection with the acquisition of LTE equipment. 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 Flows from Financing Activities.* Net cash used in financing activities was Won 559.4 billion in 2014 and Won 573.2 billion in 2013 and net cash provided by financing activities was Won 585.3 billion in 2012. Cash inflows from financing activities were Won 1,421.0 billion in 2014, Won 1,852.2 billion in 2013 and Won 4,245.3 billion in 2012. Such inflows were primarily driven by the issuance of debentures, which provided cash of Won 1,255.5 billion in 2014, Won 1,328.7 billion in 2013 and Won 2,098.4 billion in 2012, proceeds from long-term borrowings, which provided cash of Won 62.6 billion in 2014, Won 105.1 billion in 2013 and Won 2,059.0 billion in 2012, and the issuance of hybrid bonds in 2013, which provided cash of Won 398.5 billion. In 2014, we had cash inflows of Won 102.9 billion due to proceeds from short-term borrowings. 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 1,980.5 billion in 2014, Won 2,425.4 billion in 2013 and Won 3,660.0 billion in 2012. 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 666.8 billion in 2014, Won 655.9 billion in 2013 and Won 655.1 billion in 2012. Repayments of current portion of long-term debt were Won 207.8 billion in 2014, Won 161.6 billion in 2013 and Won 102.7 billion in 2012. Repayment of long-term borrowings were Won 23.3 billion in 2014, Won 467.2 billion in 2013 and Won 1,660.5 billion in 2012. Repayment of debentures were Won 1,039.9 billion in 2014, Won 772.0 billion in 2013 and Won 1,145.7 billion in 2012. 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.

As of December 31, 2014, we had total long-term debt (excluding current portion) outstanding of Won 5,798.9 billion, which included debentures in the amount of Won 5,649.2 billion and bank and institutional borrowings in the amount of Won 149.7 billion. 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. The increase in our long-term debt as of December 31, 2014 was primarily due to an increase in debentures issued during 2014 for investments to develop new growth engines, including acquisitions such as Neo S Networks, Iriver and Shopkick, and for investments to enhance the competitiveness of our broadband Internet and IP TV services. For a description of our long-term debt, see note 18 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%.

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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 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 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%.

In May 2014, we issued (i) two tranches of Korean Won-denominated bonds in the principal amounts of Won 50.0 billion and Won 150.0 billion with maturities of five years and ten years, respectively, and annual interest rates of 3.30% and 3.64%, respectively and (ii) two tranches of Korean Won-denominated bonds with optional redemption terms in the principal amount of Won 50.0 billion with maturities of fifteen years each, and annual interest rates of 4.73% and 4.72%, respectively. In October 2014, we issued three tranches of Korean Won-denominated bonds in the principal amounts of Won 160.0 billion, Won 150.0 billion and 190.0 billion with maturities of five years, seven years and ten years, respectively, and annual interest rates of 2.53%, 2.66% and 2.82%, respectively.

In November 2011, SK Telink issued Korean Won-denominated bonds in the principal amount of Won 10.0 billion with a maturity of four years and an annual interest rate of 4.62%.

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%.

In April 2014, SK Broadband issued two tranches of Korean Won-denominated bonds in the principal amounts of Won 80.0 billion and Won 210.0 billion with maturities of two years and five years, respectively, and annual interest rates of 3.05% and 3.49%, respectively. In September 2014, SK Broadband issued Korean Won-denominated bonds in the principal amount of Won 130.0 billion with a maturity of five years and an annual interest rate of 2.76%.

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In May 2014, PS&Marketing issued Korean Won-denominated bonds in the principal amount of Won 10.0 billion with a maturity of two years and an annual interest rate of 3.24%. In June 2014, PS&Marketing issued Korean Won-denominated bonds in the principal amount of Won 20.0 billion with a maturity of three years and an annual interest rate of 3.48%. In October 2014, PS&Marketing issued Korean Won-denominated bonds in the principal amount of Won 10.0 billion with a maturity of six months and an annual interest rate of 3.12%.

As of December 31, 2014, a substantial portion of our foreign currency-denominated long-term borrowings, which amounted to approximately 30.6% 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 platform business, our B2B solutions business and our healthcare business, 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 2015. Our ability to rely on these alternatives could be affected by the liquidity of the Korean financial markets or by Government policies regarding Won and foreign currency borrowings and the issuance of equity and debt. Our failure to make needed expenditures would adversely affect our ability to sustain subscriber growth and provide quality services and, consequently, our results of operations.

*Capital Expenditures.* The following table sets forth our actual capital expenditures for 2014, 2013 and 2012:

	Year Ended December 31,		
	2014	2013	2012
	(In billions of Won)		
LTE Network	1,357.2	1,439.4	1,767.1
WCDMA Network	92.3	124.2	294.7
Fixed-line Network	399.0	403.5	324.8
Other Network(1)	283.2	338.5	492.6
Others(2)	876.3	573.5	515.1
Total	3,008.0	2,879.1	3,394.3

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

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

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We set our capital expenditure budget for each upcoming year on an annual basis. Our actual capital expenditures in 2014 were Won 3,008.0 billion. Of such amount, we spent approximately Won 1,357.2 billion, or 45.1%, on capital expenditures related to expanding and enhancing the quality of our LTE network and Won 876.3 billion on other

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non-network related capital expenditures primarily related to developing new products and maintenance and upgrades to our information technology systems. Our actual capital expenditures in 2013 were Won 2,879.1 billion. Of such amount, we spent approximately Won 1,439.4 billion, or 50.0%, related to expanding and enhancing the quality of our LTE network. Our actual capital expenditures in 2012 were Won 3,394.3 billion. Of such amount, we spent approximately Won 1,767.1 billion, or 52.1%, related to expanding and enhancing the quality of our LTE network.

We are required to pay the cost of our WCDMA license for 2 x 10 MHz of spectrum in the 2.1 GHz band that we acquired in May 2010 in annual installments of Won 17.5 billion each year from 2012 through 2014 after the initial payment of Won 52.6 billion in 2010. We are also required to pay license fees for the additional frequency licenses in the 800 MHz and 1.8 GHz spectrums that we acquired in 2011. The license fee for the 30 MHz bandwidth in the 800 MHz spectrum 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 license fee for the 20 MHz of bandwidth in the 1.8 GHz spectrum was Won 995.0 billion, of which Won 74.6 billion, Won 74.6 billion and Won 248.8 billion was paid in 2013, 2012 and 2011, respectively, and the remainder has been waived in connection with our return of the right to use the 20 MHz bandwidth. The license fee for the 35 MHz of bandwidth in the 1.8 GHz spectrum was Won 1.08 trillion, of which Won 115.2 billion was paid in 2013, and the remainder is payable in annual installments through the end of the license period in 2021. In addition, we were reallocated 27 MHz of spectrum in the 2.3 GHz band for our WiBro service in March 2012. The license fee for such spectrum is Won 17.3 billion, of which Won 8.7 billion was paid in 2012, and the remainder is payable in annual installments from 2014 through 2016. For more information, see note 17 of the notes to our consolidated financial statements.

In addition, we have been making capital expenditures to build more advanced networks based on LTE technology. We commenced commercial LTE services in July 2011 and expanded our LTE network nationwide and launched our LTE multi-carrier technology in 2012. We launched our LTE-A service in June 2013, our wideband LTE-A service in September 2013 and our tri-band LTE-A service in December 2014. For a more detailed description of our LTE network, see Item 4.B. Business Overview Digital Wireless Network LTE Network. We plan to continue to make capital investments in 2015 to further expand and enhance our LTE network and further develop related technologies.

We expect that our capital expenditure amount in 2015 will be less than that in 2014. Our expenditures will be for a range of projects, including investments to improve our LTE network and launch our LTE-A services, 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 2015 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.

In addition, through the Share Exchange, we intend to acquire all of the shares of SK Broadband that we do not otherwise own in exchange for our treasury shares such that SK Broadband will become our wholly-owned subsidiary. For a more detailed discussion of the Share Exchange, see Item 4.A. History and Development of the Company Recent Developments.

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*Repayment of Outstanding Debt.* As of December 31, 2014, our principal repayment obligations with respect to long-term borrowings, bonds and obligations under capital leases outstanding were as follows for the periods indicated:

Year Ending December 31,	Total (In billions of Won)
2015	947,046.8
2016	697.5
2017	1,578,059.5
2018 and thereafter	4,261,548.0

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.

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 Neosnetworks, a provider of residential and small business electronic security and other related alarm monitoring services, for an aggregate purchase price of approximately Won 24.0 billion. We acquired additional interests in Neosnetworks in April 2015 for Won 40.0 billion, resulting in an increase in our ownership of Neosnetworks to 83.9%. In August 2014, we acquired a 39.3% equity interest of Iriver, a manufacturer of digital audio players and other portable media devices, which we increased to 49.0% in December 2014, for an aggregate purchase price of approximately Won 54.5 billion. We also acquired Won 5.0 billion of convertible bonds issued by Iriver, which may be converted into additional equity interests of Iriver when certain conditions are met. In October 2014, SK Planet acquired a 100.0% ownership interest through its less than wholly-owned subsidiary of Shopkick, a developer of a shopping app for mobile devices that provides benefits to customers for visiting stores, in order to penetrate the commerce business in the United States for an aggregate purchase price of Won 230.9 billion and the assumption of Won 18.7 billion in current liabilities.

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

*Severance Payments.* The defined benefit obligation, which is the total accrued and unpaid retirement and severance benefits for our employees, as of December 31, 2014 was Won 91.6 billion. This amount was reflected in our consolidated financial statements as a liability, which is net of deposits with insurance companies totaling Won 346.3 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 22 of the notes to our consolidated financial statements.

*Dividends.* Total cash outflows for payments of dividends amounted to Won 666.8 billion in 2014, Won 655.9 billion in 2013 and Won 655.1 billion in 2012.

In April 2015, we distributed annual dividends at Won 8,400 per share to our shareholders for an aggregate payout amount of Won 595.9 billion.

**Table of Contents****Contractual Obligations and Commitments**

The following summarizes our contractual cash obligations at December 31, 2014, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

	Payments Due by Period(1)				
	Total	Less Than 1 Year	1-3 Years (In billions of Won)	4-5 Years	After 5 Years
<b>Bonds</b>					
Principal	6,247,161	565,000	1,513,156	2,019,200	2,149,805
Interest	1,263,101	205,663	296,430	247,522	513,486
<b>Long-term borrowings</b>					
Principal	540,187	382,043	65,601	54,628	37,915
Interest	15,221	4,771	4,999	3,819	1,632
<b>Capital lease obligations</b>					
Principal	4	4			
Interest					
<b>Operating leases</b>					
Facility deposits	4,453	560			3,893
Derivatives	130,889	15,145	112,404	2,604	736
<b>Other long-term payables(2)</b>					
Principal	900,024	190,134	238,552	235,669	235,669
Interest	94,669	25,604	36,218	22,993	9,854
Short-term borrowings	366,600	366,600			
<b>Total contractual cash obligations</b>	<b>9,562,309</b>	<b>1,755,524</b>	<b>2,267,360</b>	<b>2,586,435</b>	<b>2,952,990</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 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 17 of the notes to our consolidated financial statements. See note 37 of the notes to our consolidated financial statements for details related to our other commitments and contingencies.

**Critical Accounting Policies, Estimates And Judgments**

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

**Allowances for Doubtful Accounts**



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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

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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 328.2 billion in 2014 and Won 324.0 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, 2014 compared to the prior year. If economic or specific industry trends worsen beyond our estimates, the allowances for doubtful accounts we have recorded may be materially adjusted in the future.

***Fair Value Measurement of Financial Instruments***

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

***Estimated Useful Lives of Long-lived Assets***

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

***Impairment of Long-lived Assets Including the Frequency Usage Rights***

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

Our intangible assets include our frequency usage rights, which have contractual lives of 6.3 to 13.1 years and are amortized from the date commercial service is initiated through the end of their contractual lives. Because the use of frequency usage rights presents risks and challenges to our business, any or all of which, if realized or not properly addressed, may have a material adverse effect on our financial condition, results of operations and cash flows, we review the frequency usage rights for impairment on an annual basis. In connection with our review, we utilize the estimated long-term revenue and cash flow forecasts. The use of different assumptions within our cash flow model could result in different recoverable amounts for our frequency usage rights. The results of our review using the testing method described above resulted in no impairment of our frequency usage rights in 2014. See note 17 of the notes to our consolidated financial statements.

***Impairment of Goodwill***

Goodwill is measured as the excess of the sum of: (1) the consideration transferred, (2) the amount of any non-controlling interests in the acquiree and (3) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net fair value of the acquisition-date amounts of the identifiable assets acquired and the

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liabilities assumed. Goodwill is not depreciated, but tested for impairment at the end of each annual reporting period or whenever there is an indication that the asset may be impaired. Goodwill is carried at cost less accumulated impairment losses and the impairment losses are not reversed. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires our management to estimate the future cash flows expected related to the respective cash-generating unit and the determination of an appropriate discount rate in order to calculate present value. See note 16 of the notes to our consolidated financial statements.

***Provisions for Handset Subsidy and Restoration***

We provide handset subsidies to subscribers who purchase handsets on an installment basis. When the subscribers agree to use our services for a predetermined service period and purchase handsets on an installment basis, the subsidies are paid every month over the installment period and we estimate a provision for handset subsidies to be paid, which is recognized as commissions paid in operating expenses at the time telecommunication service contracts are made. Our provision for handset subsidies was Won 26.8 billion as of December 31, 2014 and Won 53.9 billion as of December 31, 2013. Our provision for handset subsidies has decreased as we gradually reduced the amount of handset subsidies provided to subscribers.

We estimate restoration costs required to restore leased premises on which our cell sites and switching equipment are located after termination of the leases. These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the relevant liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements. See note 19 of the notes to our consolidated financial statements.

***Retirement Benefit Plans***

We have defined retirement benefit plans. The costs of providing benefits under the plans are determined using actuarial valuation methods that require management assumptions on discount rates, expected rates of salary increases and expected rates of returns on plan assets. These assumptions involve critical uncertainties due to the long-term nature of the retirement benefit plans. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in our defined retirement benefit plans. We immediately recognize all actuarial gains and losses arising from defined retirement benefit plans in retained earnings. If the estimated average discount rates by actuarial assumptions used in these valuations were increased by 0.5%, then the estimated defined benefit obligations would have decreased by Won 17.3 billion, or 4.0% in total. If the expected rates of salary increase were increased by 0.5%, then the estimated defined benefit obligations would have increased by Won 18.1 billion, or 4.1% in total. Defined benefit liabilities were Won 91.6 billion in 2014 and 74.2 billion in 2013. Defined benefit liabilities in 2014 increased by Won 17.4 billion compared to 2013 due to a decrease by 0.74%p of the estimated average discount rate and an increase by 0.29%p of the expected rates of salary increase. See note 22 of the notes to our consolidated financial statements.

***Income Taxes***

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

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

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because actual performance has fluctuated in the past and may continue to do so. As of December 31, 2014 and 2013, unused tax loss carryforwards of Won 729.6 billion and Won 669.9 billion, respectively, were not recognized as deferred tax assets because we did not believe that their realization would be probable. The increase of Won 59.7 billion in unrecognized tax loss carryforwards in 2014 compared to 2013 were primarily due to unrecognized tax loss carryforwards. See note 31 of the notes to our consolidated financial statements.

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

We maintain a high level of spending on our research and development 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.

In 2014, 2013 and 2012, our annual research and development expenses were Won 397.8 billion, Won 363.7 billion and Won 346.3 billion. Such expenses consist of research and development costs that are expensed and costs that are amortized during the respective period as well as donations to Korean research institutions and educational organizations of Won 4.0 billion in 2012.

Our total research and development expenses were approximately 2.3% in 2014, 2.1% in 2013 and 1.9% in 2012, respectively, of operating revenue and other income.

The main focus of our research and development activity is the development of new wireless technologies and services and value-added technologies and services for our LTE network, such as wireless data communications, as well as development of new technologies that reflect the growing convergence between telecommunications and other industries. Our 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 the following core areas:

The network technology R&D center, which has pioneered the development of WCDMA 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.

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.

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

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

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**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 six directors, four 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.

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:

Name	Date of Birth	Director Since	Expiration of Term	Position	Other Principal	
					Directorships and Positions	Business Experience
Dong Hyun Jang	Aug. 20, 1963	2015	2018	President and Chief Executive Officer		Chief Operating Officer, SK Planet; Chief Marketing Officer, Chief Finance Officer, and Executive Vice President of Strategy and Planning Division, 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:

Name	Date of Birth	Director Since	Expiration of Term	Position	Other Positions	Business Experience
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
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 Director	Vice President, College of Business, KAIST	Dean, College of Information and Media Management, KAIST; President, Korea Media Management Association; Senior Technical Staff Member, AT&T Bell Labs

**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.





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### **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, 2014 totaled approximately Won 3.5 billion. This amount included Won 750 million in salary and Won 708 million in bonus paid to our former director and President and Chief Executive Office, Mr. Sung Min Ha, who has since resigned, and Won 377 million in salary and Won 349 million in bonus paid to our former director and Head of our Corporate Vision Department, Mr. Dong Seob Jee, who has since resigned.

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

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.

Our audit committee is composed of three independent non-executive directors: Dae Shick Oh, Jae Hoon Lee 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.



**Table of Contents****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, Dong Hyun Jang, and two independent directors, Dae Shick Oh and Jae Hoon Lee.

**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 four independent directors, Jae Hoon Lee, Jay Young Chung, Dae Shick Oh and Jae Hyeon Ahn.

**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, Jay Young Chung and Jae Hoon Lee and Jae Hyeon Ahn.

**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 three independent directors, Jae Hyeon Ahn, Jay Young Chung and Dae Shick Oh.

**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, 2012	16,447	5,701	22,148
December 31, 2013	21,546	2,243	23,789
December 31, 2014	24,404	1,285	25,689

**Labor Relations**

As of December 31, 2014, SK Telecom had a company union consisting of 2,114 regular employees out of 4,139 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 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 were completed in May 2014 and resulted in no change to the average wage of SK Telecom employees. Our wage negotiations for 2015 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 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.



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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 December 31, 2014, the employee stock ownership association owned approximately 0.11% 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, 2014, the defined benefit obligation, which is the accrued and unpaid retirement and severance benefits, of Won 437.8 billion for all of our employees are reflected in our consolidated financial statements as a liability, of which a total of Won 346.3 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 2014 was set at 1.51% of SK Telecom's profit before income tax on a separate basis, or Won 20.0 billion. The contribution amount for 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 was set at 1.29% of SK Telecom's profit before income tax on a separate basis, or Won 20.0 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, 2015:

Name	Position	Number of Shares Owned	Percentage of Total Shares Outstanding	Special Voting Rights	Options
<b>Standing Directors:</b>					
Dong Hyun Jang	President & Chief Executive Officer	251	0.0%	None	None
Dae Sik Cho	Executive Director	0	0	None	None
<b>Non-Standing Directors:</b>					
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

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

As of the close of our shareholders' registry on December 31, 2014, approximately 56.53% of our issued shares were held in Korea by approximately 23,380 shareholders. According to Citibank, N.A., depository for our American Depositary Receipts, as of December 31, 2014, there were 47,422 U.S. holders of our American Depositary Receipts evidencing ADSs and 11,237,667 shares of our common stock were held in the form of ADSs. As of such date, outstanding ADSs represented approximately 15.8% of our outstanding common shares.



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The following table sets forth certain information as of March 31, 2015 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 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%
Treasury shares(1)	9,809,375	12.15	N/A
Officers and Directors	4,822	0.01	0.01
Other Domestic Shareholders	14,958,435	18.53	21.09
Foreign Shareholders(2)			
Shareholders holding ADRs	10,000,488	12.39	14.10
Shareholders holding common stock	25,609,139	31.72	36.10
Total Issued Shares(3)	80,745,711	100%	
Total Outstanding Shares(4)	70,936,336		100%

(1) Treasury shares do not have any voting rights. Pursuant to the Share Exchange, which is currently scheduled for June 2015, we expect to exchange 2,471,883 treasury shares for the common shares of SK Broadband, subject to adjustments.

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

(3) 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 from 89,278,946 to 80,745,711, which is the total number of shares issued to date.

(4) 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,		
	2014	2013	2012
	(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
National Pension Service	7.09	5.90	4.97

(1) Includes 9,809,375, 9,809,375 and 11,050,712 shares held in treasury as of December 31, 2014, 2013 and 2012, respectively. Pursuant to the Share Exchange, which is currently scheduled for June 2015, we expect to exchange 2,471,883 treasury shares for the common shares of SK Broadband, subject to adjustments.

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(2) SK Group's ownership interest as of December 31, 2014, 2013 and 2012 consisted of the ownership interest of SK Holdings only. 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.

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. On April 20, 2015, SK Holdings announced its decision to merge with and into SK C&C in August 2015, subject to the approval of the respective board of directors of SK Holdings and SK C&C and the receipt of relevant regulatory consents and approvals, among other conditions.

As of March 31, 2015, 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



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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, 2015, 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. In addition, PS&Marketing acquired the retail distribution business of SK Networks in April 2014.

As of December 31, 2014, we had Won 2.6 billion of accounts receivable from SK Networks. As of the same date, we had Won 238.4 billion of accounts payable to SK Networks, mainly consisting of commissions to dealers owned by SK Networks. The aggregate fees we paid to SK Networks for dealer commissions amounted to Won 1,509.0 billion, Won 1,463.3 billion and Won 1,747.1 billion in 2014, 2013 and 2012.

### **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 360.8 billion in 2014, Won 357.9 billion in 2013 and Won 324.2 billion in 2012. We also purchase various information technology-related equipment from SK C&C from time to time. The total amount of such purchases was Won 168.8 billion in 2014, Won 206.3 billion in 2013 and Won 304.1 billion in 2012. 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 36 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, 2014.

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

## **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.



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**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, which ruled against us and Loen Entertainment.

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, which ruled against us in October 2014. We appealed the decision to the Supreme Court of Korea, 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, which ruled for us on May 2014. The FTC appealed the decision to the Supreme Court of Korea, where the case is currently pending.

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

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, which we paid in April 2014. We suspended acquisition of new customers during the period from September 11, 2014 to September 17, 2014.

On August 21, 2014, the KCC imposed a fine of Won 37.1 billion on us and issued a correctional order for providing discriminatory subsidies to subscribers. We paid such fine in September 2014.

On March 26, 2015, the KCC imposed a fine of Won 23.5 billion on us and imposed a suspension on acquiring new subscribers for a period of seven days for providing subsidies to subscribers in excess of the amounts permitted under the MDDIA.

***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 WCDMA spectrum and using our CDMA network rather than our WCDMA 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 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.

**Table of Contents*****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. Various lawsuits have been filed against SK Communications alleging that the leak was caused by its poor management of subscribers' personal information. With respect to three of the lawsuits for which final judgments have been rendered, the relevant courts have rendered judgments in favor of SK Communications. As of March 31, 2015, nineteen of the lawsuits, seeking damages of approximately Won 1.2 billion in aggregate, were pending at various district courts, various high courts and the Supreme Court of 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 a ring back melody in lieu of a conventional dial tone. 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. In September 2014, the appellate court ruled the remanded case in our favor. KOMCA filed an appeal at the Supreme Court of Korea, which ruled in our favor on January 15, 2015.

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.

**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 depository in Won. Under the terms of the deposit agreement, cash dividends received by the ADR depository generally are to be converted by the ADR depository into Dollars and distributed to the holders of the ADSs, less withholding tax, other governmental charges and the ADR depository's fees and expenses. The ADR depository'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.

Year Ended December 31,	Dividend per Share (In Won)	Total Amount of Dividends (In billions of Won)	Number of Shares Entitled to Dividend
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
2014	9,400	666.8	70,936,336

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

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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 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 July 2014, we distributed such interim dividends at Won 1,000 per share to our shareholders for a total amount of approximately Won 71.0 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.

**Table of Contents****Item 9.C. Markets**

The principal trading market for our common shares is the KRX KOSPI Market. As of March 31, 2015, 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, 2015, ADSs representing 10,000,488 shares of our common stock were outstanding.

**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, 2010:

Calendar Year	Prices			Average Daily Trading Volume (Number of shares)
	High(1)	Low(1) (Won per shares)	Close	
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	298,500	196,500	268,000	170,709
First Quarter	229,000	196,500	215,500	184,185
Second Quarter	243,500	198,000	236,500	180,743
Third Quarter	298,500	236,000	290,000	152,740
Fourth Quarter	298,500	259,000	268,000	165,710
2015 (through April 28)	301,000	262,500	288,000	166,540
First Quarter	301,000	264,000	272,500	151,786
January	290,000	264,000	289,000	159,103
February	301,000	274,000	286,500	126,689
March	290,500	269,000	272,500	164,195
Second Quarter (through April 28)	293,500	262,500	288,000	210,803
April (through April 28)	293,500	262,500	288,000	210,803

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, 2010:

Calendar Year	Prices			Average Daily Trading Volume (Number of ADSs)
	High	Low (US\$ per ADS)	Close	
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	31.75	20.76	27.01	905,341
First Quarter	24.07	20.76	22.57	952,847
Second Quarter	26.50	20.76	25.94	908,195
Third Quarter	31.75	25.54	30.34	963,636
Fourth Quarter	30.62	27.01	27.01	803,932
2015 (through April 28)	30.07	26.22	29.93	731,767
First Quarter	29.76	26.22	27.21	787,402
January	29.27	26.78	28.75	959,500
February	29.76	27.65	29.07	739,883
March	29.30	26.22	27.21	269,414
Second Quarter (through April 28)	30.07	26.49	29.93	553,149
April (through April 28)	30.07	26.49	29.93	553,149

**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 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 Korea Securities Finance



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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, 2014, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately Won 1,192.3 trillion. For the year ended December 31, 2014, the average daily trading volume of equity securities was approximately 278.1 million shares with an average trading value of Won 3,983.6 billion. 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.

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 to Earnings(2)
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 to 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	2,013.11	2,093.08	1,881.73	1,915.59	1.1	15.3
2015 (through April 28)	1,914.24	2,173.41	1,882.45	2,147.67	1.1	16.7

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 2,147.67 on April 28, 2015.

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

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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 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	773	1,192,253	1,092,908	278,082	3,983,580	3,651,646
2015 (through April 24)	762	1,346,808	1,251,797	398,452	5,133,955	4,771,777

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 rehabilitation procedure is instituted against such financial investment company and, therefore, can suffer from loss

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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 20, 2015, our 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;

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

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

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

travel business;

electronic financial services business;

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

lifetime education and management of lifetime educational facilities;

electric engineering business;

information- and communication-related engineering business;

ubiquitous city construction and related service business;

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

construction business, including the machine and equipment business; and

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

Currently, our authorized share capital is 220,000,000 shares, which consists of shares of common stock, par value Won 500 per share, and shares of non-voting stock, par value Won 500 per share (common shares and non-voting shares together are referred to as shares ). Under our articles of incorporation, we are authorized to issue up to 5,500,000 non-voting preferred shares. As of March 31, 2015, 80,745,711 common shares were issued, of which 9,809,375 shares were held by us in treasury. Pursuant to the Share Exchange, which is currently scheduled for June 2015, we expect to exchange 2,471,883 treasury shares for the common shares of SK Broadband, subject to adjustments. We have never issued any non-voting preferred shares. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

***Board of Directors***

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

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

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

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

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

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

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### ***Dividends***

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

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

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

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

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

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

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

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20.0% of the shares publicly offered pursuant to the FSCMA. This right is exercisable only to the extent that the total number of shares so acquired and held by members of our employee stock ownership association does not exceed 20.0% of the sum of the number of shares then outstanding and the number of newly-issued shares. As of December 31, 2014, approximately 0.11% of the issued shares were held by members of our employee stock ownership association.

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

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

as necessary;

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



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

at the request of our audit committee.

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

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

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

### ***Voting Rights***

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

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

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

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

reducing our capital; or



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

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

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

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

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

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

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

The Telecommunications Business Act prohibits foreign governments, individuals, and entities (including Korean entities that are deemed foreigners, as discussed below) from owning more than 49.0% of our voting stock. Korean entities whose largest shareholder is a foreign government or a foreigner (together with any of its related parties) that owns 15.0% or more of such Korean entities' outstanding voting stock are deemed foreigners. A foreigner who has acquired shares of our voting stock in excess of such limitation may not exercise the voting rights with respect to the shares exceeding such limitation and may be subject to the MSIP's corrective orders.

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

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

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

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

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

### ***Annual Report***

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

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

### ***Transfer of Shares***

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

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

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

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

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

### ***Acquisition of Shares by Us***

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

Under the Korean Commercial Code, we may resell or transfer any shares acquired by us to a third party pursuant to an approval by the Board of Directors. In general, corporate entities in which we own a 50.0% or more equity interest may not acquire our common stock. Under the FSCMA, we are subject to certain selling restrictions with respect to the shares acquired by us.

### ***Liquidation Rights***

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

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

The following is a summary of the deposit agreement dated as of May 31, 1996, as amended by amendment no. 1 dated as of March 15, 1999, amendment no. 2 dated as of April 24, 2000 and amendment no. 3 dated as of July 24, 2002, among us, Citibank, N.A., as ADR depository, and all holders and beneficial owners of ADSs, as supplemented by side letters dated as of July 25, 2002, October 1, 2002 and October 1, 2007. The deposit agreement



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is governed by the laws of the State of New York. Because it is a summary, this description does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the ADR. The deposit agreement has been filed as an exhibit to our registration statement on Form F-3 (File No. 333-91304) filed with the SEC. Copies of the deposit agreement are available for inspection at the principal New York office of the ADR depository, currently located at 388 Greenwich Street, 14th Floor, New York, New York 10013, United States of America, and at the principal London office of the ADR depository, currently located at Canada Square, Canary Wharf, London, E14 5LB, England.

***American Depositary Receipts***

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

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

Notwithstanding the provisions described below, under the terms of the deposit agreement, the deposit of shares and issuance of ADSs may only be made if the total number of shares represented by ADSs after such deposit does not exceed a specified maximum, 24,321,893 shares as of March 31, 2015. This limit will be adjusted in certain circumstances, including (1) upon the cancellation of existing ADSs, (2) upon future offerings of ADSs by us or our shareholders, (3) rights offerings and (4) adjustments for share reclassifications. The limit also may be decreased in certain circumstances. As of March 31, 2015, the outstanding ADSs represented 10,000,488 shares of our common stock. Notwithstanding the foregoing, the ADR depository and the Custodian may not accept deposits of shares of common stock for issuance of ADSs if it has been notified by us in writing that we block deposits to prevent a violation of applicable Korean laws or regulations or a violation of our articles of incorporation. In addition, the ADR depository may not accept deposits of shares of common stock for issuance of ADSs from a person who identifies him-, her- or itself to the depository, and has been identified in writing by us, as a holder of at least 3.0% of our shares of common stock.

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

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

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ADR depositary will deliver the appropriate whole number of shares of common stock represented by the surrendered ADSs and will execute and deliver to you a new ADR evidencing ADSs representing any remaining fractional shares of common stock.

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

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

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

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

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

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

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

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

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

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

If the ADR depositary can, in its judgment and pursuant to applicable law, convert Won (or any other foreign currency) into Dollars on a reasonable basis and transfer the resulting Dollars to the United States, the ADR depositary will as promptly as practicable convert all cash dividends and other cash distributions received by it on the deposited shares of common stock into Dollars and distribute the Dollars to you in proportion to the number of ADSs representing shares of common stock held by you, after deduction of the fees and expenses of the ADR depositary. If the ADR depositary determines that in its judgment any currency other than Dollars it receives from us cannot be converted and distributed on a reasonable basis, the ADR depositary may distribute the currency it receives to the extent permitted under applicable law or hold the currency for your account if you are entitled to receive the distribution. The ADR depositary will not be liable for any interest. Before making a distribution, the ADR depositary will deduct any withholding taxes that must be paid.

In the event that the ADR depositary or the ADR depositary's Custodian receives any distribution upon any deposited shares of common stock in property or securities (other than shares of common stock, non-voting preferred stock or rights to receive shares of common stock or non-voting preferred stock), the ADR depositary will



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

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

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

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

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

If a registration statement under the Securities Act is required with respect to the securities to which any rights relate in order for us to offer the rights to you and to sell the securities represented by these rights, the ADR depositary will not offer such rights to you until such a registration is in effect, or unless the offering and sale of such securities and such rights to you are exempt from the registration requirements of the Securities Act or any required filing, report, approval or consent has been submitted, obtained or granted. We or the ADR depositary will not be obligated to register the rights or securities under the Securities Act or to submit, obtain or request any filing, report, approval or consent.

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



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### ***Record Dates***

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

any cash dividend or other cash distribution becomes payable;

any distribution other than cash is made;

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

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

the ADR depository receives notice of any shareholders' meeting.

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

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

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

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

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

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

Upon your written request received on or before the date set by the ADR depository for this purpose, the ADR depository will endeavor, in so far as practicable, to vote or cause to be voted the deposited shares of common stock in accordance with the instructions set forth in your written requests. The ADR depository may not itself exercise any voting discretion over any deposited shares of common stock. You may only exercise the voting rights in respect of nine ADSs or multiples of nine ADSs. ADR holders may not be entitled to give instruction to vote the shares represented by the ADSs if, and to the extent, the total number of shares represented by the ADSs of an ADR holder exceeds the limit set under applicable law. We can give no assurance to you, however, that we will notify the ADR depository sufficiently in advance of the scheduled date of a meeting or solicitation of consents or proxies to enable the ADR depository to make a timely mailing of notices to you, or that you will receive the notices sufficiently in advance of a meeting or solicitation of consents or proxies to give instructions to the ADR depository.

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

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The ADR depository will keep books at its principal New York office, which is currently located at 388 Greenwich Street, 14th Floor, New York, New York 10013, for the registration and transfer of ADRs. You may inspect the books of the ADR depository as long as the inspection is not for the purpose of communicating with holders in the interest of a business or object other than our business or a matter related to the deposit agreement or the ADRs.

### *Reports and Notices*

On or before the first date on which we give notice, by publication or otherwise, of any meeting of shareholders, or of any adjourned meeting of shareholders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights in respect of the shares of common stock, we will transmit to the

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***Charges of ADR Depositary***

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

taxes and other governmental charges;

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

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

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

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

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

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

### ***General***

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

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

Any person depositing shares of common stock, any holder of an ADS or any beneficial owner may be required from time to time to file with the ADR depositary or the Custodian a proof of citizenship, residence, exchange control approval, payment of applicable Korean or other taxes or governmental charges, or legal or beneficial ownership and the nature of their interest, to provide information relating to the registration on

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our shareholders register (or our appointed agent for the transfer and registration of shares of common stock) of the shares of common stock presented for deposit or other information, to execute certificates and to make representations and warranties as we or the ADR depository may deem necessary or proper or to enable us or the ADR depository to perform our and its obligations under the deposit agreement. The ADR depository may withhold the execution or delivery or registration of transfer of all or part of any ADR or the distribution or sale of any

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dividend or other distribution of rights or of the proceeds from their sale or the delivery of any shares deposited under the deposit agreement and any other securities, property and cash received by the ADR depository or the Custodian until the proof or other information is filed or the certificates are executed or the representations and warranties are made. The ADR depository shall provide us, unless otherwise instructed by us, in a timely manner, with copies of any of these proofs and certificates and these written representations and warranties.

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

### ***Governing Law***

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

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

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

### ***Information Relating to the ADR Depository***

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

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

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

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

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

We have not entered into any material contracts since January 1, 2014, other than in the ordinary course of our business. For information regarding our agreements and transactions with entities affiliated with the SK Group, see *Item 7.B. Related Party Transactions* and note 36 of the notes to our consolidated financial statements. For a description of certain agreements entered into during the past three years related to our capital commitments and obligations, see *Item 5B. Liquidity and Capital Resources*.



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**Item 10.D. *Exchange Controls***

**Korean Foreign Exchange Controls and Securities Regulations**

***General***

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

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

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

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

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

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

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

Under current Korean laws and regulations, the depository is required to obtain our prior consent for any proposed deposit of common shares if the number of shares to be deposited in such proposed deposit exceeds the number of common shares initially deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent issuances of ADSs by us or with our consent and stock dividends or other distributions related to the ADSs).

In addition to such restrictions under Korean laws and regulations, there are also restrictions on the deposits of our common shares for issuance of ADSs. See Item 10.B. Memorandum and Articles of





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Incorporation Description of American Depositary Shares. Therefore, a holder of ADRs who surrenders ADRs and withdraws shares may not be permitted subsequently to deposit those shares and obtain ADRs.

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

**Reporting Requirements for Holders of Substantial Interests**

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

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

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

**Restrictions Applicable to ADSs**

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

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

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

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

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

odd-lot trading of shares;

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

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

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

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

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

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

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

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

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

acquisition and disposal of shares through alternative trading systems.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions through borrowing shares from financial investment companies with respect to shares which are subject to a foreign ownership limit.

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

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by decree promulgated under the FSCMA. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

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

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

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

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

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

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

### **Item 10.E. *Taxation*** **United States Taxation**

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

a dealer in securities or currencies;

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

a bank;

a life insurance company;

a tax-exempt organization;

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

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

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

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

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

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

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

a citizen or resident of the United States;

a U.S. domestic corporation; or

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

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

### ***Dividends***

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

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at a maximum rate of 20.0% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) the ADSs are readily tradable on an established securities market in the United States and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes (PFIC). The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements, as well as relevant market and shareholder data, we believe that we were not a PFIC with respect to our 2014 taxable year. In addition, based on our audited financial statements and current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2015 taxable year.

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

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

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

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

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





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

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

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

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

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

### **Korean Taxation**

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

#### ***Tax on Dividends***

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

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

#### ***Tax on Capital Gains***

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

However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the common shares through the KRX KOSPI Market if the Non-resident Holder (1) has no permanent establishment in Korea and (2) did not or has not owned (together with any shares owned by any entity with certain

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special relationship with such Non-resident Holder) 25.0% or more of the total issued and outstanding shares of us at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

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

***Inheritance Tax and Gift Tax***

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

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

***Securities Transaction Tax***

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

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

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

***Tax Treaties***

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

Each Non-resident Holder of common shares should inquire for itself whether it is entitled to the benefits of a tax treaty with Korea. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest, dividend, capital gains or other income to submit to us (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, prior to or at the time of payment, such evidence of tax residence of the party claiming the treaty benefit as the Korean tax authorities may require in support of its claim for treaty protection. In the absence of sufficient proof, we (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, must withhold tax at the normal rates.

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

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

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

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

Not applicable.

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

Not applicable.

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

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

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

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

Not applicable.

## **Item 11. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities and to equity price risk as a result of our investment in equity instruments.

We have entered into floating-to-fixed cross currency swap contracts to hedge foreign currency and interest rate risks with respect to long-term borrowings of US\$300 million of bonds issued in March 2013, US\$300 million of bonds issued in October 2013 and US\$86.3 million of bonds issued in December 2013. In addition, we have entered into fixed-to-fixed cross currency swap contracts to hedge the foreign currency risks of US\$400 million of bonds issued in July 2007, CHF 300 million of bonds issued in June 2012, US\$700 million of bonds issued in November 2012 and AUD 300 million of bonds issued in January 2013. See note 23 of the notes to our consolidated financial statements. We may consider in the future entering into other such transactions solely for hedging purposes.

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The following discussion and tables, which constitute forward looking statements that involve risks and uncertainties, summarize our market-sensitive financial instruments including fair value, maturity and contract terms. These tables address market risk only and do not present other risks which we face in the normal course of business, including country risk, credit risk and legal risk.

**Table of Contents****Exchange Rate Risk**

Korea is our main market and, therefore, substantially all of our cash flow is denominated in Won. We are exposed to foreign exchange risk related to foreign currency denominated liabilities. These liabilities relate primarily to foreign currency denominated debt, primarily in Dollars, Franc and Australian Dollars. A 10.0% increase in the exchange rate between the Won and all foreign currencies would result in an increase in profit before income tax of approximately 0.3%, or Won 7.3 billion, with a decrease of 10.0% in the exchange rate having the opposite effect, as of December 31, 2014. For a further discussion of our exchange rate risk exposures, see note 35(1) of the notes to our consolidated financial statements.

**Interest Rate Risk**

We are also subject to market risk exposure arising from changing interest rates. The following table summarizes the carrying amounts and fair values, maturity and contract terms of our exchange rate and interest sensitive short-term and long-term liabilities as of December 31, 2014:

	2015	2016	2017	2018	Maturities 2019	Thereafter	Total	Fair Value
	(In billions of Won, except for percentage data)							
<b>Local currency:</b>								
Fixed-rate	898.0	673.6	244.0	204.1	766.5	1,375.9	4,162.1	2,893.5
Average weighted rate(1)	3.82%	5.19%	4.41%	5.70%	3.01%	3.41%		
Sub-total	898.0	673.6	244.0	204.1	766.5	1,375.9	4,162.1	2,893.5
<b>Foreign currency:</b>								
Fixed-rate	12.7	12.7	613.3	1,102.2	12.7	465.0	2,218.6	2,445.4
Average weighted rate(1)	1.70%	1.70%	3.08%	2.36%	1.70%	6.38%		
Variable rate						328.5	328.5	328.5
Average weighted rate(1)						1.11%		
Sub-total	12.7	12.7	613.3	1,102.2	12.7	793.5	2,547.1	2,773.9
Total	910.7	686.3	857.3	1,306.3	779.2	2,169.4	6,709.2	5,667.4

(1) Weighted average rates of the portfolio at the period end.

A 1.0% point increase in interest rates would result in a decrease in profit before income tax of approximately 0.02%, Won 0.5 billion, with a 1.0% point decrease in interest rates having the opposite effect, as of December 31, 2014. For a further discussion of our interest rate risk exposures, see note 35(1) of the notes to our consolidated financial statements.

**Equity Price Risk**

We are also subject to market risk exposure arising from changes in the equity securities market, which affect the fair value of our equity portfolio. As of December 31, 2014, 2013 and 2012, a 10.0% increase in the equity indices where our available-for-sale equity instruments are listed, with all other variables held constant, would have increased our total equity by Won 54.2 billion, Won 63.4 billion and Won 58.4 billion, respectively, with a 10.0% decrease in the equity index having the opposite effect. The foregoing sensitivity analysis assumes that all variables other than changes in the equity index are held constant, and that our available-for-sale equity instruments had moved according to the historical correlation to the index, and as such, does not reflect any correlation between the equity index and other variables. For a further discussion of our equity price risk exposures, see note 35(1) of the notes to our consolidated financial statements.

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****Item 12.A. Debt Securities**

Not applicable.

**Item 12.B. Warrants and Rights**

Not applicable.

**Table of Contents****Item 12.C. Other Securities**

Not applicable.

**Item 12.D. American Depositary Shares  
Fees and Charges under Deposit Agreement**

The ADR depository will charge the party receiving ADSs up to US\$5.00 per 100 ADSs (or fraction thereof), provided that the ADR depository has agreed to waive such fee as would have been payable by us in the case of (1) an offering of ADSs by us or (2) any distribution of shares of common stock or any rights to subscribe for additional shares of common stock. The ADR depository will not charge the party to whom ADSs are delivered against deposits. The ADR depository will charge the party surrendering ADSs for delivery of deposited securities up to US\$5.00 per 100 ADSs (or fraction thereof) surrendered. The ADR depository will also charge the party to whom any cash distribution, or for whom the sale or exercise of rights or other corporate action involving distributions to shareholders, is made with respect to ADSs up to US\$0.02 per ADS held plus the expenses of the ADR depository on a per-ADS basis. We will pay the expenses of the ADR depository and any entity acting as registrar for the shares only as specified in the deposit agreement. The ADR depository will pay any other charges and expenses of the ADR depository and the entity acting as registrar for the shares.

Holders of ADRs must pay (1) taxes and other governmental charges, (2) share transfer registration fees on deposits of shares of common stock, (3) such cable, telex, facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of persons depositing shares of common stock or holders of ADRs and (4) such reasonable expenses as are incurred by the ADR depository in the conversion of foreign currency into United States dollars.

Notwithstanding any other provision of the deposit agreement, in the event that the ADR depository determines that any distribution in property (including shares or rights to subscribe therefor or other securities) is subject to any tax or governmental charges which the ADR depository is obligated to withhold, the ADR depository may dispose of all or a portion of such property (including shares and rights to subscribe therefor) in such amounts and in such manner as the ADR depository deems necessary and practicable to pay such taxes or governmental charges, including by public or private sale, and the ADR depository will distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes or governmental charges to the holders of ADSs entitled thereto in proportion to the number of ADSs held by them respectively.

All such charges may be changed by agreement between the ADR depository and us at any time and from time to time, subject to the deposit agreement. The right of the ADR depository to receive payment of fees, charges and expenses shall survive the termination of this deposit agreement and, as to any depository, the resignation or removal of such depository pursuant to the deposit agreement.

For a detailed summary of the deposit agreement, see Item 10.B. Memorandum and Articles of Incorporation Description of American Depositary Shares.

**Payments made by ADS Depository**

All fees and other direct and indirect payments reimbursed by the depository are as following:

	<b>Year Ended December 31, 2014 (In Dollars)</b>
Expenses for preparation of SEC filing and submission	US\$ 713,546
Listing Fees	266,861
Education/Training	193,865
Corporate Action	203,980
Miscellaneous	141,932
Total	US\$ 1,520,184





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**PART II**

**Item 13. *DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES***

None.

**Item 14. *MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS***

None.

**Item 15. *CONTROLS AND PROCEDURES***

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2014. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as of December 31, 2014. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS as issued by the IASB. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

**Report of the Independent Registered Public Accounting Firm on the Effectiveness of Our Internal Control Over Financial Reporting**

The report of our independent registered public accounting firm, KPMG Samjong Accounting Corp. ( KPMG Samjong ), on the effectiveness of our internal control over financial reporting as of December 31, 2014 is included in Item 18 of this Form 20-F.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****Item 16. RESERVED****Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Dae Shick Oh is the chairman of our audit committee and was elected and designated an audit committee financial expert within the meaning of this Item 16A at a meeting of the board of directors in April 2014. The board of directors have further determined that Dae Shick Oh is independent within the meaning of applicable SEC rules and the listing standards of the NYSE. See Item 6.C. Board Practices Audit Committee for additional information regarding our audit committee.

**Item 16B. CODE OF ETHICS****Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller**

We have a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, senior accounting officers and employees. We also have internal control and disclosure policy designed to promote full, fair, accurate, timely and understandable disclosure in all of our reports and publicly filed documents. A copy of our code of ethics is available on our website at [www.sktelecom.com](http://www.sktelecom.com). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website.

**Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The table sets forth the fees we paid to our independent registered public accounting firm KPMG Samjong and its affiliates for the years ended December 31, 2014 and 2013:

	Year Ended December 31,	
	2014	2013
	(In millions of Won)	
Audit Fees	3,522	2,102
Audit-Related Fees	12	4
Tax Fees	408	182
All Other Fees	50	9
<b>Total</b>	<b>3,992</b>	<b>2,297</b>

*Audit Fees* are the aggregate fees billed by KPMG Samjong for the audit of our consolidated annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

*Audit-Related Fees* are fees charged by KPMG Samjong for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under *Audit Fees*. This category comprises fees billed for advisory services associated with our financial reporting.

*Tax Fees* are fees for professional services rendered by KPMG Samjong for tax compliance, tax advice on actual or contemplated transactions and tax planning services.

Fees disclosed under the category *All Other Fees* are fees for professional services rendered by KPMG Samjong, primarily for business consulting in connection with our internal control over financial reporting.

**Pre-Approval of Audit and Non-Audit Services Provided by Independent Registered Public Accounting Firm**

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Our audit committee pre-approves all audit services to be provided by KPMG Samjong, our independent registered public accounting firm. Our audit committee's policy regarding the pre-approval of non-audit services to be provided to us by our independent auditors is that all such services shall be pre-approved by our audit committee. Non-audit services that are prohibited to be provided to us by our independent auditors under the rules of the SEC and applicable law may not be pre-approved. In addition, prior to the granting of any pre-approval, our audit committee must be satisfied that the performance of the services in question will not compromise the independence of our independent registered public accounting firm.

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Our audit committee did not pre-approve any non-audit services under the *de minimis* exception of Rule 2-01 (c)(7)(i)(C) of Regulation S-X as promulgated by the SEC.

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

**Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**Item 16G. CORPORATE GOVERNANCE**

The following is a summary of the significant differences between the NYSE's corporate governance standards and those that we follow under Korean law.

NYSE Corporate Governance Standards	Our Corporate Governance Practice
<b>Director Independence</b>	
Listed companies must have a majority of independent directors.	Of the six members of our board of directors, four are independent directors.
<b>Executive Session</b>	
Listed companies must hold meetings solely attended by independent directors to more effectively check and balance management directors.	Our audit committee, which is comprised solely of three independent directors, holds meetings whenever there are matters related to management directors, and such meetings are generally held once every month.
<b>Nomination/Corporate Governance Committee</b>	
Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.	Although we do not have a separate nomination/corporate governance committee, we maintain an independent director nomination committee composed of two independent directors and one management director.
<b>Audit Committee</b>	
Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.	We maintain an audit committee comprised solely of three independent directors.
<b>Audit Committee Additional Requirements</b>	
Listed companies must have an audit committee that is composed of more than three directors.	Our audit committee has three independent directors.
<b>Shareholder Approval of Equity Compensation Plan</b>	
Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.	We currently have two equity compensation plans: a stock option plan for officers and directors and employee stock ownership plan for employees (ESOP). We manage such compensation plans in compliance with the applicable laws and our articles of incorporation, provided that, under certain limited circumstances, the grant of stock options or matters relating to ESOP are not subject to shareholders' approval under Korean law.



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<b>NYSE Corporate Governance Standards</b>	<b>Our Corporate Governance Practice</b>
<b>Corporate Governance Guidelines</b>	
Listed companies must adopt and disclose corporate governance guidelines.	Although we do not maintain separate corporate governance guidelines, we are in compliance with the Korean Commercial Code in connection with such matters, including the governance of the board of directors.
<b>Code of Business Conduct and Ethics</b>	
Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers.	We have adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees, and such code is also available on our website at <a href="http://www.sktelecom.com">www.sktelecom.com</a> .

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

**Item 18. FINANCIAL STATEMENTS**

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<b>Number</b>	<b>Description</b>
1.1	Articles of Incorporation
2.1	Deposit Agreement dated as of May 31, 1996, as amended by Amendment No. 1 dated as of March 15, 1999, Amendment No. 2 dated as of April 24, 2000 and Amendment No. 3 dated as of July 24, 2002, entered into among SK Telecom Co., Ltd., Citibank, N.A., as Depositary, and all Holders and Beneficial Owners of American Depositary Shares (incorporated by reference to Exhibit 2.1 to the Registrant's Annual Report on Form 20-F filed on June 30, 2006)
8.1	List of Subsidiaries of SK Telecom Co., Ltd.
12.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Framework Act on Telecommunications, as amended (English translation) (incorporated by reference to Exhibit 15.1 to the Registrant's Annual Report on Form 20-F filed on April 30, 2013)
15.2	Enforcement Decree of the Framework Act on Telecommunications, as amended (English translation) (incorporated by reference to Exhibit 15.2 to the Registrant's Annual Report on Form 20-F filed on June 30, 2011)
15.3	Telecommunications Business Act, as amended (English translation)
15.4	Enforcement Decree of the Telecommunications Business Act, as amended (English translation)
15.5	Government Organization Act, as amended (English translation)



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**Report of Independent Registered Public Accounting Firm**

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of SK Telecom Co., Ltd. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of SK Telecom Co., Ltd. s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SK Telecom Co., Ltd. and subsidiaries as of December 31, 2014 and 2013 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of SK Telecom Co., Ltd. s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2015, expressed an unqualified opinion on SK Telecom Co., Ltd. s internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 29, 2015

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**Report of Independent Registered Public Accounting Firm**

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the internal control over financial reporting of SK Telecom Co., Ltd. as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. SK Telecom Co., Ltd. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on SK Telecom Co., Ltd. s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, SK Telecom Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), consolidated statements of financial position of SK Telecom Co., Ltd. and its subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated April 29, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 29, 2015

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2014 and 2013**

<i>(In millions of won)</i>	<i>Note</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	30,34,35	834,429	1,398,639
Short-term financial instruments	6,30,34,35,36,37	313,068	311,474
Short-term investment securities	9,34,35	280,161	106,068
Accounts receivable trade, net	7,30,34,35,36	2,392,150	2,257,316
Short-term loans, net	7,34,35,36	74,512	79,395
Accounts receivable other, net	7,34,35,36	690,527	643,603
Prepaid expenses		134,404	108,909
Derivative financial assets	23,34,35		10
Inventories, net	8,37	267,667	177,120
Assets classified as held for sale	10	10,510	3,667
Advanced payments and other	7,9,34,35,36	85,720	37,214
<b>Total Current Assets</b>		<b>5,083,148</b>	<b>5,123,415</b>
<b>Non-Current Assets:</b>			
Long-term financial instruments	6,34,35,37	631	8,142
Long-term investment securities	9,34,35	956,280	968,527
Investments in associates and joint ventures	13	6,298,088	5,325,297
Property and equipment, net	14,36,37	10,567,701	10,196,607
Investment property, net	15	14,997	15,811
Goodwill	16	1,917,595	1,733,261
Intangible assets, net	17	2,483,994	2,750,782
Long-term loans, net	7,34,35,36	55,728	57,442
Long-term accounts receivable other	7,34,35	3,596	
Long-term prepaid expenses	37	51,961	32,008
Guarantee deposits	6,7,34,35,36	285,144	249,600
Long-term derivative financial assets	23,34,35	70,035	41,712
Deferred tax assets	2,31	25,083	26,322
Other non-current assets	7,34,35	127,252	47,589
<b>Total Non-Current Assets</b>		<b>22,858,085</b>	<b>21,453,100</b>
<b>Total Assets</b>		<b>27,941,233</b>	<b>26,576,515</b>

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Financial Position (Continued)**

As of December 31, 2014 and 2013

<i>(In millions of won)</i>	<i>Note</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Liabilities and Equity</b>			
<b>Current Liabilities:</b>			
Short-term borrowings	<i>18,30,34,35</i>	366,600	260,000
Current installments of long-term debt, net	<i>18,30,34,35</i>	590,714	1,042,276
Current installments of finance lease liabilities	<i>21,30,34,35</i>	3,804	19,351
Current installments of long-term payables other	<i>19,34,35</i>	189,389	206,800
Accounts payable trade	<i>34,35,36</i>	275,495	214,716
Accounts payable other	<i>34,35,36</i>	1,381,850	1,864,024
Withholdings	<i>34,35,36</i>	1,053,063	728,936
Accrued expenses	<i>34,35</i>	952,418	988,193
Income tax payable	<i>31</i>	99,236	112,316
Unearned revenue		327,003	441,731
Derivative financial liabilities	<i>23,34,35</i>		21,171
Provisions	<i>20</i>	51,075	66,775
Advanced receipts	<i>33,34</i>	129,255	102,931
Liabilities classified as held for sale	<i>10</i>	408	
<b>Total Current Liabilities</b>		<b>5,420,310</b>	<b>6,069,220</b>
<b>Non-Current Liabilities:</b>			
Debentures, excluding current installments, net	<i>18,30,34,35</i>	5,649,158	4,905,579
Long-term borrowings, excluding current installments	<i>18,30,34,35</i>	149,720	104,808
Long-term payables other	<i>19,34,35</i>	684,567	838,585
Long-term unearned revenue		19,659	50,894
Finance lease liabilities	<i>21,30,34,35</i>	26	3,867
Defined benefit liabilities	<i>22</i>	91,587	74,201
Long-term derivative financial liabilities	<i>23,34,35</i>	130,889	103,168
Long-term provisions	<i>20</i>	36,013	28,106
Deferred tax liabilities	<i>32</i>	444,211	168,825
Other non-current liabilities	<i>34,35</i>	66,823	62,705
<b>Total Non-Current Liabilities</b>		<b>7,272,653</b>	<b>6,340,738</b>
<b>Total Liabilities</b>		<b>12,692,963</b>	<b>12,409,958</b>
<b>Equity</b>			
Share capital	<i>1,24</i>	44,639	44,639
Capital surplus (deficit) and other capital adjustments	<i>24,25</i>	(120,520)	(81,010)
Hybrid bonds	<i>26</i>	398,518	398,518
Retained earnings	<i>27</i>	14,188,591	13,102,495
Reserves	<i>28</i>	(4,489)	(12,270)
<b>Equity attributable to owners of the Parent Company</b>		<b>14,506,739</b>	<b>13,452,372</b>
<b>Non-controlling interests</b>		<b>741,531</b>	<b>714,185</b>
<b>Total Equity</b>		<b>15,248,270</b>	<b>14,166,557</b>

**Total Liabilities and Equity**

**27,941,233**

**26,576,515**

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Income****For the years ended December 31, 2014, 2013 and 2012**

<i>(In millions of won except for per share data)</i>	<i>Note</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Continuing operations</b>				
<b>Operating revenue and other income:</b>	<i>5,36</i>			
Revenue		17,163,798	16,602,054	16,141,409
Other income	<i>20,29</i>	56,471	74,954	201,844
		17,220,269	16,677,008	16,343,253
<b>Operating expense:</b>	<i>36</i>			
Labor cost	<i>22</i>	1,659,777	1,561,358	1,267,928
Commissions paid		5,692,680	5,498,695	5,949,542
Depreciation and amortization	<i>5</i>	2,714,730	2,661,623	2,421,128
Network interconnection		997,319	1,043,733	1,057,145
Leased line		399,014	448,833	468,785
Advertising		415,857	394,066	384,353
Rent		460,309	443,639	422,388
Cost of products that have been resold		1,680,110	1,300,375	1,292,304
Other operating expenses	<i>29</i>	1,592,647	1,746,283	1,342,025
Sub-total		15,612,443	15,098,605	14,605,598
<b>Operating income</b>	<i>5</i>	<b>1,607,826</b>	<b>1,578,403</b>	<b>1,737,655</b>
Finance income	<i>5,30</i>	126,337	113,392	444,558
Finance costs	<i>5,30</i>	(386,673)	(571,203)	(638,285)
Gain (loss) related to investments in subsidiaries, associates and joint ventures, net	<i>1,5,13</i>	906,338	706,509	(24,560)
<b>Profit before income tax</b>		<b>2,253,828</b>	<b>1,827,101</b>	<b>1,519,368</b>
Income tax expense from continuing operations	<i>31</i>	454,508	400,797	288,207
<b>Profit from continuing operations</b>		<b>1,799,320</b>	<b>1,426,304</b>	<b>1,231,161</b>
<b>Discontinued operation</b>				
Profit (loss) from discontinued operations, net of income taxes	<i>38</i>		183,245	(115,498)
<b>Profit for the year</b>		<b>1,799,320</b>	<b>1,609,549</b>	<b>1,115,663</b>
Attributable to:				
Owners of the Parent Company		1,801,178	1,638,964	1,151,705
Non-controlling interests		(1,858)	(29,415)	(36,042)
<b>Earnings per share</b>	<i>32</i>			
Basic earnings per share (in Won)		25,154	23,211	16,525
Diluted earnings per share (in Won)		25,154	23,211	16,141
<b>Earnings per share Continuing operations</b>	<i>32</i>			

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Basic earnings per share (in Won)	25,154	20,708	18,015
Diluted earnings per share (in Won)	25,154	20,708	17,583

*See accompanying notes to the consolidated financial statements.*



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2014, 2013 and 2012

<i>(In millions of won)</i>	<i>Note</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Profit for the year</b>		<b>1,799,320</b>	<b>1,609,549</b>	<b>1,115,663</b>
<b>Other comprehensive income (loss)</b>				
<b>Items that will never be reclassified to profit or loss, net of taxes:</b>				
Remeasurement of defined benefit liabilities	3,22	(32,942)	5,946	(15,048)
<b>Items that are or may be reclassified subsequently to profit or loss, net of taxes:</b>				
Net change in unrealized fair value of available-for-sale financial assets	3,28,30	27,267	2,009	(149,082)
Net change in other comprehensive income of investments in associates and joint ventures	3,13,28	8,187	3,034	(82,513)
Net change in unrealized fair value of derivatives	3,23,28,30	(45,942)	11,222	(23,361)
Foreign currency translation differences for foreign operations	3,28	14,944	(3,714)	(49,538)
<b>Other comprehensive income (loss) for the year</b>		<b>(28,486)</b>	<b>18,497</b>	<b>(319,542)</b>
<b>Total comprehensive income</b>		<b>1,770,834</b>	<b>1,628,046</b>	<b>796,121</b>
Total comprehensive income attributable to:				
Owners of the Parent Company		1,777,519	1,655,570	851,565
Non-controlling interests		(6,685)	(27,524)	(55,444)

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Changes in Equity****For the years ended December 31, 2014, 2013 and 2012***(In millions of won)*

	Capital surplus (deficit) and other capital		Controlling interest			Sub-total	Non- controlling interests	Total equity
	Share capital	adjustments	Hybrid bonds	Retained earnings	Reserves			
<b>Balance, January 1, 2012</b>	<b>44,639</b>	<b>(285,347)</b>		<b>11,642,525</b>	<b>260,064</b>	<b>11,661,881</b>	<b>1,070,828</b>	<b>12,732,709</b>
Cash dividends				(655,133)		(655,133)	(2,133)	(657,266)
Total comprehensive income								
Profit (loss) for the year				1,151,705		1,151,705	(36,042)	1,115,663
Other comprehensive loss				(14,440)	(285,700)	(300,140)	(19,402)	(319,542)
				1,137,265	(285,700)	851,565	(55,444)	796,121
Changes in ownership in subsidiaries		(3,536)				(3,536)	(13,246)	(16,782)
<b>Balance, December 31, 2012</b>	<b>44,639</b>	<b>(288,883)</b>		<b>12,124,657</b>	<b>(25,636)</b>	<b>11,854,777</b>	<b>1,000,005</b>	<b>12,854,782</b>
<b>Balance, January 1, 2013</b>	<b>44,639</b>	<b>(288,883)</b>		<b>12,124,657</b>	<b>(25,636)</b>	<b>11,854,777</b>	<b>1,000,005</b>	<b>12,854,782</b>
Cash dividends				(655,946)		(655,946)	(2,242)	(658,188)
Total comprehensive income								
Profit (loss) for the year				1,638,964		1,638,964	(29,415)	1,609,549
Other comprehensive income				3,240	13,366	16,606	1,891	18,497
				1,642,204	13,366	1,655,570	(27,524)	1,628,046
Issuance of hybrid bonds			398,518			398,518		398,518
Interest on hybrid bonds				(8,420)		(8,420)		(8,420)
Treasury stock		271,536				271,536		271,536
Business combination under common control		(61,854)				(61,854)		(61,854)
Changes in ownership in subsidiaries		(1,809)				(1,809)	(256,054)	(257,863)
<b>Balance, December 31, 2013</b>	<b>44,639</b>	<b>(81,010)</b>	<b>398,518</b>	<b>13,102,495</b>	<b>(12,270)</b>	<b>13,452,372</b>	<b>714,185</b>	<b>14,166,557</b>

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Changes in Equity (Continued)****For the years ended December 31, 2014, 2013 and 2012***(In millions of won)*

	Capital surplus		Controlling interest			Sub-total	Non-controlling interests	Total equity
	Share capital	(deficit) and other capital adjustments	Hybrid bonds	Retained earnings	Reserves			
<b>Balance, January 1, 2014</b>	<b>44,639</b>	<b>(81,010)</b>	<b>398,518</b>	<b>13,102,495</b>	<b>(12,270)</b>	<b>13,452,372</b>	<b>714,185</b>	<b>14,166,557</b>
Cash dividends				(666,802)		(666,802)	(170)	(666,972)
Total comprehensive income								
Profit (loss) for the year				1,801,178		1,801,178	(1,858)	1,799,320
Other comprehensive income (loss)				(31,440)	7,781	(23,659)	(4,827)	(28,486)
Interest on hybrid bonds				1,769,738	7,781	1,777,519	(6,685)	1,770,834
Changes in consolidation scope				(16,840)		(16,840)		(16,840)
Business combination under common control		(28,641)				(28,641)	23,667	23,667
Changes in ownership in subsidiaries		(10,869)				(10,869)	10,534	(335)
<b>Balance, December 31, 2014</b>	<b>44,639</b>	<b>(120,520)</b>	<b>398,518</b>	<b>14,188,591</b>	<b>(4,489)</b>	<b>14,506,739</b>	<b>741,531</b>	<b>15,248,270</b>

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2014, 2013 and 2012**

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>			
Cash generated from operating activities			
Profit for the year	1,799,320	1,609,549	1,115,663
Adjustments for income and expenses (Note 39)	2,978,995	3,275,376	3,289,861
Changes in assets and liabilities related to operating activities (Note 39)	(707,333)	(969,870)	204,308
Sub-total	4,070,982	3,915,055	4,609,832
Interest received	56,706	64,078	88,711
Dividends received	13,048	10,197	27,732
Interest paid	(280,847)	(300,104)	(363,685)
Income tax paid	(182,504)	(130,656)	(362,926)
<b>Net cash provided by operating activities</b>	<b>3,677,385</b>	<b>3,558,570</b>	<b>3,999,664</b>
<b>Cash flows from investing activities:</b>			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net	5,627	186,425	464,531
Decrease in short-term investment securities, net			65,000
Collection of short-term loans	207,439	290,856	282,658
Proceeds from disposals of long-term financial instruments	2,535	16	23
Proceeds from disposals of long-term investment securities	65,287	287,777	511,417
Proceeds from disposals of investments in associates and joint ventures	7,333	43,249	1,518
Proceeds from disposals of property and equipment	25,143	12,579	271,122
Proceeds from disposals of investment property			43,093
Proceeds from disposals of intangible assets	10,917	2,256	21,048
Proceeds from disposal of assets held for sale	3,667	190,393	
Collection of long-term loans	4,454	13,104	11,525
Decrease in deposits	8,891	8,509	41,785
Proceeds from disposals of other non-current assets	94	683	1,853
Proceeds from disposals of subsidiaries		215,939	89,002
Increase in cash due to acquisitions of subsidiaries			26,651
Sub-total	341,387	1,251,786	1,831,226
Cash outflows from investing activities:			
Increase in short-term investment securities, net	(174,209)	(45,032)	
Increase in short-term loans	(202,501)	(279,926)	(245,465)
Increase in long-term loans	(4,341)	(4,050)	(3,464)
Increase in long-term financial instruments	(2,522)	(7,510)	(16)
Acquisitions of long-term investment securities	(41,305)	(22,141)	(92,929)
Acquisitions of investments in associates and joint ventures	(60,020)	(97,366)	(3,098,833)
Acquisitions of property and equipment	(3,008,026)	(2,879,126)	(3,394,349)
Acquisitions of investment property			(129)
Acquisitions of intangible assets	(130,667)	(243,163)	(146,249)
Cash held by disposal group classified as held for sale	(552)		(51,831)
Increase in deposits	(6,903)	(83,314)	(43,534)

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Increase in other non-current assets	(18,233)	(1,830)	(8,619)
Acquisition of businesses, net of cash acquired	(375,273)	(94,805)	(43,389)
Decrease in cash due to disposals of a subsidiaries			(12,003)
<b>Sub-total</b>	<b>(4,024,552)</b>	<b>(3,758,263)</b>	<b>(7,140,810)</b>
<b>Net cash used in investing activities</b>	<b>(3,683,165)</b>	<b>(2,506,477)</b>	<b>(5,309,584)</b>

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Cash Flows (Continued)**

For the years ended December 31, 2014, 2013 and 2012

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from financing activities:</b>			
Cash inflows from financing activities:			
Proceeds from short-term borrowings, net	102,868		
Proceeds from issuance of debentures	1,255,468	1,328,694	2,098,351
Proceeds from long-term borrowings	62,552	105,055	2,059,004
Proceeds from issuance of hybrid bonds		398,518	
Cash inflows from transaction of derivatives	200	19,970	87,899
Sub-total	1,421,088	1,852,237	4,245,254
Cash outflows for financing activities:			
Decrease in short-term borrowings, net		(340,245)	(61,401)
Repayments of long-term account payables-other	(207,791)	(161,575)	(102,672)
Repayments of debentures	(1,039,938)	(771,976)	(1,145,691)
Repayments of long-term borrowings	(23,284)	(467,217)	(1,660,509)
Cash outflows from transactions of derivatives	(6,444)		(5,415)
Repayments of finance lease liabilities	(19,388)	(20,342)	(20,794)
Payments of dividends	(666,802)	(655,946)	(655,133)
Payments of interest on hybrid bonds	(16,840)		
Decrease in cash from consolidated capital transaction		(8,093)	(8,372)
Sub-total	(1,980,487)	(2,425,394)	(3,659,987)
<b>Net cash provided by (used in) financing activities</b>	<b>(559,399)</b>	<b>(573,157)</b>	<b>585,267</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(565,179)</b>	<b>478,936</b>	<b>(724,653)</b>
Cash and cash equivalents at beginning of the year	1,398,639	920,125	1,650,794
Effects of exchange rate changes on cash and cash equivalents	969	(422)	(6,016)
<b>Cash and cash equivalents at end of the year</b>	<b>834,429</b>	<b>1,398,639</b>	<b>920,125</b>

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2014, 2013 and 2012****1. Reporting Entity****(1) General**

SK Telecom Co., Ltd. ( the Parent Company ) was incorporated in March 1984 under the laws of the Republic of Korea ( Korea ) to engage in providing cellular telephone communication services in Korea. The Parent Company mainly provides wireless telecommunications in Korea. The Parent Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2014, the Parent Company's total issued shares are held by the following:

	Number of shares	Percentage of total shares issued (%)
SK Holdings Co., Ltd.	20,363,452	25.22
National Pension Service	5,722,692	7.09
Institutional investors and other minority stockholders	44,850,192	55.54
Treasury stock	9,809,375	12.15
<b>Total number of shares</b>	<b>80,745,711</b>	<b>100.00</b>

These consolidated financial statements comprise the Parent Company and its subsidiaries (together referred to as the Group and individually as Group entities ). SK Holdings Co, Ltd. is the ultimate controlling entity of the Parent Company.

**(2) List of subsidiaries**

The list of subsidiaries as of December 31, 2014 and 2013 is as follows:

Subsidiary	Location	Primary business	Ownership (%)	
			Dec. 31, 2014	Dec. 31, 2013
SK Telink Co., Ltd.	Korea	Telecommunication and MVNO service	83.5	83.5
M&Service Co., Ltd.	Korea	Data base and internet website service	100.0	100.0
SK Communications Co., Ltd.	Korea	Internet website services	64.6	64.6
Stonebridge Cinema Fund	Korea	Investment association	56.0	56.0
Commerce Planet Co., Ltd.	Korea	Online shopping mall operation agency	100.0	100.0
SK Broadband Co., Ltd.	Korea	Telecommunication services	50.6	50.6
K-net Culture and Contents Venture Fund	Korea	Investment association	59.0	59.0
Fitech Focus Limited Partnership II	Korea	Investment association	66.7	66.7
Open Innovation Fund	Korea	Investment association	98.9	98.9
PS&Marketing Corporation	Korea	Communications device retail business	100.0	100.0
Service Ace Co., Ltd.	Korea	Customer center management service	100.0	100.0
Service Top Co., Ltd.	Korea	Customer center management service	100.0	100.0
Network O&S Co., Ltd.	Korea	Base station maintenance service	100.0	100.0
BNCP Co., Ltd.	Korea	Internet website services	100.0	100.0
Iconcube Holdings, Inc.(*1)	Korea	Investment association	100.0	
Iconcube, Inc.(*1)	Korea	Internet website services	100.0	

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SK Planet Co., Ltd.	Korea	Telecommunication service	100.0	100.0
Neosnetworks Co., Ltd.(*1,2)	Korea	Guarding of facilities	66.7	
IRIVER LIMITED(*1,3)	Korea	Manufacturing digital audio players and other portable media devices.	49.0	

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

Subsidiary	Location	Primary business	Ownership (%)	
			Dec. 31, 2014	Dec. 31, 2013
Iriver CS Co., Ltd.(*1)	Korea	After-sales service and logistics agency	100.0	
iriver Enterprise Ltd.(*1)	Hong Kong	Management of Chinese subsidiary	100.0	
iriver America Inc.(*1)	USA	Marketing and sales in North America	100.0	
iriver Inc.(*1)	USA	Marketing and sales in North America	100.0	
iriver China Co., Ltd.(*1)	China	Sales and manufacturing MP3,4 in China	100.0	
Dongguan iriver Electronics Co., Ltd.(*1)	China	Sales and manufacturing e-book in China	100.0	
SK Telecom China Holdings Co., Ltd.	China	Investment association	100.0	100.0
Shenzhen E-eye High Tech Co., Ltd.	China	Manufacturing	65.5	65.5
SK Global Healthcare Business Group, Ltd.	Hong Kong	Investment association	100.0	100.0
SK Planet Japan	Japan	Digital contents sourcing service	100.0	100.0
SKT Vietnam PTE. Ltd.	Singapore	Telecommunication service	73.3	73.3
SK Planet Global PTE. Ltd.	Singapore	Digital contents sourcing service	100.0	100.0
SKP GLOBAL HOLDINGS PTE. LTD.	Singapore	Investment association	100.0	100.0
SKT Americas, Inc.	USA	Information gathering and consulting	100.0	100.0
SKP America LLC.	USA	Digital contents sourcing service	100.0	100.0
YTK Investment Ltd.	Cayman	Investment association	100.0	100.0
Atlas Investment	Cayman	Investment association	100.0	100.0
Technology Innovation Partners, L.P.	USA	Investment association	100.0	100.0
SK Telecom China Fund I L.P.	Cayman	Investment association	100.0	100.0
shopkick Management Company, Inc.(*1)	USA	Investment association	95.2	
shopkick, Inc.(*1)	USA	Mileage-based online transaction app development	100.0	

(\*1) Changes in subsidiaries are explained in Note 1-(4).

(\*2) Due to the shareholders' agreement which grants put option to the non-controlling shareholders, this entity is consolidated as a wholly owned subsidiary in the consolidated financial statements (See Note 11).

(\*3) Although the Group has less than 50% of the voting rights of IRIVER LIMITED, it is considered to have de facto control since the Group holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed (See Note 11).

In accordance with the Group's accounting policy relating to the scope of consolidation, small-sized subsidiaries including IM Shopping Inc. were excluded from the list of subsidiaries as the effects on the Group's consolidated financial statements are not material considering both individual and overall quantitative and qualitative effects.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****(3) Condensed financial information of subsidiaries**

Condensed financial information of subsidiaries as of and for the year ended December 31, 2014 is as follows:

(In millions of won)

<b>Subsidiary</b>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Total equity</b>	<b>Revenue</b>	<b>Profit (loss)</b>
SK Telink Co., Ltd.	324,028	184,074	139,954	465,463	13,073
M&Service Co., Ltd.	79,476	37,505	41,971	133,789	7,458
SK Communications Co., Ltd.	176,168	41,987	134,181	93,910	(18,386)
Stonebridge Cinema Fund	11,137	320	10,817		383
Commerce Planet Co., Ltd.	26,078	27,259	(1,193)	64,509	933
SK Broadband Co., Ltd.	3,109,991	1,988,379	1,121,612	2,654,381	4,307
K-net Culture and Contents Venture Fund	21,094	4	21,090		4,920
Fitech Focus Limited Partnership II	19,301		19,301		(2,055)
Open Innovation Fund	21,765		21,765		(6,266)
PS&Marketing Corporation	544,292	336,221	208,071	1,627,217	2,817
Service Ace Co., Ltd.	66,336	37,770	28,566	207,427	3,570
Service Top Co., Ltd.	57,032	36,723	20,309	188,835	3,503
Network O&S Co., Ltd.	71,348	45,770	25,578	211,916	3,823
BNCP Co., Ltd.	6,785	5,887	898	12,869	(1,505)
Iconcube Holdings, Inc.(*1)	1,415	515	900	630	(2,284)
SK Planet Co., Ltd.	2,579,286	746,832	1,832,454	1,512,492	1,593
Neosnetworks Co., Ltd.	31,633	13,251	18,382	33,302	(1,989)
IRIVER LIMITED(*2)	61,945	14,392	47,553	53,192	2,345
SK Telecom China Holdings Co., Ltd.	37,877	2,335	35,542	12,420	1,058
Shenzhen E-eye High Tech Co., Ltd.	15,566	408	15,158	3,637	(1,143)
SK Global Healthcare Business Group, Ltd.	25,874		25,874		(689)
SK Planet Japan	5,222	1,638	3,584	93	(4,561)
SKT Vietnam PTE. Ltd.	4,242	1,286	2,956		(73)
SK Planet Global PTE. Ltd.	4,215	64	4,151	87	(2,543)
SKP GLOBAL HOLDINGS PTE. LTD.	29,529	11	29,518		(9,716)
SKT Americas, Inc.	42,159	554	41,605	9,100	(5)
SKP America LLC.	297,981	67	297,914		(2,370)
YTK Investment Ltd.	27,944		27,944		(15,259)
Atlas Investment(*3)	66,825	94	66,731		(6,626)
shopkick Management Company, Inc.	230,925		230,925		
shopkick, Inc.	28,216	13,698	14,518		

(\*1) The condensed financial information of Iconcube Holdings, Inc. includes financial information of Iconcube, Inc., a subsidiary of Iconcube Holdings, Inc.

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- (\*2) The condensed financial information of IRIVER LIMITED includes financial information of iriver CS Co. Ltd., iriver Enterprise Ltd., iriver America Inc., iriver Inc., iriver China Co., Ltd., and Dongguan iriver Electronics Co., Ltd., subsidiaries of IRIVER LIMITED.
  
- (\*3) The financial information of Atlas Investment includes financial information of Technology Innovation Partners, L.P. and SK Telecom China Fund I L.P., subsidiaries of Atlas Investment.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

Condensed financial information of subsidiaries as of and for the year ended December 31, 2013 is as follows:

(In millions of won)

<b>Subsidiary</b>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Total equity</b>	<b>Revenue</b>	<b>Profit (loss)</b>
SK Telink Co., Ltd.	252,475	125,807	126,668	433,276	16,024
M&Service Co., Ltd.	68,587	32,626	35,961	130,178	4,176
SK Communications Co., Ltd.	205,792	53,755	152,037	128,272	(41,893)
Stonebridge Cinema Fund	11,974	377	11,597	1	1,320
Commerce Planet Co., Ltd.	26,237	27,333	(1,096)	56,565	587
SK Broadband Co., Ltd.	3,044,349	1,916,721	1,127,628	2,539,366	12,306
K-net Culture and Contents Venture Fund	16,181	12	16,169		(16,595)
Fitech Focus Limited Partnership II	21,446		21,446		(1,179)
Open Innovation Fund	27,996		27,996		(15,408)
PS&Marketing Corporation	277,300	141,356	135,944	1,095,647	1,369
Service Ace Co., Ltd.	56,276	30,667	25,609	187,961	2,995
Service Top Co., Ltd.	48,369	30,634	17,735	159,364	3,484
Network O&S Co., Ltd.	56,677	32,353	24,324	198,664	2,060
BNCP Co., Ltd.	12,108	6,433	5,675	14,819	(9,019)
SK Planet Co., Ltd.	2,528,054	766,841	1,761,213	1,378,211	201,556
SK Telecom China Holdings Co., Ltd.	36,261	2,052	34,209	17,025	613
Shenzhen E-eye High Tech Co., Ltd.	17,894	1,841	16,053	7,703	(789)
SK Global Healthcare Business Group, Ltd.	27,625		27,625		831
SK Planet Japan	1,793	280	1,513	394	(1,635)
SKT Vietnam PTE. Ltd.	11,773	8,862	2,911		(28,086)
SK Planet Global PTE. Ltd.	697	149	548	331	(1,420)
SKP GLOBAL HOLDINGS PTE. LTD.	20,713	9	20,704		1,542
SKT Americas, Inc.	33,876	1,315	32,561	9,207	(6,544)
SKP America LLC.	22,399	12	22,387		
YTK Investment Ltd.	42,118		42,118		(21,764)
Atlas Investment(*)	40,218	101	40,117		(8,248)

(\*) The financial information of Atlas Investment includes financial information of Technology Innovation Partners, L.P. and SK Telecom China Fund I L.P., subsidiaries of Atlas Investment.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

Condensed financial information of subsidiaries as of and for the year ended December 31, 2012 is as follows:

(In millions of won)

<b>Subsidiary</b>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Total equity</b>	<b>Revenue</b>	<b>Profit (loss)</b>
SK Telink Co., Ltd.	241,977	128,191	113,786	341,084	(74,951)
SK Communications Co., Ltd.	265,819	70,483	195,336	197,153	(35,334)
PAXNet Co., Ltd.	31,400	9,173	22,227	34,237	(156)
Loen Entertainment, Inc.	173,079	44,998	128,081	185,016	23,839
Stonebridge Cinema Fund	10,965	903	10,062	509	5,707
Commerce Planet Co., Ltd.	34,007	35,351	(1,344)	52,507	655
SK Broadband Co., Ltd.	3,035,657	1,656,923	1,378,734	2,486,317	26,412
Broadband media Co., Ltd.	50,574	320,727	(270,153)	90,602	(3,396)
K-net Culture and Contents Venture Fund	43,779	15	43,764		(1,778)
Fitech Focus Limited Partnership II	22,547		22,547		(3,934)
Open Innovation Fund	43,394		43,394		(788)
PS&Marketing Corporation	317,613	181,737	135,876	1,484,492	(9,662)
Service Ace Co., Ltd.	48,956	24,461	24,495	146,554	3,418
Service Top Co., Ltd.	43,332	25,963	17,369	133,705	4,198
Network O&S Co., Ltd.	165,818	140,853	24,965	377,909	7,970
BNCP Co., Ltd.	24,000	9,367	14,633	26,167	(2,463)
SK Planet Co., Ltd.	1,647,965	381,620	1,266,345	1,034,697	11,977
Madsmart, Inc.	1,591	724	867	635	(2,756)
SK Telecom China Holdings Co., Ltd.	35,233	1,782	33,451	25,755	(151)
SKY Property Mgmt. Ltd.(*1)	773,413	294,305	479,108	70,808	10,390
Shenzhen E-eye High Tech Co., Ltd.	18,915	1,788	17,127	9,590	(1,068)
SK Global Healthcare Business Group, Ltd.	25,784		25,784		
SK Planet Japan	47	4	43		(63)
SKT Vietnam PTE. Ltd.	38,331	7,904	30,427	990	(8)
SK Planet Global PTE. Ltd.	636	130	506		(526)
SKT Americas, Inc.	36,378	784	35,594	10,712	(10,837)
SKP America LLC.	6,669	2,431	4,238	109	(3,301)
YTK Investment Ltd.	64,036		64,036		
Atlas Investment(*2)	51,065	205	50,860		(4,324)

(\*1) The financial information of SKY Property Mgmt. Ltd. includes the financial information of SK China Real Estate Co., Ltd., a subsidiary of Sky Property Mgmt. Ltd.

(\*2) The financial information of Atlas Investment includes financial information of Technology Innovation Partners, L.P. and SK Telecom China Fund I L.P., subsidiaries of Atlas Investment.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****(4) Changes in subsidiaries**

The list of subsidiaries that were newly included in consolidation during the year ended December 31, 2014 is as follows:

Subsidiary	Reason
Neosnetworks Co., Ltd. IRIVER LIMITED Iriver CS Co., Ltd. iriver Enterprise Ltd. iriver America Inc. iriver Inc. iriver China Co., Ltd. Dongguan iriver Electronics Co., Ltd.	The Parent Company acquired ownership interests during the year ended December 31, 2014.(See Note 11)
Iconcube Holdings, Inc. Iconcube, Inc.	Established by spinoff from BNCP Co., Ltd. during the year ended December 31, 2014.
shopkick Management Company, Inc.	Established by SKP America LLC. during the year ended December 31, 2014.
shopkick, Inc.	Shopkick Management Company, Inc. acquired ownership interests during the year ended December 31, 2014. (See Note 11)

**(5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2014, 2013 and 2012 are as follows. There were no dividends paid during the years ended December 31, 2014, 2013 and 2012 by subsidiaries of which non-controlling interests are significant.**

(In millions of won)

	December 31, 2014	
	SK Communications Co., Ltd.	SK Broadband Co., Ltd.
Ownership of non-controlling interests (%)	35.4	49.4
Current assets	89,135	463,764
Non-current assets	87,033	2,646,227
Current liabilities	(41,252)	(881,886)
Non-current liabilities	(735)	(1,106,493)
Net assets	134,181	1,121,612
Adjustment for fair value		111,561
Net assets of consolidated entities	134,181	1,233,173
Carrying amount of non-controlling interests	47,577	609,638
Revenue	93,910	2,654,381
Profit (loss) for the period	(18,386)	4,307
Amortization of fair value adjustment		(1,916)
Profit (loss) of the consolidated entities	(18,386)	2,391
Total comprehensive income (loss)	530	(10,324)
Profit (loss) attributable to non-controlling interests	(6,519)	1,182
Net cash provided by (used in) operating activities	(5,962)	431,760
Net cash used in investing activities	(17,927)	(599,016)

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Net cash provided by financing activities		119,484
Net decrease in cash and cash equivalents	(23,889)	(47,772)

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012***(In millions of won)*

	December 31, 2013	
	SK Communications Co., Ltd.	SK Broadband Co., Ltd.
Ownership of non-controlling interests (%)	35.4	49.4
Current assets	108,100	533,597
Non-current assets	97,692	2,510,752
Current liabilities	(51,868)	(938,385)
Non-current liabilities	(1,887)	(978,336)
Net assets	152,037	1,127,628
Adjustment for fair value		113,478
Net assets of consolidated entities	152,037	1,241,106
Carrying amount of non-controlling interests	53,856	613,560
Revenue	128,272	2,539,366
Profit (loss) for the period	(41,893)	12,306
Amortization of fair value adjustment		(30,977)
Loss of the consolidated entities	(41,893)	(18,671)
Total comprehensive loss	(43,318)	(13,059)
Loss attributable to non-controlling interests	(14,853)	(9,231)
Net cash provided by (used in) operating activities	(22,867)	440,036
Net cash provided by (used in) investing activities	41,788	(329,346)
Net cash provided by (used in) financing activities	19	(129,181)
Net increase (decrease) in cash and cash equivalents	18,940	(18,491)

*(In millions of won)*

	December 31, 2012		
	SK Communications Co., Ltd.	SK Broadband Co., Ltd.(*1)	SKY Property Mgmt. Ltd.(*2)
Ownership of non-controlling interests (%)	35.4	49.4	40.0
Revenue	197,153	2,492,160	70,808
Profit (loss) for the period	(35,334)	22,499	10,390
Amortization of fair value adjustment		(72,192)	
Profit (loss) of the consolidated entities	(35,334)	(49,693)	10,390
Total comprehensive Income (loss)	(36,785)	17,397	(23,948)
Profit (loss) attribute to non-controlling interests	(12,525)	(24,595)	4,156
Net cash provided by (used in) operating activities	(14,925)	375,848	16,258
Net cash provided by (used in) Investing activities	5,319	(287,975)	(396)
Net cash provided by (used in) financing activities	92	(224,837)	(1,405)
Net increase (decrease) in cash and cash equivalents	(9,514)	(136,964)	14,457

(\*1) The financial information of SK Broadband Co., Ltd. includes the financial information of Broadband media Co., Ltd., a subsidiary of SK Broadband Co., Ltd.

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(\*2) The financial information of SKY Property Mgmt. Ltd. includes the financial information of SK China Real Estate Co., Ltd., a subsidiary of Sky Property Mgmt. Ltd.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

**2. Basis of Presentation**

**(1) Statement of compliance**

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ( IFRS ), as issued by the International Accounting Standards Board ( IASB ).

The consolidated financial statements were authorized for issuance by the Board of Directors on February 5, 2015.

**(2) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statements of financial position:

derivative financial instruments are measured at fair value

financial instruments at fair value through profit or loss are measured at fair value

available-for-sale financial assets are measured at fair value

liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

**(3) Functional and presentation currency**

Financial statements of Group entities within the Group are presented in functional currency and the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

**(4) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

**1) Critical judgments**

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

revenue : See Note 4-(22)

consolidation : See Note 4-(2)

classification of lease : See Note 4-(14)

2) *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: allowance for doubtful accounts, estimated useful lives of property and equipment and intangible assets, impairment of goodwill, recognition of provision, measurement of defined benefit obligations, recognition of deferred tax assets (liabilities), and commitments and contingencies.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

3) *Fair value measurement*

Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the finance executive.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).  
If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about assumptions used for fair value measurements are included in Note 35.

(5) *Common control transactions*

SK Holdings Co., Ltd. ( the Ultimate Controlling Entity ) is the Ultimate Controlling Entity of the Parent Company because it controls the Parent Company. Accordingly, gains and losses from business acquisitions and dispositions involving entities that are under the control of the Ultimate Controlling Entity are accounted for as common control transactions within equity.

**3. Changes in Accounting Policies**

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following amendments to standards with a date of initial application of January 1, 2014.

*(1) Offsetting a financial asset and a financial liability*

The Group has adopted amendments to IAS 32, Financial Instruments: Presentation, since January 1, 2014. The amendments clarify the meaning of currently has a legally enforceable right of set-off in paragraph 42(a). According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

There is no material impact of the application of this amendment on the consolidated financial statements.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****4. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for those as described in Note 3.

**(1) Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's operating segments have been determined to be each business unit, for which the Group generates separately identifiable financial information that is regularly reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance. The Group has three reportable segments which consist of cellular services, fixed-line telecommunication services and others, as described in Note 5. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The group's chief operating decision maker receives and reviews operating income based on Korean IFRS as the measure of segment profit and loss for each operating segment. Segment operating income differs from consolidated operating income from continuing operations used in the Group's consolidated statements of income. Segment operating income does not include certain items such as fee revenues, gain/loss from disposal of property, plant, equipment and intangible assets, impairment losses on property, plant, equipment and intangible assets, donations, bad debt expense and penalties. The chief operating decision maker does not receive any information about segment assets and liabilities. Segment information does not include the Group's discontinued operations information. See Note 38 for details on discontinued operations.

**(2) Basis of consolidation****(i) Business combination**

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Consideration transferred is generally measured at fair value, identical to the measurement of identifiable net assets acquired at fair value. If goodwill incurs as a result of business combination, the Group performs impairment test on an annual basis and recognizes gain from bargain purchases through profit or loss. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received excluding costs to issue debt or equity securities recognized based on IAS 32 and 39.

Consideration transferred does not include the amount settled in relation to the pre-existing relationship and the amount settled in relation to the pre-existing relationship is generally recognized through profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. If contingent consideration is not classified as equity, the Group subsequently recognizes changes in fair value of contingent consideration and recognizes through profit or loss.

Entire or certain portion of market-based measure of replacement award for share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer is included in measurement of contingent considerations. Portion of a replacement award that is part of the consideration transferred for the acquiree and the portion that is remuneration for post-combination service is determined by comparing market-based measure of the awards of acquire and replacement awards that is attributable to pre-combination service.





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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

*(ii) Non-controlling interests*

The Group measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets.

Changes in a Controlling Company's ownership interest in a subsidiary that do not result in the Controlling Company losing control of the subsidiary are accounted for as equity transactions.

*(iii) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

*(iv) Loss of control*

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

*(v) Interest in investees accounted for using the equity method*

Interest in investees accounted for using the equity method composed of interest in associates and joint ventures. An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the net assets of the arrangement.

The investment in an associate and a joint venture is initially recognized at cost including transaction costs and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture after the date of acquisition.

*(vi) Intra-group transactions*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with investees accounted for using the equity method are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

*(vii) Business combinations under common control*

The assets and liabilities acquired from the combination of entities or business under common control are recognized at the carrying amounts in the ultimate controlling shareholder's consolidated financial statements. The difference between consideration and carrying amount of net assets acquired is added to or subtracted from other capital adjustments.

**(3) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.



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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

**(4) Inventories**

Inventories are stated at the acquisition cost using the average method. During the period, a perpetual inventory system is used to value inventories, which is adjusted to the physical inventory counts performed at the period end. When the net realizable value of inventories is less than the acquisition cost, the carrying amount is reduced to the net realizable value and any difference is charged to current operations as operating expenses. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(5) Non-derivative financial assets**

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

**(i) Financial assets at fair value through profit or loss**

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

**(ii) Held-to-maturity investments**

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

**(iii) Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

**(iv) Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

**(v) De-recognition of financial assets**

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

*(vi) Offsetting between financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

***(6) Derivative financial instruments, including hedge accounting***

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

*(i) Hedge accounting*

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

*Fair value hedge*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

*Cash flow hedge*

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.



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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

*(ii) Separable embedded derivatives*

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

*(iii) Other derivative financial instruments*

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

**(7) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes following loss events:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

*(i) Financial assets measured at amortized cost*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent



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**SK TELECOM CO., LTD. and Subsidiaries**

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**For the years ended December 31, 2014, 2013 and 2012**

period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

*(ii) Financial assets carried at cost*

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

*(iii) Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

**(8) Property, plant and equipment**

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other non-operating income (loss).

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The estimated useful lives of the Group's property, plant and equipment are as follows:

	Useful lives (years)
Buildings and structures	15 ~ 40
Machinery	3 ~ 15
Other property, plant and equipment ( Other PP&E )	4 ~ 10

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**(9) Borrowing costs**

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

**(10) Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Group's intangible assets are as follows:

	Useful lives (years)
Frequency use rights	6.3 ~ 13.1
Land use rights	5
Industrial rights	5, 10
Development costs	5
Facility usage rights	10, 20

Customer relations

3 ~ 7

Other

3 ~ 20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

**(11) Government grants**

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

**(i) Grants related to assets**

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

**(ii) Grants related to income**

Government grants which are intended to compensate the Group for expenses incurred are deducted from the related expenses.

**(12) Investment property**

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 15~40 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**(13) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.



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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ( CGU ). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(14) Leases**

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

**(i) Finance leases**

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

**(ii) Operating leases**

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

**(iii) Determining whether an arrangement contains a lease**

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.



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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

**(15) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS 36, Impairment of Assets.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

**(16) Non-derivative financial liabilities**

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

**(i) Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

**(ii) Other financial liabilities**

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**(17) Employee benefits****(i) Short-term employee benefits**

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes



the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

*(ii) Other long-term employee benefits*

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.

*(iii) Retirement benefits: defined contribution plans*

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

*(iv) Retirement benefits: defined benefit plans*

As of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized as present value of defined benefit obligations net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligations, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability comprise of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit liability, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and recognized in other comprehensive income. The Group determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Group recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

*(v) Termination benefits*

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(18) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

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Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

**(19) Foreign currencies**

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

*(ii) Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

**(20) Equity capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

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When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

**(21) Hybrid bond**

The Group recognizes a financial instrument issued by the Group as an equity instrument if it does not include contractual obligation to deliver financial assets including cash to the counter party.

**(22) Revenue**

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable. Returns, trade discounts and volume rebates are recognized as a reduction of revenue.

**(i) Services**

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed. Revenues received for the activation of service are deferred and recognized over the average customer retention period.

Revenue from fixed-line services includes domestic short and long distance charges, international phone connection charges, and broadband internet services. Such revenues are recognized as the related services are performed.

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

**(ii) Goods sold**

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

**(iii) Customer loyalty programs**

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programs is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Group performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

**(iv) Bundled arrangements**

When the Group sells both handsets and wireless services to subscribers, the Group recognizes these transactions separately as sales for handset sales and wireless telecommunication services.

**(23) Finance income and finance costs**

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Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

**(24) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

**(i) Current tax**

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

**(ii) Deferred tax**

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if (a) there is a legally enforceable right to offset the related current tax liabilities and assets, (b) they relate to income taxes levied by the same tax authority and (c) they intend to settle current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

**(25) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.





**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****(26) Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

**(27) Recent accounting pronouncements, not yet adopted**

The following accounting standards, interpretations and amendments are issued and will be effective for annual periods beginning on or after January 1, 2015 and have not been adopted early in preparing these consolidated financial statements.

**(i) Amendments to IAS 19, Employee Benefits Employee contributions**

Amendments to IAS 19 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits. The amendment is mandatorily effective for annual periods beginning on or after July 1, 2014. Management is in the process of evaluating the impact on the adoption of the amendment.

**(ii) IFRS 9, Financial Instrument**

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. Management is in the process of evaluating the impact on the adoption of the new standard.

**(iii) IFRS 15, Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted. Management is in the process of evaluating the impact on the adoption of the new standard.

**5. Operating Segments**

The Group's operating segments have been determined to be each business unit, for which the Group provides independent services and merchandise. The Group's reportable segments are: 1) cellular services, which include cellular voice service, wireless data service and wireless internet services, and 2) fixed-line telecommunication services, which include telephone services, internet services, and leased line services. All other operating segments, which include the Group's Internet portal services and other operations, do not meet the quantitative thresholds to be considered reportable segments and are presented as Others.

Cellular services include cellular voice service, wireless data service and wireless internet services. Fixed-line telecommunication services include telephone services, internet services, and leased line services. Others include the Group's Internet portal services, game manufacturing

and other immaterial operations.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

The segment information of the Group as of and for the years ended December 31, 2012 has been retrospectively restated to exclude the discontinued operation related to Loen Entertainment, Inc. (See Note 38-(1)).

(1) Segment information as of and for the years ended December 31, 2014, 2013 and 2012 is as follows:

(In millions of won)

	2014					Consolidated amount
	Cellular services	Fixed-line telecommunication services	Others	Total segments	Consolidation adjustments	
Total revenue	15,248,039	3,119,845	1,884,784	20,252,668	(3,088,870)	17,163,798
Internal revenue	1,720,158	669,925	698,787	3,088,870	(3,088,870)	
External revenue	13,527,881	2,449,920	1,185,997	17,163,798		17,163,798
Depreciation and amortization	2,113,510	501,623	99,597	2,714,730		2,714,730
Operating income (loss)	1,754,433	80,423	(9,751)	1,825,105	(217,279)	1,607,826
Gain related to investments in subsidiaries, associates and joint ventures, net						906,338
Finance income						126,337
Finance costs						(386,673)
<b>Profit from continuing operations before income tax</b>						<b>2,253,828</b>

(In millions of won)

	2013					Consolidated amount
	Cellular services	Fixed-line telecommunication services	Others	Total segments	Consolidation adjustments	
Total revenue	14,501,829	2,972,642	1,741,599	19,216,070	(2,614,016)	16,602,054
Internal revenue	1,186,297	648,253	779,466	2,614,016	(2,614,016)	
External revenue	13,315,532	2,324,389	962,133	16,602,054		16,602,054
Depreciation and amortization	2,019,531	522,155	119,937	2,661,623		2,661,623
Operating income (loss)	1,986,106	55,625	(30,622)	2,011,109	(432,706)	1,578,403
Gain related to investments in subsidiaries, associates and joint ventures, net						706,509
Finance income						113,392
Finance costs						(571,203)
<b>Profit from continuing operations before income tax</b>						<b>1,827,101</b>

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012***(In millions of won)*

	2012					
	Cellular services	Fixed-line telecommunication services	Others	Total segments	Consolidation adjustments	Consolidated amount
Total revenue	14,475,379	3,018,156	1,469,457	18,962,992	(2,821,583)	16,141,409
Internal revenue	1,256,475	824,295	740,813	2,821,583	(2,821,583)	
External revenue	13,218,904	2,193,861	728,644	16,141,409		16,141,409
Depreciation and amortization	1,735,193	578,969	106,966	2,421,128		2,421,128
Operating income (loss)	1,683,431	53,115	(6,497)	1,730,049	7,606	1,737,655
Loss related to investments in subsidiaries, associates and joint ventures, net						(24,560)
Finance income						444,558
Finance costs						(638,285)
<b>Profit from continuing operations before income tax</b>						<b>1,519,368</b>

Reconciliation of total segment operating income to consolidated operating income from continuing operations for the years ended December 31, 2014, 2013 and 2012 are as follows:

*(In millions of won)*

	2014	2013	2012
Total segment operating income	1,825,105	2,011,109	1,730,049
Other operating income:			
Fees revenues	8,199	7,303	3,982
Gain on disposal of property and equipment and intangible assets	8,792	7,991	162,590
Others(*1)	39,480	59,660	35,272
	56,471	74,954	201,844
Other operating expenses:			
Impairment loss on property and equipment and intangible assets	(47,489)	(13,770)	(37,007)
Loss on disposal of property and equipment and intangible assets	(32,950)	(267,468)	(15,117)
Donations	(67,823)	(82,057)	(81,330)
Bad debt for accounts receivable other	(17,943)	(22,155)	(30,107)
Others(*2)	(107,545)	(122,210)	(30,677)
	(273,750)	(507,660)	(194,238)
<b>Consolidated operating income from continuing operations</b>	<b>1,607,826</b>	<b>1,578,403</b>	<b>1,737,655</b>

(\*1)

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Others for the years ended December 31, 2014, 2013 and 2012 primarily consist of 8.1 billion, 10.3 billion and 5.6 billion of VAT refund, respectively.

(\*2) Others for the years ended December 31, 2014 and 2013 primarily consist of 54.7 billion, and 96.5 billion of penalties. Intersegment sales and purchases are conducted on an arms-length basis and eliminated on consolidation. Since there are no intersegment sales of inventory, there is no unrealized intersegment profit to be eliminated on consolidation. Domestic revenue for the years ended December 31, 2014, 2013 and 2012 amounts to 17,073 billion, 16,557 billion and 16,093 billion, respectively. Domestic non-current assets (excluding financial assets, investments in associates and joint ventures and deferred tax assets) as of December 31, 2014, 2013 and 2012 amount to 14,817 billion, 14,762 billion and 14,212 billion, and non-current assets outside of Korea amount to 278 billion, 1 billion and 680 billion, respectively.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

No single customer contributed 10% or more to the Group's total sales for the years ended December 31, 2014, 2013 or 2012.

Though the Group is expanding into new geographic regions, as of December 31, 2014, the Group still principally operates in its domestic market in Korea.

The Group's operating revenue by service type is as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cellular revenue</b>			
Wireless service(*1)	11,010,639	11,001,123	10,591,489
Cellular interconnection	817,038	844,977	860,250
Digital handset sales(*2)	761,629	645,914	1,131,657
Miscellaneous(*3)	938,575	823,518	635,508
	13,527,881	13,315,532	13,218,904
<b>Fixed-line telecommunication services revenue</b>			
Fixed line telephone service(*4)	467,333	474,430	485,941
Fixed line interconnection	57,401	78,731	98,460
Broadband internet service(*4)	1,152,708	1,023,156	864,955
International calling service(*5)	111,983	127,005	144,073
Miscellaneous(*6)	660,468	621,067	600,432
	2,449,893	2,324,389	2,193,861
<b>Others revenue</b>			
Commerce service(*7)	911,487	742,616	391,894
Portal service(*8)	72,984	92,153	167,815
Miscellaneous(*9)	201,553	127,364	168,935
	1,186,024	962,133	728,644
<b>Consolidated operating revenue</b>	<b>17,163,798</b>	<b>16,602,054</b>	<b>16,141,409</b>

(\*1) Wireless service revenue includes revenue from cellular voice service, wireless data service and initial subscription fees. Revenue from cellular voice service is primarily composed of monthly plan-based fees, usage charges for outgoing voice calls, roaming charges and value-added service fees. Revenue from wireless data service is primarily composed of usage charges for SMS and MMS and revenues from outgoing data usage.

(\*2) Digital handsets are sold by PS&Marketing Co., Ltd., a consolidated subsidiary.

- (\*3) Miscellaneous cellular services revenue includes revenue from the resale of fixed-line telecommunication services, leased lines, Internet solutions business and other miscellaneous cellular services provided by the Parent Company as well as other operating revenue attributable to the cellular services segment.
- (\*4) Broadband Internet service (including IP TV service) and fixed-line telephone service are provided by SK Broadband, a consolidated subsidiary.
- (\*5) International calling service is provided by SK Telink, a consolidated subsidiary.
- (\*6) Miscellaneous fixed-line telecommunication services revenue includes revenues from leased line, corporate data and Internet solutions businesses provided by SK Broadband and VoIP services provided by SK Telink as well as other operating income attributable to the fixed-line telecommunications services segment.
- (\*7) Commerce service revenue includes sales from online shopping mall, such as, 11th Street. As the Parent Company acquired the ownership interests in SK Marketing & Company Co., Ltd. during 2013, commerce service revenue for the years ended December 31, 2014 and 2013 include revenue from advertising and e-commerce agency.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

- (\*8) Portal service revenue includes revenues from NATE, an online portal service, and Cyworld, our social networking service, each operated by SK Communications.
- (\*9) Miscellaneous others revenue includes revenue from T Store, online open marketplace for mobile applications operated by SK Planet as well as other operating income attributable to the others segment.

**6. Restricted Deposits**

Deposits which are restricted in use as of December 31, 2014 and 2013 are summarized as follows:

*(In millions of won)*

	December 31, 2014	December 31, 2013
Short-term financial instruments		
Charitable fund(*)	86,000	76,500
Other	4,321	5,134
Long-term financial instruments		
Charitable fund(*)		7,500
Other	612	89
Guarantee deposits	280	40
	91,213	89,263

- (\* ) The Group established a trust fund for charitable purposes. Profits from the fund are donated to charitable institutions. As of December 31, 2014, the funds cannot be withdrawn.

**7. Trade and Other Receivables**

(1) Details of trade and other receivables as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	December 31, 2014		
	Gross amount	Allowances for impairment	Carrying amount
Current assets:			
Accounts receivable trade	2,614,059	(221,909)	2,392,150
Short-term loans	75,199	(687)	74,512

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Accounts receivable other	769,115	(78,588)	690,527
Accrued income	10,134		10,134
Others	3,865		3,865
	3,472,372	(301,184)	3,171,188
Non-current assets:			
Long-term loans	82,735	(27,007)	55,728
Long-term accounts receivable other	3,596		3,596
Guarantee deposits	285,144		285,144
Long-term accounts receivable trade	68,536		68,536
	440,011	(27,007)	413,004
	3,912,383	(328,191)	3,584,192

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012***(In millions of won)*

		December 31, 2013	
	Gross amount	Allowances for impairment	Carrying amount
<b>Current assets:</b>			
Accounts receivable trade	2,482,001	(224,685)	2,257,316
Short-term loans	80,129	(734)	79,395
Accounts receivable other	715,405	(71,802)	643,603
Accrued income	11,970	(29)	11,941
Others	2,548		2,548
	3,292,053	(297,250)	2,994,803
<b>Non-current assets:</b>			
Long-term loans	84,176	(26,734)	57,442
Guarantee deposits	249,600		249,600
Long-term accounts receivable trade	13,154		13,154
	346,930	(26,734)	320,196
	3,638,983	(323,984)	3,314,999

(2) The movements in allowances for doubtful accounts of trade and other receivables during the years ended December 31, 2014 and 2013 were as follows:

*(In millions of won)*

	2014	2013
<b>Balance at January 1</b>	323,984	300,668
Increase of bad debt allowances	63,697	79,330
Reversal of allowances for doubtful accounts		(359)
Write-offs	(89,529)	(76,697)
Collection of receivables previously written-off	29,213	30,361
Net exchange differences and changes in consolidation scope	826	(9,319)
<b>Balance at December 31</b>	328,191	323,984

(3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	December 31, 2014		December 31, 2013	
	Accounts receivable	Other trade receivables	Accounts receivable	Other trade receivables
Neither overdue nor impaired	1,831,243	1,089,001	1,882,607	938,131

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Overdue but not impaired	76,671	3,481	46,773	2,030
Impaired	774,681	137,306	565,775	203,667
	2,682,595	1,229,788	2,495,155	1,143,828
Allowances for doubtful accounts	(221,909)	(106,282)	(224,685)	(99,299)
	2,460,686	1,123,506	2,270,470	1,044,529

The Group establishes allowances for doubtful accounts based on the likelihood of recoverability of trade and other receivables based on their aging at the end of the period, past customer default experience, customer credit status, and economic and industrial factors.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(4) The aging of overdue but not impaired accounts receivable as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014		December 31, 2013	
	Accounts receivable	Other trade receivables	Accounts receivable	Other trade receivables
Less than 1 month	25,254	1,795	12,036	20
1 ~ 3 months	26,469	213	15,686	1,220
3 ~ 6 months	11,641	608	3,610	516
More than 6 months	13,307	865	15,441	274
	76,671	3,481	46,773	2,030

**8. Inventories**

Details of inventories as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014			December 31, 2013		
	Acquisition cost	Write-down of inventory	Carrying amount	Acquisition cost	Write-down of inventory	Carrying amount
Merchandise	252,063	(5,325)	246,738	165,080	(3,152)	161,928
Finished goods	1,930	(216)	1,714	1,711	(34)	1,677
Work in process	1,144	(131)	1,013			
Raw materials and supplies	19,242	(1,040)	18,202	13,515		13,515
	274,379	(6,712)	267,667	180,306	(3,186)	177,120

The amount of the inventory write-downs charged to statements of income and write-off of inventories are as follows:

(In millions of won)

	2014	2013	2012
Charged to cost of products that have been resold	2,052	1,498	510
Write-off upon sale	(1,326)	(95)	(2,844)
	726	1,403	(2,334)

There are no significant reversals of inventory write-downs for the periods presented.

**9. Investment Securities**

(1) Details of short-term investment securities as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Beneficiary certificates(*)	277,003	102,828
Current installments of long-term investment securities	3,158	3,240
	<b>280,161</b>	<b>106,068</b>

(\*) The distributions arising from beneficiary certificates as of December 31, 2014 were accounted for as accrued income.

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(2) Details of long-term investment securities as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014	December 31, 2013
<b>Equity securities:</b>		
Marketable equity securities	657,286	638,445
Unlisted equity securities(*1)	56,236	47,145
Equity investments(*2)	209,120	239,354
	922,642	924,944
<b>Debt securities:</b>		
Public bonds(*3)	158	356
Investment bonds(*4)	36,638	46,467
	36,796	46,823
<b>Total</b>	959,438	971,767
Less current installments of long-term investment securities	(3,158)	(3,240)
<b>Long-term investment securities</b>	956,280	968,527

(\*1) Unlisted equity securities whose fair value cannot be measured reliably are recorded at cost.

(\*2) Equity investments are recorded at cost.

(\*3) Details of maturity for the public bonds as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014	December 31, 2013
Less than 1 year	158	356

(\*4) During the year ended December 31, 2014, the Parent Company exercised the conversion right for the convertible bonds of NanoEnTek, Inc., which were classified as financial assets at fair value through profit or loss. As a result of this transaction, investments in associates have increased by 19,180 million and the difference between carrying amount of the financial assets at fair value and fair value of 1,352 million is accounted for as finance costs.

**10. Assets and Liabilities Classified as Held for Sale**

**(1) *Subsidiary***

During the year ended December 31, 2014, the Group entered into a disposal contract regarding the Group's ownership interests in Shenzhen E-eye High Tech Co., Ltd., the Parent Company's subsidiary. Assets and liabilities of the subsidiary amounting to 10,510 million and 408 million, were reclassified to assets and liabilities held for sale, respectively, and the carrying amount in excess of the fair value less cost to sell was recognized as impairment loss.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****(2) Investments in associates**

Non-current assets held for sale relating to investments in associates as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014	December 31, 2013
TR Entertainment(*1)	2,611	2,611
SK Fans Co., Ltd.(*2)		1,056
		3,667

(\*1) A disposal contract for the Group's entire ownership interests in TR Entertainment was entered into during the year ended December 31, 2013 and the investment in the associate was reclassified to assets classified held for sale and an impairment loss of 4,019 million was recognized. During the year ended December 31, 2014, the Group disposed of its investments in TR Entertainment.

(\*2) During the year ended December 31, 2013, contract changes for SK Fans Co., Ltd. was made and the Group recognized the difference between the changes and the existing contractual amount as impairment loss. During the year ended December 31, 2014, the Group disposed of its investments in SK Fans Co., Ltd.

**11. Acquisition of Subsidiary****(1) General information**

The Parent Company acquired the ownership interests of Neosnetworks Co., Ltd., IRIVER LIMITED and shopkick, Inc. and they were newly included in the list of subsidiaries during the year ended December 31, 2014.

**1) Neosnetworks Co., Ltd.**

On April 2, 2014, the Parent Company acquired the ownership interest of 66.7% of Neosnetworks Co., Ltd., which manages facility guarding services, in order to secure new growth engine in physical security market and obtained the control over Neosnetworks Co., Ltd.

Neosnetworks Co., Ltd. recognized revenue of 25,743 million and loss of 2,277 million, respectively, from the acquisition date to December 31, 2014.

2) IRIVER LIMITED

On August 13, 2014, the Parent Company obtained ownership interests of 39.3% by acquiring 10,241,722 shares of IRIVER LIMITED from investment companies in order to develop smart phone applications and media devices such as Bluetooth speakers and ear phones for future growth and additionally acquired 4,960,317 shares by participating in the capital increase. As of the end of December 31, 2014, the Parent Company has the ownership interest of 49% of IRIVER LIMITED. After the Group acquired control over IRIVER LIMITED, IRIVER LIMITED has recognized revenue of 16,311 million and a net profit of 4,066 million.

3) shopkick, Inc.

On October 10, 2014, shopkick Management Company, Inc., of which SKP America LLC., a subsidiary of the Parent Company, has the ownership interest of 95.2%, obtained control over shopkick, Inc. by purchasing the ownership interest of 100% of shopkick, Inc. for the purpose of acquiring the platform of its mobile commerce business in the United States and expansion of the Group's global market position.

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(2) Consideration paid and identifiable assets and liabilities transferred  
 Consideration paid and identifiable assets acquired and liabilities assumed recognized at the acquisition date are as follows:

(In millions of won)

	Neosnetworks Co., Ltd.	IRIVER LIMITED	shopkick, Inc.
Consideration paid			
Cash and cash equivalents	23,968	29,503	230,925
Other current liabilities			18,686
Long-term payables other (*)	14,500		
	38,468	29,503	249,611
Fair value of assets acquired and liabilities assumed			
Cash and cash equivalents	16,631	3,098	13,881
Accounts receivable trade, net	111	11,687	6,541
Inventories, net		11,780	727
Property, equipment and intangible assets	11,489	3,153	81,972
Other assets	1,289	6,824	6,236
Accounts payable trade	(3,411)	(7,113)	(796)
Borrowings and debentures	(2,150)	(2,293)	
Other liabilities	(3,305)	(6,268)	(13,008)
	20,654	20,868	95,553
Controlling interests	20,654	8,193	91,006
Non-controlling interests		12,675	4,547

(\*) During the year ended December 31, 2014, the Parent Company acquired 31,310 shares of Neosnetworks Co., Ltd. (the ownership interest of 66.7%) by purchasing old shares from the pre-existing shareholders and participating in the capital increase. The Parent Company entered into a shareholders' agreement which granted put options to the pre-existing shareholders for the remaining equity interest of Neosnetworks Co., Ltd. and call options to the Parent Company for those shares if certain conditions are met. In accordance with this shareholders' agreement, the Group deemed that it assumed the residual equity of the pre-existing shareholders on the acquisition date, and the amount to be paid to the pre-existing shareholders for this acquisition in the future was recorded as long-term payables-other.

**12. Business Combinations under Common Control**

(1) General information

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PS&Marketing Corporation, a subsidiary of the Parent Company, acquired the retail distribution business of IT service department of SK Networks Co., Ltd. on April 30, 2014 in order to strengthen the mid/long-term distribution competitiveness by expanding the retail infrastructure and enlarging the direct management network.

Revenues and profit or loss recognized after the acquisition date by the acquired businesses of PS&Marketing Corporation are not disclosed as the estimate is practically impossible.

In January 2013, the Parent Company acquired 50% ownership interest in SK Marketing & Company Co., Ltd., advertising and e-commerce agency, from SK Innovation Co., Ltd., a related party under common control, through the additional purchase of shares and obtained control over SK Marketing & Company Co., Ltd., and its subsidiary, M&Service Co., Ltd.

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After obtaining control over SK Marketing & Company Co., Ltd, the Parent Company acquired the shares of SK Planet Co., Ltd. by investing its ownership interest of 100% of SK Marketing & Company Co., Ltd. as a form of investment in kind. On February 1, 2013, SK Planet Co., Ltd. merged with SK Marketing & Company Co., Ltd.

As the business combination which occurred during the years ended December 31, 2014 and 2013 was a business combination between entities under common control, the difference between the consideration and book value of net assets was recognized as a capital deficit and other capital adjustments.

(2) Consideration paid and assets and liabilities transferred as of the acquisition date are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Consideration paid		
Cash and cash equivalents	111,330	190,605
Investments in associates (carrying value)		141,534
Accounts payables other	13,156	
	124,486	332,139
Assets and liabilities transferred		
Cash and cash equivalents		95,800
Accounts receivable trade	57,760	132,514
Inventories	94,441	3,472
Property and equipment, and intangible assets	13,010	68,699
Other assets	23,281	457,431
Accounts payable trade and other	(78,821)	(150,014)
Other liabilities	(13,826)	(337,617)
	95,845	270,285
Amount recorded in capital surplus and other capital adjustments	28,641	61,854

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****13. Investments in Associates and Joint Ventures**

(1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		December 31, 2014		December 31, 2013	
	Country	Ownership percentage	Carrying amount	Ownership percentage	Carrying amount
<b>Investments in associates</b>					
SK China Company Ltd.(*1)	China	9.6	35,817	9.6	37,434
Korea IT Fund(*2)	Korea	63.3	240,676	63.3	231,402
Etoos Co., Ltd. (*3)	Korea			15.6	12,029
KEB HanaCard Co., Ltd.(*4)	Korea	25.4	425,140	49.0	378,616
Candle Media Co., Ltd.(*5)	Korea	35.1	19,486	40.9	21,241
NanoEnTek, Inc.(*6)	Korea	26.0	36,527	9.2	9,312
SK Industrial Development China Co., Ltd.	Hong Kong	21.0	79,394	21.0	77,517
Packet One Network(*1, 5)	Malaysia	13.6	53,670	27.0	60,706
SK Technology Innovation Company	Cayman	49.0	44,052	49.0	53,874
HappyNarae Co., Ltd.	Korea	42.5	15,551	42.5	13,935
SK hynix Inc.(*7)	Korea	20.1	4,849,159	20.6	3,943,232
SK MENA Investment B.V.	Netherlands	32.1	14,015	32.1	13,477
SKY Property Mgmt. Ltd.	Virgin Island	33.0	248,534	33.0	238,278
Xinan Tianlong Science and Technology Co., Ltd.	China	49.0	25,874	49.0	26,562
Daehan Kanggun BcN Co., Ltd. and others			158,725		164,976
Sub-total			6,246,620		5,282,591
<b>Investments in joint ventures</b>					
Dogus Planet, Inc.(*8)	Turkey	50.0	11,441	50.0	10,105
PT. Melon Indonesia	Indonesia	49.0	3,564	49.0	3,230
Television Media Korea Ltd.	Korea	51.0	6,944	51.0	8,659
Celcom Planet(*9)	Malaysia	51.0	16,605		
PT XL Planet Digital	Indonesia	50.0	12,914	50.0	20,712
Sub-total			51,468		42,706
Total			6,298,088		5,325,297

(\*1) Classified as investments in associates as the Group can exercise significant influence through its participation on the board of directors even though the Group has less than 20% of equity interests.

(\*2) Investment in Korea IT Fund was classified as investment in associates as the Group has less than 50% of voting rights, and therefore does not have control over Korea IT Fund under the agreement.

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- (\*3) Reclassified as available-for-sale financial assets in 2014 as the Group lost the right to appoint directors of this investee and lost significant influence on the investee.
  
- (\*4) During the year ended December 31, 2014, due to merger between Hana SK Card Co., Ltd., the Parent Company's associate, and KEB Card Co., Ltd., the Group exchanged 57,647,058 shares of Hana SK Card Co., Ltd., with 67,627,587 shares of the surviving company, KEB HanaCard Co., Ltd.
  
- (\*5) The ownership percentage has been decreased due to disproportionate paid-in capital increase during the year ended December 31, 2014.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(\*6) The carrying amount has increased due to the additional acquisition and the conversion of convertible bonds during the year ended December 31, 2014.

(\*7) The ownership percentage has been decreased due to the conversion of convertible bonds issued by SK hynix Inc.

(\*8) The carrying amount has increased due to the additional investment during the year ended December 31, 2014.

(\*9) During the year ended December 31, 2014, it was established for online commerce business in Malaysia.

(2) The market price of investments in listed associates as of December 31, 2014 and 2013 are as follows:

(In millions of won, except for share and per share data)

	December 31, 2014			December 31, 2013		
	Market value	Number of	Market	Market value	Number of	Market
	per			price		
	share	shares		share	shares	
	(In			(In		
	won)			won)		
Candle Media Co., Ltd.	734	21,620,360	15,869	810	21,620,360	17,512
NanoEnTek, Inc.	5,710	5,870,290	33,519	5,170	1,807,130	9,343
SK hynix Inc.	47,750	146,100,000	6,976,275	36,800	146,100,000	5,376,480

(3) The financial information of the significant investees as of and for the years ended December 31, 2014 and 2013 is as follows:

(In millions of won)

	As of and for the year ended December 31, 2014			
	SK hynix	KEB	SKY	Korea IT
	Inc.	HanaCard	Property	Fund
		Co., Ltd.(*)	Mgmt. Ltd.	
Current assets	10,363,514	6,716,612	172,775	122,026
Non-current assets	16,519,764	568,065	667,560	258,144
Current liabilities	5,765,304	848,140	62,868	
Non-current liabilities	3,081,671	5,109,888	242,116	
Revenue	17,125,566	305,756	81,502	18,883
Profit (loss) from continuing operations	4,195,169	(11,196)	15,006	5,470
Other comprehensive income (loss)	(52,360)	(734)	(6,090)	4,837
Total comprehensive income (loss)	4,142,809	(11,930)	8,916	10,307



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(\*) Revenue and net profit of Hana SK Card Co., Ltd. for pre-merger period, amounting to 853,506 million and 3,521 million, respectively, were not included.

(In millions of won)

	As of and for the year ended December 31, 2013			
	SK hynix Inc.	HanaSK Card Co., Ltd.	SKY Property Mgmt. Ltd.	Korea IT Fund
Current assets	6,653,123	4,687,020	106,122	132,968
Non-current assets	14,144,175	211,376	695,653	232,566
Current liabilities	3,078,240	2,053,942	137,544	6
Non-current liabilities	4,652,200	2,155,165	163,540	
Revenue	14,165,102	853,506	76,834	8,161
Profit from continuing operations	2,872,857	3,521	14,408	2,128
Other comprehensive income	6,594	1,906	55,403	
Total comprehensive income	2,879,451	5,427	69,811	2,128

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(4) The condensed financial information of joint ventures as of and for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	As of and for the year ended December 31, 2014				
	Television Media Korea Ltd.	Dogus Planet, Inc.	PT. Melon Indonesia	PT XL Planet Digital	Celcom Planet
Current assets	16,252	38,641	10,022	9,241	30,407
Cash and cash equivalents	5,104	6	4,763	6,710	30,400
Non-current assets	4,543	13,011	3,094	14,589	3,343
Current liabilities	7,188	28,406	5,689	4,198	1,182
Account payable, other payables and provisions	265	3,648			
Non-current liabilities	464	377	102	124	
Account payable, other payables and provisions	464	377		124	
Revenue	16,403	23,897	11,826	1,019	
Depreciation and amortization	(3,732)	(2,402)	(928)	(1,452)	(1)
Interest income	254	1,154	268		
Interest expense		(6)			
Income tax expense				(5,334)	
Profit (loss) from continuing operations	(3,361)	(37,146)	523	(15,596)	(1,479)
Total comprehensive income (loss)	(3,361)	(37,146)	523	(15,596)	(1,479)

(In millions of won)

	As of and for the year ended December 31, 2013				
	Television Media Korea Ltd.	Dogus Planet, Inc.	PT. Melon Indonesia	PT XL Planet Digital	
Current assets	18,106	25,508	7,423	31,241	
Cash and cash equivalents	14,532	10,723	4,428	30,288	
Non-current assets	5,143	9,935	1,658	5,801	
Current liabilities	6,385	15,471	2,338	2,133	
Account payable, other payables and provisions	6,385	15,386	2,338	2,133	
Non-current liabilities	359	142	100	14	
Account payable, other payables and provisions	359	1		14	
Revenue	14,139	7,509	7,475		
Depreciation and amortization	(4,004)	(1,315)	(397)	(84)	
Interest income	410	1,598	289	357	
Interest expense		(29)		(3)	
Income tax expense				(513)	
Profit (loss) from continuing operations	(6,021)	(29,278)	(575)	3,606	
Total comprehensive income (loss)	(6,021)	(29,278)	(575)	3,606	

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

- (5) Reconciliations of financial information of significant associates to carrying amounts of investments in associates in the consolidated financial statements as of December 31, 2014 and 2013 are as follows:

(In millions of won)

			December 31, 2014		
	Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
<b>Associates:</b>					
SK hynix Inc.(*)	18,036,453	20.1	3,619,666	1,229,493	4,849,159
KEB HanaCard Co., Ltd.	1,326,649	25.4	337,266	87,874	425,140
SKY Property Mgmt. Ltd.(*)	527,479	33.0	174,068	74,466	248,534
Korea IT Fund	380,170	63.3	240,676		240,676

(In millions of won)

			December 31, 2013		
	Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
<b>Associates:</b>					
SK hynix Inc.(*)	13,066,474	20.6	2,687,806	1,255,426	3,943,232
Hana SK Card Co., Ltd.	689,290	49.0	337,752	40,864	378,616
SKY Property Mgmt. Ltd.(*)	494,004	33.0	163,021	75,257	238,278
Korea IT Fund	365,528	63.3	231,402		231,402

- (\*) These entities prepare consolidated financial statements and net assets of these entities represent net assets attributable to owners of the Parent Company.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

- (6) Details of changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	Beginning balance	Acquisition and disposition	Share of profits (losses)	2014 Other compre- hensive income (loss)	Impair- ment loss	Other increase (decrease)	Ending balance
<b>Investments in associates</b>							
SK China Company Ltd.	37,434		(365)	(1,252)			35,817
Korea IT Fund	231,402		3,243	6,031			240,676
Etoos Co., Ltd.	12,029		346			(12,375)	
KEB HanaCard Co., Ltd.	378,616		(739)	(2,031)		49,294	425,140
Candle Media Co., Ltd.	21,241		(1,701)	(54)			19,486
NanoEnTek, Inc.	9,312	7,778	284	(27)		19,180	36,527
SK Industrial Development China Co., Ltd.	77,517		(791)	2,668			79,394
Packet One Network	60,706		(11,845)	4,809			53,670
SK Technology Innovation Company	53,874		(9,822)				44,052
HappyNarae Co., Ltd.	13,935		1,688	(72)			15,551
SK hynix Inc.	3,943,232		916,486	(10,559)			4,849,159
SK MENA Investment B.V.	13,477		(4)	542			14,015
SKY Property Mgmt. Ltd.	238,278		3,438	6,818			248,534
Xinan Tianlong Science and Technology Co., Ltd.	26,562		(688)				25,874
Daehan Kanggun BcN Co., Ltd. and others	164,976	14,172	(18,126)	1,324	(2,363)	(1,258)	158,725
Sub-total	5,282,591	21,950	881,404	8,197	(2,363)	54,841	6,246,620
<b>Investments in joint ventures</b>							
Dogus Planet, Inc.	10,105	19,677	(18,573)	232			11,441
PT. Melon Indonesia	3,230		256	78			3,564
Television Media Korea Ltd.	8,659		(1,715)				6,944
Celcom Planet		17,433	(656)			(172)	16,605
PT XL Planet Digital	20,712		(7,798)				12,914
Sub-total	42,706	37,110	(28,486)	310		(172)	51,468
Total	5,325,297	59,060	852,918	8,507	(2,363)	54,669	6,298,088

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012***(In millions of won)*

	Beginning balance	Acquisition and disposition	Share of profits (losses)	2013 Other compre- hensive income (loss)	Impair- ment loss	Other increase (decrease)	Ending balance
<b>Investments in associates</b>							
SK Marketing & Company Co., Ltd.(*1)	145,333		(3,954)	155		(141,534)	
SK China Company Ltd.	37,628		(7,643)	7,449			37,434
Korea IT Fund	230,016		1,348	38			231,402
JYP Entertainment Corporation(*2)	4,232		1,000	58		(5,290)	
Etoos Co., Ltd.	12,037		56	(64)			12,029
HanaSK Card Co., Ltd.	378,457		(612)	771			378,616
Candle Media Co., Ltd.	21,935		(782)	88			21,241
NanoEnTek, Inc.	9,276		25	11			9,312
SK Industrial Development China Co., Ltd.	77,967		(1,037)	587			77,517
Packet One Network	88,389	25	(2,367)	(1,843)	(23,498)		60,706
SK Technology Innovation Company	63,559		(9,108)	(577)			53,874
ViKi, Inc.(*3)	15,667	(14,636)	(995)	(36)			
HappyNarae Co., Ltd.	13,113		822				13,935
SK hynix Inc.	3,328,245		610,201	4,786			3,943,232
SK MENA Investment B.V.	13,666			(189)			13,477
SKY Property Mgmt. Ltd.(*4)			5,532	43		232,703	238,278
Xinan Tianlong Science and Technology Co., Ltd.		25,731	831				26,562
Daehan Kanggun BcN Co., Ltd. and others	170,747	26,257	(17,899)	(4,291)	(5,547)	(4,291)	164,976
Sub-total	4,610,267	37,377	575,418	6,986	(29,045)	81,588	5,282,591
<b>Investments in joint ventures</b>							
Dogus Planet, Inc.	6,006	21,428	(13,027)	(4,302)			10,105
PT. Melon Indonesia	4,447		(282)	(935)			3,230
Television Media Korea Ltd.	11,757		(3,098)				8,659
PT XL Planet Digital		19,713	1,549			(550)	20,712
Sub-total	22,210	41,141	(14,858)	(5,237)		(550)	42,706
Total	4,632,477	78,518	560,560	1,749	(29,045)	81,038	5,325,297

(\*1) The entity was merged into SK Planet Co., Ltd., a subsidiary of the Parent Company during the year ended December 31, 2013

(\*2) Investment in JYP Entertainment Corporation decreased as Loen Entertainment, Inc., which holds ownership interests in JYP Entertainment Corporation, has excluded from consolidation scope.

(\*3) De-recognized upon disposal during the year ended December 31, 2013.

(\*4) Investment in SKY Property Mgmt. Ltd. was reclassified from investments in subsidiaries to investments to associates as portion of ownership interests were disposed during the year ended December 31, 2013.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(7) As the Group discontinued the application of the equity method due to the carrying amount of the Group's share being reduced to zero, the unrecognized accumulated equity losses as of December 31, 2014 are as follows:

(In millions of won)

	Unrealized loss		Unrealized change in equity	
	Year ended December 31, 2014	Accumulated	Year ended December 31, 2014	Accumulated
ULand Company Limited	178	1,731	34	31
Wave City Development Co., Ltd. and others	1,508	5,229		334
	1,686	6,960	34	365

**14. Property and Equipment**

(1) Property and equipment as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Carrying amount
Land	766,780			766,780
Buildings	1,537,042	(603,175)		933,867
Structures	737,494	(384,705)		352,789
Machinery	27,088,067	(19,775,784)	(1,468)	7,310,815
Other	1,461,201	(960,450)	(1,701)	499,050
Construction in progress	704,400			704,400
	32,294,984	(21,724,114)	(3,169)	10,567,701

(In millions of won)

	December 31, 2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Carrying amount
Land	732,206			732,206
Buildings	1,510,846	(554,155)		956,691
Structures	716,724	(351,773)		364,951
Machinery	24,994,337	(18,145,580)	(1,698)	6,847,059

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Other	1,428,159	(894,217)	(761)	533,181
Construction in progress	762,519			762,519
	30,144,791	(19,945,725)	(2,459)	10,196,607

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(2) Changes in property and equipment for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014								
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Impairment	Classified as held for sale	Business combination	Ending balance
Land	732,206	8,306	(12)	24,178				2,102	766,780
Buildings	956,691	5,862	(451)	16,885	(48,745)			3,625	933,867
Structures	364,951	8,909	(39)	11,919	(32,951)				352,789
Machinery	6,847,059	572,764	(28,101)	1,979,590	(2,065,368)	(2,879)	(6)	7,756	7,310,815
Other	533,181	1,124,067	(6,188)	(1,022,999)	(135,213)	(49)	(245)	6,496	499,050
Construction in progress	762,519	1,101,691	(11,277)	(1,147,666)		(691)	(176)		704,400
	10,196,607	2,821,599	(46,068)	(138,093)	(2,282,277)	(3,619)	(427)	19,979	10,567,701

(In millions of won)

	2013							
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Impairment	Change of consolidation scope	Ending balance
Land	704,908	6,865	(200)	15,545			5,088	732,206
Buildings	886,371	1,128	(177)	112,827	(47,429)		3,971	956,691
Structures	363,484	17,850	(18)	17,001	(33,366)			364,951
Machinery	6,316,192	582,593	(13,183)	1,951,267	(1,990,850)		1,040	6,847,059
Other	637,212	1,190,739	(7,032)	(1,157,150)	(133,682)		3,094	533,181
Construction in progress	804,552	1,113,576	(31,146)	(1,131,703)		(1,275)	8,515	762,519
	9,712,719	2,912,751	(51,756)	(192,213)	(2,205,327)	(1,275)	21,708	10,196,607

**15. Investment Property**

(1) Investment property as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	10,418		10,418
Buildings	7,379	(2,800)	4,579

	17,797	(2,800)	14,997
--	--------	---------	--------

*(In millions of won)*

	Acquisition cost	December 31, 2013 Accumulated depreciation	Carrying amount
Land	10,822		10,822
Buildings	7,657	(2,668)	4,989
	18,479	(2,668)	15,811

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(2) Changes in investment property for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			
	Beginning balance	Transfer	Depreciation	Ending balance
Land	10,822	(404)		10,418
Buildings	4,989	(172)	(238)	4,579
	15,811	(576)	(238)	14,997

(In millions of won)

	2013			
	Beginning balance	Transfer	Depreciation	Ending balance
Land	12,638	(1,816)		10,822
Buildings	14,841	(8,737)	(1,115)	4,989
	27,479	(10,553)	(1,115)	15,811

(3) Fair value of investment property as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Land	10,418	6,056	10,822	6,595
Buildings	4,579	4,288	4,989	4,737
	14,997	10,344	15,811	11,332

The fair value of investment property was appraised on the basis of market price by an independent appraisal company.

(4) Income (expense) from investment property for the years ended December 31, 2014, 2013 and 2012 are as follows:

(In millions of won)

2014      2013      2012

Rent revenue	896	1,373	73,755
Operating expense	(239)	(476)	(57,049)

**16. Goodwill**

(1) Goodwill as of December 31, 2014 and 2013 is as follows:

*(In millions of won)*

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Goodwill related to acquisition of Shinsegi Telecom, Inc.	1,306,236	1,306,236
Goodwill related to acquisition of SK Broadband Co., Ltd.	358,443	358,443
Other goodwill	252,916	68,582
	1,917,595	1,733,261

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Goodwill is allocated to the following CGUs for the purpose of the impairment testing.

Shinsegi Telecom, Inc.(\*1): cellular services

SK Broadband Co., Ltd.(\*2): fixed-line telecommunication services

Other: other

(\*1) Shinsegi Telecom, Inc.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.2% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 1.8% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group's long-term wireless telecommunication business growth rate. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to the reasonably possible changes from the major assumptions used to estimate the recoverable amount. Management believes that a reasonably possible change in a key assumption would not cause the CGU's carrying amount to exceed its recoverable amount.

(\*2) Goodwill related to acquisition of SK Broadband Co., Ltd.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 5.2% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 2.2%, the Group's long-term fixed-line telecommunication business growth rate, was applied for the cash flows expected to be incurred after five years. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to the reasonably possible changes from the major assumptions used to estimate the recoverable amount. Management believes that a reasonably possible change in a key assumption would not cause the CGU's carrying amount to exceed its recoverable amount.

(2) Details of changes in goodwill for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Beginning balance	1,733,261	1,744,483
Goodwill increase due to acquisitions	193,202	1,252
Impairment loss	(8,868)	(9,981)
Other decrease(*)		(2,493)

(\*) Other decrease represents effects of exchange rate changes in relation to the foreign subsidiaries and reclassification of assets held for sale.  
Accumulated impairment as of December 31, 2014 and 2013 are 18,849 million and 9,981 million, respectively.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****17. Intangible Assets**

(1) Intangible assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	Acquisition cost	2014		Carrying amount
		Accumulated depreciation	Accumulated impairment	
Frequency use rights	3,033,879	(1,649,835)		1,384,044
Land use rights	64,136	(38,783)		25,353
Industrial rights	144,497	(36,737)		107,760
Development costs	162,493	(144,215)	(9,947)	8,331
Facility usage rights	146,112	(93,476)		52,636
Customer relations	17,147	(10,743)		6,404
Memberships(*1)	128,274		(34,155)	94,119
Other(*2)	3,029,590	(2,223,627)	(616)	805,347
	6,726,128	(4,197,416)	(44,718)	2,483,994

(In millions of won)

	Acquisition cost	2013		Carrying amount
		Accumulated depreciation	Accumulated impairment	
Frequency use rights	3,033,879	(1,369,308)		1,664,571
Land use rights	48,031	(31,441)		16,590
Industrial rights	91,027	(32,264)		58,763
Development costs	148,714	(126,912)	(11,675)	10,127
Facility usage rights	143,937	(85,109)		58,828
Customer relations	14,222	(7,889)		6,333
Memberships(*1)	128,452			128,452
Other(*2)	2,747,121	(1,938,936)	(1,067)	807,118
	6,355,383	(3,591,859)	(12,742)	2,750,782

(\*1) Memberships are classified as intangible assets with indefinite useful life and are not amortized.

(\*2) Other intangible assets consist of computer software and usage rights to a research facility which the Group built and donated to a university and the Group is given rights-to-use for a definite number of years.





**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(2) Details of changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014							Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Change of consolidation scope	
Frequency use rights	1,664,571				(280,527)			1,384,044
Land use rights	16,590	15,560	(573)		(8,483)		2,259	25,353
Industrial rights	58,763	5,048	(180)		(4,584)		48,713	107,760
Development costs	10,127	1,253	(25)	63	(4,048)	(398)	1,359	8,331
Facility usage rights	58,828	1,890	(30)	382	(8,434)			52,636
Customer relations	6,333	779		(39)	(3,063)		2,394	6,404
Memberships(*)	128,452	5,629	(5,810)	(264)		(34,155)	267	94,119
Other	807,118	102,322	(9,919)	171,858	(300,216)	(449)	34,633	805,347
	2,750,782	132,481	(16,537)	172,000	(609,355)	(35,002)	89,625	2,483,994

(\*) The Group recognized the difference between recoverable amount and the carrying amount of memberships, amounting to 34,155 million as impairment loss for the year ended December 31, 2014.

(In millions of won)

	2013							Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Change of consolidation scope	
Frequency use rights(*)	1,693,868	1,046,833	(814,213)		(261,917)			1,664,571
Land use rights	16,062	7,378	(279)		(6,571)			16,590
Industrial rights	60,104	2,045	(75)	485	(3,674)		(122)	58,763
Development costs	13,420	594		650	(5,230)	(1,448)	2,141	10,127
Facility usage rights	65,340	1,930	(75)	9	(8,376)			58,828
Customer relations	48,886	1,293		1,856	(45,702)			6,333
Memberships	118,954	2,828	(997)				7,667	128,452
Other	673,024	111,972	(21,751)	325,529	(291,870)	(1,695)	11,909	807,118
	2,689,658	1,174,873	(837,390)	328,529	(623,340)	(3,143)	21,595	2,750,782

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(\*) The Group newly acquired 1.8GHz frequency use rights through auction during the year ended December 31, 2013 and returned the existing 1.8GHz frequency use rights as partial consideration in connection with the new acquisition. The Group recognized 199,613 million of loss on disposal of property and equipment and intangible assets with regard to this transaction.

(3) Research and development expenditure recognized as expense for the years ended December 31, 2014, 2013 and 2012 are as follows:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Research and development costs expensed	390,943	352,385	304,557

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

- (4) The carrying amount and residual useful lives of major intangible assets as of December 31, 2014 are as follows, all of which are amortized on a straight-line basis:

(In millions of won)

	<b>Amount</b>	<b>Description</b>	<b>Commencement of amortization</b>	<b>Completion of amortization</b>
W-CDMA license	198,542	Frequency use rights relating to W-CDMA service	Dec. 2003	Dec. 2016
W-CDMA license	32,622	Frequency use rights relating to W-CDMA service	Oct. 2010	Dec. 2016
800MHz license	263,536	Frequency use rights relating to CDMA and LTE service	Jul. 2011	Jun. 2021
1.8GHz license	879,340	Frequency use rights relating to LTE service	Sep. 2013	Dec. 2021
WiBro license	10,004	WiBro service	Mar. 2012	Mar. 2019
	1,384,044			

**18. Borrowings and Debentures**

- (1) Short-term borrowings as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>Lender</b>	<b>Annual interest rate (%)</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Commercial Paper	Samsung Securities Co., Ltd., etc.	2.16~3.09	206,000	200,000
Short-term borrowings	Korea Development Bank, etc.	2.48~4.28	160,600	60,000
			366,600	260,000

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(2) Long-term borrowings as of December 31, 2014 and 2013 are as follows:

(In millions of won and thousands of U.S. dollars)

<b>Lender</b>	<b>Annual interest rate (%)</b>	<b>Maturity</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Korea Development Bank	3.19	Jun. 16, 2014		1,648
Shinhan Bank	2.77	Jun. 15, 2015	1,712	5,136
Kookmin Bank	2.77	Jun. 15, 2016	4,874	8,124
Kookmin Bank	2.77	Mar. 15, 2017	4,496	5,996
Kookmin Bank	2.77	Mar. 15, 2018	8,600	8,600
Shinhan Bank(*1)	6M bank debenture rate+1.58	Apr. 30, 2016	10,000	
Korea Finance Corporation	3.32	Jul. 30, 2019	39,000	
Korea Finance Corporation	2.94	Jul. 30, 2019	10,000	
Export Kreditnamnden(*2)	1.70	Apr. 29, 2022	94,903	99,975
			(USD 86,338)	(USD 94,736)
<b>Sub-total</b>			<b>173,585</b>	<b>129,479</b>
Less present value discount on long-term borrowings			(2,623)	(3,287)
			170,962	126,192
Less current installments of long-term borrowings			(21,242)	(21,384)
<b>Long-term borrowings</b>			<b>149,720</b>	<b>104,808</b>

(\*1) As of December 31, 2014, the 6M bank debenture rate of Shinhan Bank is 2.17%.

(\*2) For the years ended December 31, 2014 and 2013, the Group obtained long-term borrowings from Export Kreditnamnden, an export credit agency. The long-term borrowings are redeemed by installments from 2014 to 2022.

(3) Debentures as of December 31, 2014 and 2013 are as follows:

(In millions of won, thousands of U.S. dollars and thousands of other currencies)

	<b>Purpose</b>	<b>Maturity</b>	<b>Annual interest rate (%)</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Unsecured private bonds	Refinancing fund	2016	5.00	200,000	200,000
Unsecured private bonds		2014	5.00		200,000

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Unsecured private bonds	Other fund	2015	5.00	200,000	200,000
Unsecured private bonds		2018	5.00	200,000	200,000
Unsecured private bonds		2016	5.54	40,000	40,000
Unsecured private bonds		2016	5.92	230,000	230,000
Unsecured private bonds	Operating fund	2016	3.95	110,000	110,000
Unsecured private bonds		2021	4.22	190,000	190,000
Unsecured private bonds	Operating and refinancing fund	2019	3.24	170,000	170,000
Unsecured private bonds		2022	3.30	140,000	140,000
Unsecured private bonds		2032	3.45	90,000	90,000
Unsecured private bonds	Operating fund	2023	3.03	230,000	230,000
Unsecured private bonds		2033	3.22	130,000	130,000
Unsecured private bonds		2019	3.30	50,000	
Unsecured private bonds		2024	3.64	150,000	

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012***(In millions of won, thousands of U.S. dollars and thousands of other currencies)*

	Purpose	Maturity	Annual interest rate (%)	December 31, 2014	December 31, 2013
Unsecured private bonds(*6)		2029	4.73	55,188	
Unsecured private bonds(*6)		2029	4.72	55,177	
Unsecured private bonds	Refinancing fund	2019	2.53	160,000	
Unsecured private bonds		2021	2.66	150,000	
Unsecured private bonds		2024	2.82	190,000	
Unsecured private bonds(*1)	Operating fund	2014	4.86		20,000
Unsecured private bonds(*1)		2015	4.62	10,000	10,000
Unsecured private bonds(*2)		2014	4.53		290,000
Unsecured private bonds(*2)		2014	4.40		100,000
Unsecured private bonds(*2)		2015	4.09	110,000	110,000
Unsecured private bonds(*2)		2015	4.14	110,000	110,000
Unsecured private bonds(*2)		2017	4.28	100,000	100,000
Unsecured private bonds(*2)		2015	3.14	130,000	130,000
Unsecured private bonds(*2)		2017	3.27	120,000	120,000
Unsecured private bonds(*2)		2016	3.05	80,000	
Unsecured private bonds(*2)		2019	3.49	210,000	
Unsecured private bonds(*2)		2019	2.76	130,000	
Unsecured private bonds(*3)		2015	3.12	10,000	
Unsecured private bonds(*3)		2016	3.24	10,000	
Unsecured private bonds(*3)		2017	3.48	20,000	
Foreign global bonds		2027	6.63	439,680	422,120
				(USD 400,000)	(USD 400,000)
Exchangeable bonds(*5)	Refinancing fund	2014	1.75		96,147
					(USD 91,109)
Floating rate notes	Operating fund	2014	3M Libor + 1.60		263,825
					(USD 250,000)
Floating rate notes		2014	SOR rate + 1.20		54,129
					(SGD 65,000)
Swiss unsecured private bonds		2017	1.75	333,429	356,601
				(CHF 300,000)	(CHF 300,000)
Foreign global bonds		2018	2.13	769,440	738,710
				(USD 700,000)	(USD 700,000)
Australia unsecured private bonds		2017	4.75	269,727	281,988
				(AUD 300,000)	(AUD 300,000)
Floating rate notes(*4)	Operating fund	2020	3M Libor + 0.88	329,760	316,590
				(USD 300,000)	(USD 300,000)
Foreign global bonds(*2)		2018	2.88	329,760	316,590
				(USD 300,000)	(USD 300,000)
Sub-total				6,252,161	5,966,700
Less discounts on bonds				(33,531)	(40,228)
				6,218,630	5,926,472
Less current installments of bonds				(569,472)	(1,020,893)

5,649,158

4,905,579

(\*1) Unsecured private bonds were issued by SK Telink Co., Ltd., a subsidiary of the Parent Company.

(\*2) Unsecured private bonds were issued by SK Broadband Co., Ltd., a subsidiary of the Parent Company.

(\*3) Unsecured private bonds were issued by PS&Marketing Corporation, a subsidiary of the Parent Company.

(\*4) As of December 31, 2014, 3M Libor rate is 0.23%.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(\*5) On April 7, 2009, the Group issued exchangeable bonds with a maturity of five years in the principal amount of USD 332,528,000 for USD 326,397,463 with a coupon rate of 1.75%.

The Group may redeem the principal amount after three years from the issuance date if the market price exceeds 130% of the exchange price during a predetermined period. The exchange right may be exercised during the period from May 18, 2009 to March 24, 2014.

Exchanges of notes for common shares may be prohibited under the Telecommunications Law or other legal restrictions which restrains foreign governments, individuals and entities from owning more than 49% of the Group's voting stock. If such 49% ownership limitation is violated due to the exercise of exchange rights, the Group will pay the bond holder a cash settlement which will be determined at the average price of one day after a holder exercises its exchange right or the weighted average price for the following five or twenty business days. Unless either previously redeemed or exchanged, the notes are redeemable at 100% of the principal amount at maturity.

As of December 31, 2013, the principal amount and the fair value of the remaining exchangeable bonds were USD 57,046,000 and USD 91,108,508, respectively. Exchange for the remaining entire bonds was claimed during 2013 and redeemed by cash during the year ended December 31, 2014.

(\*6) The Group settled the difference of the measurement bases of accounting profit or loss between the bonds and related derivatives by appointing the structured bonds as designated financial liabilities at fair value through profit or loss.

The difference between the carrying amount of the designated financial liabilities at fair value through profit or loss and the amount required to pay at maturity is 10,365 million as of December 31, 2014.

**19. Long-term Payables Other**

(1) Long-term payables other as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Payables related to acquisition of W-CDMA licenses	657,001	828,721
Other(*)	27,566	9,864
	<b>684,567</b>	<b>838,585</b>

(\*) Other includes vested compensation claims of employees who have rendered long-term service, etc.



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- (2) As of December 31, 2014 and 2013, long-term payables other consist of payables related to the acquisition of W-CDMA licenses for 2.1GHz, 800MHz, 2.3GHz and 1.8GHz frequencies as follows:

(In millions of won)

	Period of repayment	Coupon rate(*1)	Annual effective interest rate(*2)	December 31, 2014	December 31, 2013
2.1GHz	2012~2014	3.58%	5.89%		17,533
800MHz	2013~2015	3.51%	5.69%	69,416	138,833
2.3GHz	2014~2016	3.00%	5.80%	5,766	8,650
1.8GHz	2012~2021	2.43~3.00%	4.84~5.25%	824,841	942,675
				900,023	1,107,691
Present value discount on long-term payables other				(53,633)	(72,170)
				846,390	1,035,521
Current installments of long-term payables other				(189,389)	(206,800)
Carrying amount at December 31				657,001	828,721

(\*1) The Group applied an annual interest rate equal to the previous year average lending rate of public funds financing account less 1%.

(\*2) The Group estimated the discount rate based on its credit ratings and corporate bond yield rate as there is no market interest rate available for long-term account payables-other.

- (3) The repayment schedule of long-term payables other related to acquisition of W-CDMA licenses as of December 31, 2014 is as follows:

(In millions of won)

	Amount
Less than 1 year	190,134
1~3 years	238,552
3~5 years	235,669
More than 5 years	235,668
	900,023

**20. Provisions**

(1) Changes in provisions for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>Beginning balance</b>	<b>For the year ended December 31, 2014</b>				<b>Ending balance</b>	<b>As of December 31, 2014</b>	
		<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>	<b>Other</b>		<b>Current</b>	<b>Non-current</b>
Provision for handset subsidy(*1)	53,923	41,802	(68,926)			26,799	14,844	11,955
Provision for restoration(*2)	40,507	20,098	(702)	(34)	(142)	59,727	35,865	23,862
Other provisions	451	155	(225)		181	562	366	196
	94,881	62,055	(69,853)	(34)	39	87,088	51,075	36,013

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	Beginning balance	For the year ended December 31, 2013				Ending balance	As of December 31, 2013	
		Increase	Utilization	Reversal	Other		Current	Non-current
Provision for handset subsidy(*1)	353,383	9,416	(308,876)			53,923	53,334	589
Provision for restoration(*2)	39,895	5,679	(712)	(4,211)	(144)	40,507	13,441	27,066
Other provisions	590		(85)	(17)	(37)	451		451
	393,868	15,095	(309,673)	(4,228)	(181)	94,881	66,775	28,106

(\*1) The Group recognizes a provision for handset subsidies given to the subscribers who purchase handsets on an installment basis. During the years ended December 31, 2014 and 2013, the Group's provision for handset subsidies significantly decreased as it gradually ceased providing handset subsidies to subscribers.

The amount recognized as a provision for handset subsidies is the Group's best estimate of the expenditure required to settle the current obligations to the relevant subscribers at the end of the reporting period, which is calculated as the sum of the present values of the monthly balances for handset subsidies over the relevant service periods, taking into account the customer retention rate for the relevant subscribers. The discount rate used in calculating the present values is based on AAA-rated corporate bonds with a two-year maturity. The customer retention rate is based on the Group's historical retention rate.

(\*2) In the course of the Group's activities, base station and other assets are utilized on leased premises which are expected to have costs associated with restoring the location where these assets are situated upon ceasing their use on those premises. The associated cash outflows, which are long-term in nature, are generally expected to occur at the dates of exit of the assets to which they relate. These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements. The Group records these restoration costs as property and equipment and subsequently allocates them to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to finance costs.

(2) The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period.

**Key assumptions**

Provision for handset subsidy	estimation based on historical service retention period data
Provision for restoration	estimation based on inflation assuming demolition of the relevant assets after six years

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****21. Lease****(1) Finance Leases**

The Group has leased telecommunication equipment under finance lease agreements with Cisco Systems Capital Korea Ltd. Finance lease liabilities as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014	December 31, 2013
<b>Finance Lease Liabilities</b>		
Current installments of long-term finance lease liabilities	3,804	19,351
Long-term finance lease liabilities	26	3,867
	3,830	23,218

The Group's related interest and principal as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014		December 31, 2013	
	Minimum lease payment	Present value	Minimum lease payment	Present value
Less than 1 year	3,909	3,804	20,039	19,351
1~5 years	26	26	3,974	3,867
Sub-total	3,935	3,830	24,013	23,218
Current installments of long-term finance lease liabilities		(3,804)		(19,351)
Long-term finance lease liabilities		26		3,867

**(2) Operating Leases**

The Group entered into operating leases and sublease agreements in relation to rented office space and the expected future lease payments and lease revenues as of December 31, 2014 and 2013 (included in other non-operating income in the accompanying consolidated statements of income) are as follows:

(In millions of won)

	2014		2013	
	Lease payments	Lease revenues	Lease payments	Lease revenues

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Less than 1 year	29,233	3,496	32,842	2,422
1~5 years	76,306	1,390	72,236	1,074
More than 5 years	49,582	1,043	65,013	1,026
	155,121	5,929	170,091	4,522

**(3) Sale and Leaseback Transaction**

For the year ended December 31, 2012, the Group disposed a portion of its property and equipment and investment property, and entered into lease agreements with respect to those assets. This sale and leaseback transaction is accounted for as an operating lease and the gain on disposal of the property and equipment is recognized in profit or loss. The Group recognized 14,075 million and 13,703 million of lease payments in relation to this lease agreement and 2,469 million and 269 million of lease revenues in relation to the sublease agreement for the years ended December 31, 2014 and 2013, respectively. Expected future lease payments and lease revenues are included in Note 21-(2).

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****22. Defined Benefit Liabilities**

(1) Details of defined benefit liabilities as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Present value of defined benefit obligations	437,844	312,494
Fair value of plan assets	(346,257)	(238,293)
	91,587	74,201

(2) Principal actuarial assumptions as of December 31, 2014 and 2013 are as follows:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Discount rate for defined benefit obligations	2.23%~3.70%	3.06%~4.34%
Expected rate of salary increase	2.51%~7.39%	3.05%~6.27%

Discount rate for defined benefit obligations is determined based on the Group's credit ratings and yield rate of corporate bonds with similar maturities for estimated payment term of defined benefit obligations. Expected rate of salary increase is determined based on the Group's historical promotion index, inflation rate and salary increase ratio in accordance with salary agreement.

(3) Changes in defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Beginning balance	312,494	244,866
Current service cost	109,625	89,802
Interest cost	12,630	9,370
Remeasurement		
- Demographic assumption	2,859	(394)
- Financial assumption	28,287	(12,371)
- Adjustment based on experience	9,932	6,475
Benefit paid	(46,531)	(42,948)
Others(*)	8,548	17,694
Ending balance	437,844	312,494

(\*) Others for the year ended December 31, 2014 include the effect of changes in the consolidation scope of 2,939 million, liabilities of 4,433 million succeeded due to transfer of employees from associates, and transfer to construction in progress, etc. Others for the year ended December 31, 2013 include the effect of changes in the consolidation scope of (4,141) million, liabilities of 14,703 million succeeded due to business combination and transfer to construction in progress, etc.

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(4) Changes in plan assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
Beginning balance	238,293	158,345
Interest income	9,538	6,332
Actuarial gain	50	122
Contributions by employer directly to plan assets	117,558	85,683
Benefits paid	(20,711)	(23,827)
Others(*)	1,529	11,638
Ending balance	346,257	238,293

(\*) Others for the year ended December 31, 2014 include the effect of changes in the consolidation scope of 1,221 million. Others for the year ended December 31, 2013 include the effect of changes in the consolidation scope of (3,074) million and assets of 14,334 million transferred due to business combination.

The Group expects to make a contribution of 82,062 million to the defined benefit plans during the next financial year.

(5) Expenses recognized in profit and loss (included in labor cost in the accompanying consolidated statements of income) and capitalized into construction-in-progress for the years ended December 31, 2014, 2013 and 2012 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Current service cost	109,625	89,802	77,060
Net interest cost	3,092	3,038	3,805
	112,717	92,840	80,865

The above costs are recognized in labor cost, research and development, or capitalized into construction-in-progress.

(6) Details of plan assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)

**December 31, 2014**

**December 31, 2013**



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Equity instruments	1,746	713
Debt instruments	70,778	48,901
Short-term financial instruments, etc.	273,733	188,679
	346,257	238,293

Actual return on plan assets for the years ended December 31, 2014 and 2013 amounted to 9,588 million and 6,472million, respectively.

(7) As of December 31, 2014, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

*(In millions of won)*

	<b>Increase</b>	<b>Decrease</b>
Discount rate (if changed by 0.5%)	(17,290)	17,988
Expected salary increase rate (if changed by 0.5%)	18,064	(17,431)

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The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

Weighted average durations of defined benefit obligations as of December 31, 2014 and 2013 are 9.10 years and 9.12 years, respectively.

**23. Derivative Instruments**

(1) Currency swap contracts under cash flow hedge accounting as of December 31, 2014 are as follows:

*(In thousands of foreign currencies)*

<b>Borrowing date</b>	<b>Hedged item</b>	<b>Hedged risk</b>	<b>Contract type</b>	<b>Financial institution</b>	<b>Duration of contract</b>
Jul. 20, 2007	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)	Foreign currency risk	Currency swap	Morgan Stanley and five other banks	Jul. 20, 2007 ~ Jul. 20, 2027
Jun. 12, 2012	Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds face value of CHF 300,000)	Foreign currency risk	Currency swap	Citibank and five other banks	Jun. 12, 2012 ~ Jun. 12, 2017
Nov. 1, 2012	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)	Foreign currency risk	Currency swap	Barclays and nine other banks	Nov. 1, 2012 ~ May 1, 2018
Jan. 17, 2013	Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of AUD 300,000)	Foreign currency risk	Currency swap	BNP Paribas and three other banks	Jan. 17, 2013 ~ Nov. 17, 2017
Mar. 7, 2013	Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)	Foreign currency risk and the interest rate risk	Currency interest rate swap	DBS Bank	Mar. 7, 2013 ~ Mar. 7, 2020
Oct. 29, 2013	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)	Foreign currency risk	Currency swap	Korea Development Bank and others	Oct. 29, 2013 ~ Oct. 26, 2018
Dec. 16, 2013	Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 86,338)	Foreign currency risk	Currency swap	Deutsche bank	Dec. 16, 2013 ~ Apr. 29, 2022

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(2) As of December 31, 2014, fair values of the above derivatives recorded in assets or liabilities and details of derivative instruments are as follows:

(In millions of won and thousands of foreign currencies)

Hedged item	Accumulated gain (loss) on valuation of derivatives	Cash flow hedge			Held for trading purpose	Total
		Tax effect	Accumulated foreign currency translation (gain) loss	Others (*)		
<b>Non-current assets:</b>						
Structured bond(face value of KRW 100,000)					8,713	8,713
Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)	(40,360)	(12,886)	(17,545)	129,806		59,015
Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)	8,895		(6,588)			2,307
<b>Total assets</b>						<b>70,035</b>
<b>Non-current liabilities:</b>						
Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds face value of CHF 300,000)	(8,725)	(2,786)	(29,993)			(41,504)
Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)	(22,903)	(7,312)	6,058			(24,157)
Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of AUD 300,000)	2,588	826	(65,496)			(62,082)
Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)	(4,369)	(1,395)	4,668			(1,096)
Fixed-to-fixed long-term borrowings (U.S. dollar denominated bonds face value of USD 86,338)	(4,439)	(1,417)	3,806			(2,050)
<b>Total liabilities</b>						<b>(130,889)</b>

(\*) Cash flow hedge accounting has been applied to the relevant contract from May 12, 2010. Others represent gain on valuation of currency swap incurred prior to the application of hedge accounting and was recognized through profit or loss prior to the year ended December 31, 2013.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****24. Share Capital and Capital Surplus (Deficit) and Other Capital Adjustments**

The Parent Company's outstanding share capital consists entirely of common stock with a par value of 500. The number of authorized, issued and outstanding common shares and capital surplus and other capital adjustments as of December 31, 2014 and 2013 are as follows:

(In millions of won, except for share data)

	December 31, 2014	December 31, 2013
Authorized shares	220,000,000	220,000,000
Issued shares(*1)	80,745,711	80,745,711
Share capital		
Common stock	44,639	44,639
Capital surplus and other capital adjustments:		
Paid-in surplus	2,915,887	2,915,887
Treasury stock (Note 25)	(2,139,683)	(2,139,683)
Loss on disposal of treasury stock	(18,087)	(18,087)
Others(*2)	(878,637)	(839,127)
	(120,520)	(81,010)

(\*1) For the years ended December 31, 2003, 2006 and 2009, the Parent Company retired 7,002,235 shares, 1,083,000 shares and 448,000 shares, respectively, of treasury stock which reduced its retained earnings before appropriation in accordance with the Korean Commercial Law. As a result, the Parent Company's outstanding shares have decreased without change in the share capital. There were no changes in share capital for years ended December 31, 2014 and 2013. Changes in number of shares outstanding for the years ended December 31, 2014 and 2013 are follows:

	2014			2013		
	Issued shares	Treasury stock	Outstanding shares	Issued shares	Treasury stock	Outstanding shares
Beginning issued shares	80,745,711	9,809,375	70,936,336	80,745,711	11,050,712	69,694,999
Disposal of treasury stock					(1,241,337)	1,241,337
Ending issued shares	80,745,711	9,809,375	70,936,336	80,745,711	9,809,375	70,936,336

(\*2) Others primarily consist of the excess of the consideration paid by the Group over the carrying values of net assets acquired from common control transactions with entities within the control of the Ultimate Controlling Entity (See Note 12).

**25. Treasury Stock**

The Parent Company acquired treasury stock to provide stock dividends, merge with Shinsegi Telecom, Inc. and SK IMT Co, Ltd., increase shareholder value and to stabilize its stock prices when needed.

Treasury stock as of December 31, 2014 and 2013 are as follows:

*(In millions of won, shares)*

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Number of shares	9,809,375	9,809,375
Amount	2,139,683	2,139,683

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****26. Hybrid Bonds**

Hybrid bonds classified as equity as of December 31, 2014 is as follows:

*(In millions of won)*

	Type	Issuance date	Maturity	Annual interest rate(%)	Amount
Private hybrid bonds	Blank coupon unguaranteed subordinated bond	June 7, 2013	June 7, 2073(*1)	4.21(*2)	400,000
Issuance costs					(1,482)
					398,518

Hybrid bonds issued by the Parent Company are classified as equity as there is no contractual obligation for delivery of financial assets to the bond holders. These are subordinated bonds which rank before common shareholders in the event of a liquidation or reorganization of the Parent Company.

(\*1) The Parent Company has a right to extend the maturity under the same issuance terms without any notice or announcement. The Parent Company also has the right to defer interest payment at its sole discretion.

(\*2) Annual interest rate is adjusted after five years from the issuance date.

**27. Retained Earnings**

(1) Retained earnings as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	December 31, 2014	December 31, 2013
Appropriated:		
Legal reserve	22,320	22,320
Reserve for research & manpower development	151,533	155,767
Reserve for business expansion	9,476,138	9,376,138
Reserve for technology development	2,416,300	2,271,300
	12,066,291	11,825,525

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Unappropriated	2,122,300	1,276,970
	14,188,591	13,102,495

(2) Legal reserve

The Korean Commercial Act requires the Parent Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to share capital.

(3) Reserve for research & manpower development

The reserve for research and manpower development was appropriated in order to recognize certain tax deductible benefits through the early recognition of future expenditures for tax purposes. These reserves will be reversed from appropriated and retained earnings in accordance with the relevant tax laws. Such reversal will be included in taxable income in the year of reversal.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****28. Reserves**

(1) Details of reserves, net of taxes, as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	December 31, 2014	December 31, 2013
Unrealized fair value of available-for-sale financial assets	235,385	208,529
Other comprehensive loss of investments in associates	(163,808)	(172,117)
Unrealized fair value of derivatives	(77,531)	(35,429)
Foreign currency translation differences for foreign operations	1,465	(13,253)
	(4,489)	(12,270)

(2) Changes in reserves for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	2014				
	Unrealized fair value of available-for-sale financial assets	Other comprehensive loss of investments in associates	Unrealized fair value of derivatives	Foreign currency translation differences for foreign operations	Total
Balance at January 1, 2014	208,529	(172,117)	(35,429)	(13,253)	(12,270)
Changes	30,945	8,381	(54,290)	14,718	(246)
Tax effect	(4,089)	(72)	12,188		8,027
Balance at December 31, 2014	235,385	(163,808)	(77,531)	1,465	(4,489)

*(In millions of won)*

	2013				
	Unrealized fair value of available-for-sale financial assets	Other comprehensive loss of investments in associates	Unrealized fair value of derivatives	Foreign currency translation differences for foreign operations	Total
Balance at January 1, 2013	207,063	(175,044)	(46,652)	(11,003)	(25,636)
Changes	2,747	1,254	14,488	(2,250)	16,239
Tax effect	(1,281)	1,673	(3,265)		(2,873)
Balance at December 31, 2013	208,529	(172,117)	(35,429)	(13,253)	(12,270)



- (3) Details of changes in unrealized fair value of available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>		
	<b>Before taxes</b>	<b>Income tax effect</b>	<b>After taxes</b>
Balance at January 1, 2014	275,663	(67,134)	208,529
Amount recognized as other comprehensive loss during the year	40,785	(6,470)	34,315
Amount reclassified to profit or loss	(9,840)	2,381	(7,459)
Balance at December 31, 2014	306,608	(71,223)	235,385

*(In millions of won)*

	<b>2013</b>		
	<b>Before taxes</b>	<b>Income tax effect</b>	<b>After taxes</b>
Balance at January 1, 2013	272,917	(65,854)	207,063
Amount recognized as other comprehensive income during the year	3,879	(1,529)	2,350
Amount reclassified to profit or loss	(1,133)	249	(884)
Balance at December 31, 2013	275,663	(67,134)	208,529

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(4) Details of changes in unrealized fair value of derivatives for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>		
	<b>Before taxes</b>	<b>Income tax effect</b>	<b>After taxes</b>
Balance at January 1, 2014	(48,211)	12,782	(35,429)
Amount recognized as other comprehensive loss during the year	(46,535)	10,311	(36,224)
Amount reclassified through profit or loss	(7,755)	1,877	(5,878)
Balance at December 31, 2014	(102,501)	24,970	(77,531)

(In millions of won)

	<b>2013</b>		
	<b>Before taxes</b>	<b>Income tax effect</b>	<b>After taxes</b>
Balance at January 1, 2013	(62,698)	16,046	(46,652)
Amount recognized as other comprehensive income during the year	11,833	(3,001)	8,832
Amount reclassified through profit or loss	2,654	(263)	2,391
Balance at December 31, 2013	(48,211)	12,782	(35,429)

**29. Other Operating Income and Expenses**

Details of other operating income and expenses for the years ended December 31, 2014, 2013 and 2012 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Other Operating Income:</b>			
Reversal of allowance for doubtful accounts		359	5,902
Gain on disposal of property and equipment and intangible assets	8,792	7,991	162,590
Others(*1)	47,679	66,604	33,352
	56,471	74,954	201,844
<b>Other Operating Expenses:</b>			
Communication expenses	58,622	62,193	69,585
Utilities	247,919	227,593	197,559
Taxes and dues(*2)	33,500	29,873	91,745
Repair	260,533	252,344	223,247
Research and development	390,943	352,385	304,557
Training	42,781	40,446	39,407
Bad debt for accounts receivables trade	45,754	53,344	52,393
Travel	28,912	31,762	31,380

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Supplies and other	209,933	189,224	143,882
Loss on disposal of property and equipment and intangible assets	32,950	267,468	15,117
Impairment loss on other investment securities	22,749	6,137	1,307
Impairment loss on property and equipment and intangible assets	47,489	13,770	37,007
Donations	67,823	82,057	81,330
Bad debt for accounts receivable other	17,943	22,155	30,107
Other(*2)	84,796	115,532	23,402
	1,592,647	1,746,283	1,342,025

(\*1) Others for the year ended December 31, 2014, 2013 and 2012, primarily consist of 8.1 billion, 10.3 billion and 5.6 billion of VAT refund, respectively.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(\*2) Penalties were included in taxes and dues until the year ended December 31, 2012 while penalties were included in other starting from the year ended December 31, 2013.

**30. Finance Income and Costs**

(1) Details of finance income and costs for the years ended December 31, 2014, 2013 and 2012 are as follows:

*(In millions of won)*

	2014	2013	2012
<b>Finance Income:</b>			
Interest income	60,006	65,560	97,318
Dividends	13,048	10,197	27,732
Gain on foreign currency transactions	16,301	11,041	6,735
Gain on foreign currency translation	6,277	4,401	4,065
Gain on disposal of long-term investment securities	13,994	9,300	282,605
Gain on valuation of derivatives	8,713		
Gain on settlement of derivatives	7,998	7,716	26,103
Gain relating to financial asset at fair value through profit or loss		5,177	
	126,337	113,392	444,558
<b>Finance Costs:</b>			
Interest expense	323,910	331,834	412,379
Loss on foreign currency transactions	18,053	16,430	7,204
Loss on foreign currency translation	5,079	2,634	4,608
Loss on disposal of long-term investment securities	2,694	31,909	10,802
Loss on valuation of derivatives	10	2,106	286
Loss on settlement of derivatives	672		1,232
Loss relating to financial asset at fair value through profit or loss	1,352		1,262
Loss relating to financial liability at fair value through profit or loss(*1)	10,370	134,232	7,793
Loss on redemption of debentures			2,099
Other finance costs(*2)	24,533	52,058	190,620
	386,673	571,203	638,285

(\*1) Loss relating to financial liability at fair value through profit or loss for the year ended December 31, 2013 represents 1) valuation loss related to exchangeable bond (issue price of USD 326,397,463) as a result of increase in stock price of the Parent Company and increase in foreign exchange rate, and 2) loss on repayment of debentures upon the claim for exchange.

(\*2) See Note 30-(5)

(2) Details of interest income included in finance income for the years ended December 31, 2014, 2013 and 2012 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Interest income on cash equivalents and deposits	33,417	41,907	57,029
Interest income on installment receivables and others	26,589	23,653	40,289
	<b>60,006</b>	<b>65,560</b>	<b>97,318</b>

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(3) Details of interest expense included in finance costs for the years ended December 31, 2014, 2013 and 2012 are as follows:

*(In millions of won)*

	2014	2013	2012
Interest expense on bank overdrafts and borrowings	26,360	28,600	147,741
Interest expense on debentures	247,972	258,962	209,545
Interest on finance lease liabilities	504	1,333	2,621
Others	49,074	42,939	52,472
	323,910	331,834	412,379

(4) Finance income and costs by categories of financial instruments for the years ended December 31, 2014, 2013 and 2012 are as follows. Bad debt expenses (reversal of allowance for doubtful accounts) for accounts receivable trade, loans and receivables are excluded and are explained in Note 7.

**(i) Finance income**

*(In millions of won)*

	2014	2013	2012
<b>Financial Assets:</b>			
Financial assets at fair value through profit or loss	8,713	5,177	
Available-for-sale financial assets	32,227	23,311	317,915
Loans and receivables	57,685	62,211	90,177
Derivative financial instruments designated as hedged item	7,998	7,716	26,103
	106,623	98,415	434,195
<b>Financial Liabilities:</b>			
Financial liabilities measured at amortized cost	19,714	14,977	10,363
	19,714	14,977	10,363
	126,337	113,392	444,558

**(ii) Finance costs**

*(In millions of won)*

	2014	2013	2012
<b>Financial Assets:</b>			
Financial assets at fair value through profit or loss	1,361	276	1,262

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Available-for-sale financial assets	27,227	83,967	201,423
Loans and receivables	18,182	16,479	1,789
Derivative financial instruments designated as hedged item	672	1,830	1,516
	47,442	102,552	205,990
<b>Financial Liabilities:</b>			
Financial liabilities at fair value through profit or loss	10,370	134,232	7,793
Financial liabilities measured at amortized cost	328,861	334,419	424,502
	339,231	468,651	432,295
	386,673	571,203	638,285

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****(iii) Other comprehensive income***(In millions of won)*

	2014	2013	2012
<b>Financial Assets:</b>			
Available-for-sale financial assets	26,856	2,009	(149,082)
Derivative financial instruments designated as hedged item	(20,301)	12,240	(23,527)
	6,555	14,249	(172,609)
<b>Financial Liabilities:</b>			
Derivative financial instruments designated as hedged item	(21,801)	(1,018)	166
	(21,801)	(1,018)	166
	(15,246)	13,231	(172,443)

(5) Details of impairment losses for financial assets for the years ended December 31, 2014, 2013 and 2012 are as follows.

*(In millions of won)*

	2014	2013	2012
Available-for-sale financial assets(*)	24,533	52,058	190,620
Bad debt for accounts receivable trade	45,754	53,344	52,393
Bad debt for accounts receivable other	17,943	22,167	30,107
	88,230	127,569	273,120

(\*) This is included in other finance costs (See Note 30-(1)).

**31. Income Tax Expense for Continuing Operations**

(1) Income tax expenses for continuing operations for the years ended December 31, 2014, 2013 and 2012 consist of the following:

*(In millions of won)*

2014	2013	2012
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<b>Current tax expense</b>			
Current tax payable	181,273	145,457	200,836
Adjustments recognized in the period for current tax of prior periods	(19,938)	(16,696)	(69,634)
	161,335	128,761	131,202
<b>Deferred tax expense</b>			
Changes in net deferred tax assets	276,049	266,601	103,480
Tax directly charged to equity	16,929	(3,584)	50,053
Changes in scope of consolidation		8,919	(3,611)
Others	195	100	7,083
	293,173	272,036	157,005
<b>Income tax for continuing operation</b>	<b>454,508</b>	<b>400,797</b>	<b>288,207</b>

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

- (2) The difference between income taxes computed using the statutory corporate income tax rates and the actual income tax expense from continuing operations for the years ended December 31, 2014, 2013 and 2012 is attributable to the following:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Income taxes at statutory income tax rate	544,964	441,697	367,661
Non-taxable income	(32,277)	(35,632)	(5,039)
Non-deductible expenses	61,580	74,311	19,410
Tax credit and tax reduction	(33,581)	(37,893)	(72,947)
Changes in unrealizable deferred taxes	(43,820)	(13,285)	5,723
Additional income tax refund for prior periods	(44,459)	(23,162)	(32,071)
Deferred tax effect from statutory tax rate change for future periods	2,101	(5,239)	5,470
Income tax for continuing operation	454,508	400,797	288,207

- (3) Deferred taxes directly charged to (credited to) equity for the years ended December 31, 2014, 2013 and 2012 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net change in fair value of available-for-sale financial assets	(4,089)	(1,281)	47,041
Share of other comprehensive income of associates	(72)	1,673	(5,997)
Gain or loss on valuation of derivatives	12,188	(3,265)	4,562
Remeasurement of defined benefit liabilities	8,902	(466)	4,447
Loss on disposal of treasury stock		(245)	
	16,929	(3,584)	50,053

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(4) Details of changes in deferred tax assets (liabilities) for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	Beginning	Deferred tax expense (benefit)	2014 Directly added to (deducted from) equity	Other	Ending
Deferred tax assets (liabilities) related to temporary differences					
Allowance for doubtful accounts	56,427	(2,700)		(149)	53,578
Accrued interest income	(2,831)	381			(2,450)
Available-for-sale financial assets	(589)	(146)	(4,089)		(4,824)
Investments in subsidiaries and associates	(44,844)	(165,663)	(72)	(464)	(211,043)
Property and equipment (depreciation)	(333,633)	(38,690)		(9)	(372,332)
Provisions	14,303	(6,699)		(17)	7,587
Retirement benefit obligation	16,089	2,390	8,902	(20)	27,361
Gain or loss on valuation of derivatives	12,779	2	12,188		24,969
Gain or loss on foreign currency translation	19,572	(248)			19,324
Tax free reserve for research and manpower development	(40,011)	32,849			(7,162)
Goodwill relevant to leased line	31,025	(26,592)			4,433
Unearned revenue (activation fees)	53,412	(27,435)			25,977
Others	44,738	(61,274)		854	(15,682)
	(173,563)	(293,825)	16,929	195	(450,264)
Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards					
Tax loss carryforwards	31,060	652			31,712
Tax credit carryforwards					
	31,060	652			31,712
	(142,503)	(293,173)	16,929	195	(418,552)

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	Beginning	Changes in scope of consolidation	2013 Deferred tax expense (benefit)	Directly added to (deducted from) equity	Other	Ending
Deferred tax assets (liabilities) related to temporary differences						
Allowance for doubtful accounts	51,972	(2,323)	6,773		5	56,427
Accrued interest income	(1,782)	(756)	(293)			(2,831)
Available-for-sale financial assets	13,419	(45)	(12,682)	(1,281)		(589)
Investments in subsidiaries and associates	66,969	51	(113,541)	1,673	4	(44,844)
Property and equipment (depreciation)	(272,940)	4,940	(65,633)			(333,633)
Provisions	86,567	206	(72,470)			14,303
Retirement benefit obligation	16,849	151	(445)	(466)		16,089
Gain or loss on valuation of derivatives	15,894		150	(3,265)		12,779
Gain or loss on foreign currency translation	19,652		(80)			19,572
Tax free reserve for research and manpower development	(31,093)		(8,918)			(40,011)
Goodwill relevant to leased line	68,675		(37,650)			31,025
Unearned revenue (activation fees)	97,110		(43,698)			53,412
Others	(23,804)	(11,654)	80,350	(245)	91	44,738
	107,488	(9,430)	(268,137)	(3,584)	100	(173,563)
Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards						
Tax loss carryforwards	16,609	18,350	(3,899)			31,060
Tax credit carryforwards	1	(1)				
	16,610	18,349	(3,899)			31,060
	124,098	8,919	(272,036)	(3,584)	100	(142,503)

(5) Details of temporary differences, unused tax loss carryforwards and unused tax credits carryforwards for which no deferred tax assets were recognized, as the Group does not believe it is probable that the deferred tax assets will be realizable in the future, in the consolidated statements of financial position as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	December 31, 2014	December 31, 2013
Allowance for doubtful accounts	155,634	152,341
Investments in subsidiaries and associates	422,033	719,974
Other temporary differences	314,188	221,264
Unused tax loss carryforwards	729,570	669,890
Unused tax credit carryforwards	2,438	
	1,623,863	1,763,469



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

- (6) The expirations of unused tax loss carryforwards and unused tax credit carryforwards which are not recognized as deferred tax assets as of December 31, 2014 are as follows:

(In millions of won)

	Unused tax loss carryforwards	Unused tax credit carryforwards
Less than 1 year	1,087	270
1 ~ 2 years	4,894	1,041
2 ~ 3 years		155
More than 3 years	723,589	972
	729,570	2,438

**32. Earnings per Share****(1) Basic earnings per share**

- 1) Basic earnings per share for the years ended December 31, 2014, 2013 and 2012 are calculated as follows:

(In millions of won, shares)

	2014	2013	2012
<b>Basic earnings per share attributable to owners of the Parent Company from continuing operation:</b>			
Profit attributable to owners of the Parent Company from continuing operations	1,801,178	1,463,097	1,255,526
Interest on hybrid bonds	(16,840)	(8,420)	
Profit attributable to owners of the Parent Company from continuing operations on common shares	1,784,338	1,454,677	1,255,526
Weighted average number of common shares outstanding	70,936,336	70,247,592	69,694,999
Basic earnings per share from continuing operations (In won)	25,154	20,708	18,015
<b>Basic earnings per share attributable to owners of the Parent Company:</b>			
Profit attributable to owners of the Parent Company	1,801,178	1,638,964	1,151,705
Interest on hybrid bond	(16,840)	(8,420)	
Profit attributable to owners of the Parent Company on common shares	1,784,338	1,630,544	1,151,705
Weighted average number of common shares outstanding	70,936,336	70,247,592	69,694,999
Basic earnings per share (In won)	25,154	23,211	16,525

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- 2) Profit attributable to owners of the Parent Company from continuing operation for the years ended December 31, 2014, 2013 and 2012 are calculated as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Profit attributable to owners of the Parent Company	1,801,178	1,638,964	1,151,705
Results of discontinued operation attributable to owners of the Parent Company		(175,867)	103,821
Profit attributable to owners of the Parent Company from continuing operation	1,801,178	1,463,097	1,255,526

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- 3) The weighted average number of common shares outstanding for the years ended December 31, 2014, 2013 and 2012 are calculated as follows:

(In shares)

	2014	2013	2012
Outstanding common shares	80,745,711	80,745,711	80,745,711
Weighted number of treasury stocks	(9,809,375)	(10,498,119)	(11,050,712)
Weighted average number of common shares outstanding	70,936,336	70,247,592	69,694,999

**(2) Diluted earnings per share**

- 1) Diluted earnings per share for the years ended December 31, 2014, 2013 and 2012 are calculated as follows:

(In millions of won, shares)

	2014	2013	2012
<b>Diluted earnings per share from continuing operations:</b>			
Profit attributable to owners of the Parent Company from continuing operations on common shares	1,801,178	1,454,677	1,255,526
Gain relating to exchangeable bonds(*)			10,799
Diluted profit attributable to owners of the Parent Company from continuing operations on common shares		1,454,677	1,266,325
Weighted average number of common shares outstanding	70,936,336	70,247,592	72,021,148
Diluted earnings per share from continuing operations (In won)	25,154	20,708	17,583
<b>Diluted earnings per share:</b>			
Diluted profit attributable to owners of the Parent Company	1,784,338	1,630,544	1,151,705
Gain relating to exchangeable bonds(*)			10,799
Diluted profit attributable to owners of the Parent Company on common shares	1,784,338	1,630,544	1,162,504
Weighted average number of common shares outstanding	70,936,336	70,247,592	72,021,148
Diluted earnings per share (In won)	25,154	23,211	16,141

(\*) For the year ended December 31, 2014, there were no potentially dilutive shares. The number of common shares outstanding in respect of the exchangeable common shares of exchangeable bonds is excluded from the diluted earnings per share calculation for the year ended December 31, 2013 as effect would have been anti-dilutive (diluted shares of 688,744). Therefore, diluted earnings per share for the years ended December 31, 2014 and 2013 are the same as basic earnings per share.



2) Adjusted weighted average number of common shares outstanding for the years ended December 31, 2014, 2013 and 2012 are calculated as follows:

*(In shares)*

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Weighted average number of common shares outstanding	70,247,592	70,247,592	69,694,999
Effect of exchangeable bonds(*)			2,326,149
Adjusted weighted average number of common shares outstanding	70,247,592	70,247,592	72,021,148

(\*) Effect of exchangeable bonds represents weighted average number of common shares outstanding in respect of the exchangeable common shares of exchangeable bonds, which could be exchanged to treasury stock.

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## (3) Basic earnings (loss) per share from discontinued operation

*(In millions of won, shares)*

	2014	2013	2012
Results of discontinued operation attributable to owners of the Parent Company		175,867	(103,821)
Weighted average number of common shares outstanding	70,936,336	70,247,592	69,694,999
Basic earnings (loss) per share (In won)		2,503	(1,490)

Diluted earnings (loss) per share from discontinued operation is the same as basic loss per share from discontinued operation.

**33. Dividends****(1) Details of dividends declared**

Details of dividend declared for the years ended December 31, 2014, 2013 and 2012 are as follows:

*(In millions of won, except for face value and share data)*

Year	Dividend type	Number of shares outstanding	Face value (In won)	Dividend ratio	Dividends
2014	Cash dividends (Interim)	70,936,336	500	200%	70,937
	Cash dividends (Year-end)	70,936,336	500	1,680%	595,865
					666,802
2013	Cash dividends (Interim)	70,508,482	500	200%	70,508
	Cash dividends (Year-end)	70,936,336	500	1,680%	595,865
					666,373
2012	Cash dividends (Interim)	69,694,999	500	200%	69,695
	Cash dividends (Year-end)	69,694,999	500	1,680%	585,438
					655,133

**(2) Dividends payout ratio**

Dividends payout ratios for the years ended December 31, 2014, 2013 and 2012 are as follows:

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(In millions of won)

Year	Dividends calculated	Profit	Dividends payout ratio
2014	666,802	1,801,178	37.02%
2013	666,373	1,638,964	40.66%
2012	655,133	1,151,705	56.88%

**(3) Dividends yield ratio**

Dividends yield ratios for the years ended December 31, 2014, 2013 and 2012 are as follows:

(In won)

Year	Dividend type	Dividend per share	Closing price at settlement	Dividend yield ratio
2014	Cash dividend	9,400	268,000	3.51%
2013	Cash dividend	9,400	230,000	4.09%
2012	Cash dividend	9,400	152,500	6.16%

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****34. Categories of Financial Instruments**

(1) Financial assets by categories as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	Financial assets at fair value through profit or loss	Available- for-sale financial assets	December 31, 2014		Total
			Loans and receivables	Derivative financial instruments designated as hedged item	
Cash and cash equivalents			834,429		834,429
Financial instruments			313,699		313,699
Short-term investment securities		280,161			280,161
Long-term investment securities(*1)	7,817	948,463			956,280
Accounts receivable trade			2,460,686		2,460,686
Loans and other receivables(*2)			1,123,507		1,123,507
Derivative financial assets	8,713			61,322	70,035
	16,530	1,228,624	4,732,321	61,322	6,038,797

(In millions of won)

	Financial assets at fair value through profit or loss	Available- for-sale financial assets	December 31, 2013		Total
			Loans and receivables	Derivative financial instruments designated as hedged item	
Cash and cash equivalents			1,398,639		1,398,639
Financial instruments			319,616		319,616
Short-term investment securities		106,068			106,068
Long-term investment securities(*1)	20,532	947,995			968,527
Accounts receivable trade			2,270,471		2,270,471
Loans and other receivables(*2)			1,044,529		1,044,529
Derivative financial assets(*3)	10			41,712	41,722
	20,542	1,054,063	5,033,255	41,712	6,149,572

(\*1) Long-term investment securities were designated as financial assets at fair value through profit or loss since the embedded derivative (conversion right option), which should be separated from the host contract, could not be separately measured.

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(\*2) Details of loans and other receivables as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014	December 31, 2013
Short-term loans	74,512	79,395
Accounts receivable other	690,527	643,603
Accrued income	10,134	11,941
Other current assets	3,866	2,548
Long-term loans	55,728	57,442
Long-term accounts receivable other	3,596	
Guarantee deposits	285,144	249,600
	1,123,507	1,044,529

(\*3) Derivative financial assets classified as financial assets at fair value through profit or loss is the fair value of conversion right of convertible bonds held by SK Communications Co., Ltd., a subsidiary of the Parent Company.

(2) Financial liabilities by categories as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014			Total
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative financial instruments designated as hedged item	
Accounts payable trade		275,495		275,495
Derivative financial liabilities			130,889	130,889
Borrowings		537,562		537,562
Debentures(*1)	110,365	6,108,265		6,218,630
Accounts payable other and others(*3)		3,241,615		3,241,615
	110,365	10,162,937	130,889	10,404,191

(In millions of won)

	December 31, 2013			Total
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative financial instruments designated as hedged item	

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Accounts payable	trade		214,716		214,716
Derivative financial liabilities				124,339	124,339
Borrowings			386,192		386,192
Debentures(*2)		96,147	5,830,324		5,927,471
Accounts payable	other and others(*3)		3,949,794		3,949,794
		96,147	10,381,026	124,339	10,601,512

(\*1) Bonds classified as financial liabilities at fair value through profit or loss as of December 31, 2014 are structured bonds and they were designated as financial liabilities at fair value through profit or loss in order to settle the difference of the measurement bases of accounting profit or loss between the related derivatives and bonds.

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(\*2) The entire amount of debentures as of December 31, 2013 was designated as financial liabilities at fair value through profit or loss as the fair value of the embedded derivative (conversion right option), which should be separated from the main contract, could not be separately measured.

(\*3) Details of accounts payable other and other payables as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Accounts payable other	1,381,850	1,864,024
Withholdings	1,760	1,549
Accrued expenses	952,418	988,193
Current installments of long-term payables other	193,193	226,151
Long-term payables other	684,567	838,585
Finance lease liabilities	26	3,867
Other non-current liabilities	27,801	27,425
	<b>3,241,615</b>	<b>3,949,794</b>

**35. Financial Risk Management****(1) Financial risk management**

The Group is exposed to credit risk, liquidity risk and market risk. Market risk is the risk related to the changes in market prices, such as foreign exchange rates, interest rates and equity prices. The Group implements a risk management system to monitor and manage these specific risks.

The Group's financial assets under financial risk management consist of cash and cash equivalents, financial instruments, available-for-sale financial assets, trade and other receivables. Financial liabilities consist of trade and other payables, borrowings, and debentures.

**1) Market risk****(i) Currency risk**

The Group is exposed to currency risk mainly on exchange fluctuations on recognized assets and liabilities. The Group manages currency risk by currency forward, etc. if needed to hedge currency risk on business transactions. Currency risk occurs on forecasted transaction and recognized assets and liabilities which are denominated in a currency other than the functional currency of the Group.

Monetary foreign currency assets and liabilities as of December 31, 2014 are as follows:



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*(In millions of won, thousands of U.S. dollars, thousands of Euros, thousands of Japanese Yen, thousands of other currencies)*

	Assets		Liabilities	
	Foreign currencies	Won translation	Foreign currencies	Won translation
USD	162,382	178,323	1,877,566	2,063,802
EUR	5,259	7,059	2,352	3,143
JPY	29,184	268	5,174	48
AUD	79	66		
CHF			298,536	268,411
SGD			298,956	332,269
Others	161,777	11,656	43,656	1,227
		197,372		2,668,900

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In addition, the Group has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures. (See Note 23)

As of December 31, 2014, effects on income (loss) before income tax as a result of change in exchange rate by 10% are as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	5,913	(5,913)
EUR	356	(356)
JPY	22	(22)
Others	1,050	(1,050)
	7,341	(7,341)

**(ii) Equity price risk**

The Group has equity securities which include listed and non-listed securities for its liquidity and operating purpose. As of December 31, 2014, available-for-sale equity instruments measured at fair value amount to 846,614 million.

**(iii) Interest rate risk**

Since the Group's interest bearing assets are mostly fixed-interest bearing assets, as such, the Group's revenue and operating cash flow are not influenced by the changes in market interest rates. However, the Group still has interest rate risk arising from borrowings and debentures.

Accordingly, the Group performs various analysis of interest rate risk, which includes refinancing, renewal, alternative financing and hedging instrument option, to reduce interest rate risk and to optimize its financing.

The interest rate risk arises from the Group's floating-rate borrowings and bonds agreements. As of the year ended December 31, 2014, the floating-rate borrowings and bonds are 49,800 million and 329,760 million, respectively, and the Group has entered into interest rate swap agreements, as described in Note 23, for all floating-rate bonds to hedge the interest rate risk of floating-rate bonds. On the other hand, if the interest rate increases (decreases) 1% with all other variables held constant, income before income taxes as of the end of December 31, 2014, fluctuates as much as 498 million due to the interest expense on floating-rate borrowings that have not entered into an interest rate swap agreement.

**2) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations. The maximum credit exposure as of December 31, 2014 and 2013 are as follows:

(In millions of won)

**2014**                      **2013**

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Cash and cash equivalents	833,129	1,398,548
Financial instruments	313,699	319,616
Available-for-sale financial assets	15,498	35,174
Accounts receivable trade	2,460,686	2,270,471
Loans and receivables	1,123,507	1,044,529
Derivative financial assets	70,035	41,712
Financial assets at fair value through profit or loss	7,817	20,532
	4,824,371	5,130,582

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To manage credit risk, the Group evaluates the credit worthiness of each customer or counterparty considering the party's financial information, its own trading records and other factors; based on such information, the Group establishes credit limits for each customer or counterparty.

For the year ended December 31, 2014, the Group has no trade and other receivables or loans which have indications of significant impairment loss or are overdue for a prolonged period. As a result, the Group believes that the possibility of default is remote. Also, the Group's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Group has a policy to deal with high credit worthy financial institutions. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets as of December 31, 2014.

In addition, the aging of trade and other receivables that are overdue at the end of the reporting period but not impaired is stated in Note 7 and the analysis of financial assets that are individually determined to be impaired at the end of the reporting period is stated in Note 30.

## 3) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will always maintain sufficient cash and cash equivalents balances and have enough liquidity through various committed credit lines. The Group manages liquidity risks by maintaining credit lines in case of insufficient liquidity generated by operating activities.

Contractual maturities of financial liabilities as of December 31, 2014 are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Accounts payable - trade	275,495	275,495	275,494		
Borrowings(*1)	537,562	555,407	386,814	129,047	39,546
Debentures(*1)	6,218,630	7,516,339	770,663	4,082,384	2,663,292
Accounts payable - other and others(*2)	3,241,615	3,271,633	2,421,297	598,447	251,889
	10,273,302	11,618,874	3,854,268	4,809,878	2,954,727

The Group does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at different amounts.

(\*1) Includes estimated interest to be paid and excludes discounts on borrowings and debentures.

(\*2) Excludes discounts on accounts payable-other and others.

As of December 31, 2014, periods which cash flows from cash flow hedge derivatives is expected to be incurred are as follows:

(In millions of won)

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>More than 5 years</b>
Assets	61,322	64,440	6,288	42,448	15,704
Liabilities	(130,889)	(137,344)	(15,145)	(121,463)	(736)
	(69,567)	(72,904)	(8,857)	(79,015)	14,968

(2) Capital management

The Group manages its capital to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity balance. The overall strategy of the Group is the same as that of the Group as of and for the year ended December 31, 2013.

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The Group monitors its debt-equity ratio as a capital management indicator. This ratio is calculated as total amount of liabilities divided by total amount of equity which are extracted from the financial statements.

Debt-equity ratio as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	December 31, 2014	December 31, 2013
Liabilities	12,692,963	12,409,958
Equity	15,248,270	14,166,557
Debt-equity ratio	83.24%	87.60%

**(3) Fair value**

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2014 are as follows:

(In millions of won)

	Carrying amount	Level 1	Level 2	Level 3	Total
<b>Financial assets that can be measured at fair value</b>					
Financial assets at fair value through profit or loss	16,530		8,713	7,817	16,530
Derivative financial assets	61,322		61,322		61,322
Available-for-sale financial assets	846,614	657,286	47,002	142,326	846,614
	924,466	657,286	117,037	150,143	924,466

**Financial assets that cannot be measured at fair value**

Cash and cash equivalents(*1)	834,429
Available-for-sale financial assets(*1,2)	382,010
Accounts receivable trade and others(*1)	3,584,193
Financial instruments(*1)	313,699
	5,114,331

**Financial liabilities that can be measured at fair value**

Financial liabilities at fair value through profit or loss	110,365	110,365	110,365
Derivative financial liabilities	130,889	130,889	130,889
	241,254	241,254	241,254

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**Financial liabilities that cannot be measured at fair value**

Accounts payable	trade(*1)	275,495		
Borrowings		537,562	549,083	540,083
Debentures		6,108,265	6,514,832	6,514,832
Accounts payable	other and others(*1)	3,241,615		
		10,162,937	7,063,915	7,063,915

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2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2013 are as follows:

(In millions of won)

	Carrying amount	Level 1	Level 2	Level 3	Total
<b>Financial assets that can be measured at fair value</b>					
Financial assets at fair value through profit or loss	20,542		20,532	10	20,542
Derivative financial assets	41,712		41,712		41,712
Available-for-sale financial assets	839,647	638,445	46,414	154,788	839,647
	901,901	638,445	108,658	154,798	901,901
<b>Financial assets that cannot be measured at fair value</b>					
Cash and cash equivalents(*1)	1,398,639				
Available-for-sale financial assets(*1,2)	214,416				
Accounts receivable trade and others(*1)	3,314,999				
Financial instruments(*1)	319,616				
	5,247,670				
<b>Financial liabilities that can be measured at fair value</b>					
Financial liabilities at fair value through profit or loss	96,147	96,147			96,147
Derivative financial liabilities	124,339		124,339		124,339
	220,486	96,147	124,339		220,486
<b>Financial liabilities that cannot be measured at fair value</b>					
Accounts payable trade(*1)	214,716				
Borrowings	386,192		399,247		399,247
Debentures	5,830,324		5,946,586		5,946,586
Accounts payable other and others(*1)	3,949,794				
	10,381,026		6,345,833		6,345,833

(\*1) Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are closed to the reasonable approximate fair values.

(\*2) Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with IAS 39 as such equity instruments cannot be reliably measured using other methods.



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Fair value of the financial instruments that are traded in an active market (available-for-sale financial assets, financial liabilities at fair value through profit or loss, etc.) is measured based on the bid price at the end of the reporting date.

The management uses various valuation methods for valuation of fair value of financial instruments that are not traded in an active market. Fair value of available-for-sale securities is determined using the market approach methods and financial assets through profit or loss are measured using the option pricing model. In addition, derivative financial contracts and long-term liabilities are measured using the present value methods. Inputs used to such valuation methods include swap rate, interest rate, and risk premium, and the Group performs valuation using the inputs which are consistent with natures of assets and liabilities being evaluated.

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Fair values of accounts receivable trade, and accounts payable trade are considered to be carrying amount less impairment and fair value of financial liabilities for the disclosure purpose is estimated by discounting contractual future cash flows using the current market interest rate used for the similar financial instruments by the Group.

Interest rates used by the Group for the fair value measurement as of December 31, 2014 are as follows:

Derivative instruments	Interest rate 1.90% ~ 2.40%
Borrowings and debentures	2.55% ~ 2.68%

- 3) There have been no transfers from Level 2 to Level 1 in 2014 and changes of financial assets classified as Level 3 for the year ended December 31, 2014 are as follows:

(In millions of won)

	Balance at Jan. 1	Acquisition	Gain for the period	Other comprehensive loss	Disposal	Balance at Dec. 31
Financial assets at fair value through profit or loss	9	5,000	2,817		(10)	7,817
Available-for-sale financial assets	154,789	34,611		(2,339)	(44,734)	142,326

- (4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2014 are as follows:

(In millions of won)

	Gross financial instruments recognized	Gross offset financial instruments recognized	Net financial instruments presented on the statements of financial position	Relevant amount not offset on the statements of financial position Financial instruments	Cash collaterals received	Net amount
<b>Financial assets:</b>						
Derivatives(*)	48,057		48,057	(45,892)		2,165
Accounts receivable trade and other	128,794	(117,568)	11,226			11,226
	176,851	(117,568)	59,283	(45,892)		13,391
<b>Financial liabilities:</b>						
Derivatives(*)	45,892		45,892	(45,892)		
Accounts payable trade and other	117,568	(117,568)				

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163,460	(117,568)	45,892	(45,892)
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Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2013 are as follows:

(In millions of won)

	Gross financial instruments recognized	Gross offset financial instruments recognized	Net financial instruments presented on the statements of financial position	Relevant amount not offset on the statements of financial position Financial instruments	Cash collaterals received	Net amount
<b>Financial assets:</b>						
Derivatives(*)	28,870		28,870	(28,870)		
Accounts receivable trade and others	138,897	(127,055)	11,842			11,842
	167,767	(127,055)	40,712	(28,870)		11,842
<b>Financial liabilities:</b>						
Derivatives(*)	43,536		43,536	(28,870)		14,666
Accounts payable others	127,055	(127,055)				
	170,591	(127,055)	43,536	(28,870)		14,666

(\*) The Group entered into derivative contracts which include enforceable master netting arrangement in accordance with International Swap and Derivatives Association (ISDA). Generally, all contracts made with the identical currencies are settled from one party to another by combining one net amount. In this case, all contracts are liquidated and paid off at net amount by evaluating liquidation value if credit events such as bankruptcy occur.

ISDA agreements do not allow the Group to exercise rights of set-off unless credit events such as bankruptcy occur. Therefore, assets and liabilities recognized in accordance with the agreements cannot be offset as the Group does not have enforceable rights of set-off.

**36. Transactions with Related Parties****(1) List of related parties**

Relationship	Company
Ultimate Controlling Entity	SK Holding Co., Ltd.
Subsidiaries	SK Planet Co., Ltd. and 39 others (See Note 1)

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Joint venture  
Associates  
Affiliates

Dogus Planet, Inc. and 4 others  
SK hynix Inc. and 59 others  
The Ultimate Controlling Entity's investee under equity method, the Ultimate Controlling Entity's subsidiaries and associates, etc.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****(2) Compensation for the key management**

The Parent Company considers registered directors who have substantial role and responsibility in planning, operating, and controlling of the business as key management. The compensation given to such key management for the years ended December 31, 2014, 2013 and 2012 are as follows:

(In millions of won)

	2014	2013	2012
Salaries	2,600	2,263	8,893
Provision for retirement benefits	907	1,012	799
	3,507	3,275	9,692

Compensation for the key management includes salaries, non-monetary salaries and contributions made in relation to the pension plan.

**(3) Transactions with related parties for the years ended December 31, 2014, 2013 and 2012 are as follows:**

(In millions of won)

Scope	Company	Operating revenue and others	Operating expense and others	2014		
				Acquisition of property and equipment	Loans	Loans collection
Ultimate Controlling Entity	SK Holding Co., Ltd.(*1)	530	226,772			
Associates	F&U Credit information Co., Ltd.	2,395	45,417			
	HappyNarae Co., Ltd.	253	6,492	10,418		
	SK hynix Inc.	12,964	3,391			
	SK USA, Inc.		2,153			
	SK Wyverns Baseball Club., Ltd.	901	22,402			204
	KEB HanaCard Co., Ltd.(*2)	39,828	5,416			
	Others	5,852	15,150		45	
		62,193	100,421	10,418	45	204
Other	SK Engineering & Construction Co., Ltd.	3,385	42,964	460,783		
	SK C&C Co., Ltd.	18,309	360,842	168,778		
	SK Networks Co., Ltd.	16,230	1,509,017	5,388		
	SK Networks Services Co., Ltd.	13,017	106,273	2,583		
	SK Telesys Co., Ltd.	494	64,038	205,538		
	SK Energy Co., Ltd.	22,650	944			
	SK Gas Co., Ltd.	10,115				

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Others	25,537	38,868	12,628		
	109,737	2,122,946	855,698		
Total	172,460	2,450,139	866,116	45	204

(\*1) Operating expense and others include 191,416 million of dividends paid by the Parent Company.

(\*2) During the year ended December 31, 2014, due to merger between Hana SK Card Co., Ltd., the Parent Company's associate and KEB Card Co., Ltd., the Group exchanged 57,647,058 shares of Hana SK Card Co., Ltd., with 67,627,587 shares of the surviving company, KEB HanaCard Co., Ltd. (See Note 13-(1)).

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012***(In millions of won)*

Scope	Company	Operating revenue and others	Operating expense and others	2013		
				Acquisition of property and equipment	Loans	Loans collection
Ultimate Controlling Entity	SK Holding Co., Ltd.(*)	1,912	226,023			
Associates	F&U Credit information Co., Ltd.	1,753	43,931			
	HappyNarae Co., Ltd.	281	6,217	10,542		
	SK hynix Inc.	3,178	1,160			
	SK USA, Inc.		2,086			
	SK Wyverns Baseball Club., Ltd.	363				204
	HanaSK Card Co., Ltd.	11,129	14,342			
	Others	3,171	3,734	125	1,200	
		19,875	71,470	10,667	1,200	204
Other	SK Engineering & Construction Co., Ltd.	5,564	37,978	484,006		
	SK C&C Co., Ltd.	4,041	357,945	206,298		
	SK Networks Co., Ltd.	51,996	1,463,341	6,241		
	SK Networks Services Co., Ltd.	6,165	108,972	3,057		
	SK Telesys Co., Ltd.	1,554	99,381	234,319		
	SK Energy Co., Ltd.	20,831	2,422			
	SK Gas Co., Ltd.	6,656				
	Others	30,905	43,759	11,724		
		127,712	2,113,798	945,645		
Total		149,499	2,411,291	956,312	1,200	204

(\*) Operating expense and others include 191,416 million of dividends paid by the Parent Company.

*(In millions of won)*

Scope	Company	Operating revenue and others	2012	
			Operating expense and others	Acquisition of property and equipment
Controlling Entity	SK Holding Co., Ltd.(*1)	1,339	224,667	
Associates	F&U Credit information Co., Ltd.	1,516	49,518	
	SK M&C	11,874	155,397	9,051
	HanaSK Card Co., Ltd.(*2)	672,202	201,533	66
	Others	743	96,971	11,374



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		686,335	503,419	20,491
Other	SK C&C Co., Ltd.	4,441	324,171	304,102
	SK Engineering & Construction Co., Ltd.	5,384	55,007	687,059
	SK Networks Co., Ltd.	20,477	1,747,130	8,048
	Others	40,251	246,218	300,410
		70,553	2,372,526	1,299,619
Total		758,227	3,100,612	1,320,110

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(\*1) Operating expense and others include 171,053 million of dividends paid by the Group.

(\*2) Operating revenue include discounts on accounts receivable related to sales of handsets on installment payment plans of PS&Marketing Corporation.

(4) Account balances as of December 31, 2014 and 2013 are as follows:

(In millions of won)

Scope	Company	Loans	2014		
			Accounts receivable receivable-trade, and others	Accounts payable payable-trade, and others	
Ultimate Controlling Entity	SK Holding Co., Ltd.		90		
Associates	HappyNarae Co., Ltd.		13	2,650	
	F&U Credit information Co., Ltd.		148	797	
	SK hynix Inc.		2,800	2,840	
	SK Wyverns Baseball Club Co., Ltd.	1,221			
	Wave City Development Co., Ltd.	1,200	38,412		
	Daehan Kanggun BcN Co., Ltd.	22,148			
	KEB HanaCard Co., Ltd.		1,998	59	
	Others		543	1,285	
			24,569	43,914	7,631
	Other	SK Engineering & Construction Co., Ltd.		897	27,282
SK C&C Co., Ltd.			1,393	121,145	
SK Networks. Co., Ltd.			2,608	238,351	
SK Networks Services Co., Ltd.			16	2,922	
SK Telesys Co., Ltd.			321	3,037	
SK innovation co., ltd.			1,641	271	
SK Energy Co., Ltd.			4,781	79	
SK Gas Co., Ltd.			2,143	47	
Others		2,813	9,342		
			16,613	402,476	

Total	24,569	60,617	410,107
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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012***(In millions of won)*

Scope	Company	2013		
		Loans	Accounts receivable Accounts receivable-trade, and others	Accounts payable Accounts payable -trade, and others
Ultimate Controlling Entity	SK Holding Co., Ltd.		334	
Associates	HappyNarae Co., Ltd.		27	16,317
	F&U Credit information Co., Ltd.		258	585
	SK hynix Inc.		392	
	SK Wyverns Baseball Club Co., Ltd.	1,425		
	Wave City Development Co., Ltd.	1,200	38,412	
	Daehan Kanggun BeN Co., Ltd.	22,102		
	SK USA, Inc.			436
	HanaSK Card Co., Ltd.		3,723	468
	Others		10	947
			24,727	42,822
Other	SK Engineering & Construction Co., Ltd.		988	92,058
	SK C&C Co., Ltd.		182	127,571
	SK Networks Co., Ltd.		5,930	118,759
	SK Networks Services Co., Ltd.		3	5,048
	SK Telesys Co., Ltd.		412	70,467
	SK innovation co., ltd.		1,480	286
	SK Energy Co., Ltd.		5,457	7,438
	SK Gas Co., Ltd.		1,469	47
	Others		3,223	31,592
			19,144	453,266
Total		24,727	62,300	472,019

(5) As of December 31, 2014, there are no collateral and guarantee provided by the Group to related parties nor by related parties to the Group.

(6) M&Service Co., Ltd., a subsidiary of the Parent Company, entered into performance agreement with SK Energy Co., Ltd. and provides a blank note to SK Energy Co., Ltd., with regard to this transaction.

(7) There were additional investments in associates and joint ventures during the year ended December 31, 2014 (See Note 13).

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- (8) For the year ended December 31, 2014, the Group acquired convertible bonds with a face value of 6,000 million from Health Connect Co., Ltd. at the face value. The convertible bonds are included in long-term investment securities.

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**SK TELECOM CO., LTD. and Subsidiaries**

**Notes to the Consolidated Financial Statements (Continued)**

**For the years ended December 31, 2014, 2013 and 2012**

**37. Commitments and Legal Claims and Litigations**

***(1) Collateral assets and commitments***

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases on buildings in the amount of 14,230 million as of December 31, 2014.

SK Broadband Co., Ltd., has guaranteed for employees' borrowings relating to employee stock ownership and provided short-term financial instruments amounting to 2,071 million as collateral as of December 31, 2014.

In addition, Neosnetworks Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for facility funds borrowings in the amount of 2,071 million as of December 31, 2014.

***(2) Legal claims and litigations***

As of December 31, 2014, the Group is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. For those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation for these matters, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

***(3) Guarantee provided***

PS&Marketing Corporation, a subsidiary of the Parent Company, obtained 3,000 million of payment guarantees related to handsets purchased from the Apple Computer Korea Ltd.

**38. Discontinued Operations**

***(1) Discontinued operations***

During the year ended December 31, 2013, SK Planet Co., Ltd., a subsidiary of the Parent Company, sold 52.6% of its ownership interests (13,294,369 shares) in Loen Entertainment, Inc., to Star Invest Holdings Limited. Consideration for the sale amounted to 265,887 million. Loen Entertainment was a subsidiary of SK Planet Co., Ltd. and is engaged in the release of music discs as its primary business. The Group's ownership interests after the disposition is 15.0% and Loen Entertainment, Inc. was excluded from the Group's consolidated financial statements as of the date of the sale. The results of operations of Loen Entertainment, Inc. prior to the date of disposal of the Group's controlling interest is presented as a discontinued operation. The comparative information in the consolidated financial statements for the years ended December 31, 2012 has been restated to present Loen Entertainment, Inc. as a discontinued operation.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****(2) Results of discontinued operations**

Results of discontinued operations included in the consolidated statements of income for the years ended December 31, 2013 and 2012 are as follows. The consolidated statements of income presented for comparative purposes was restated in order to present discontinued operation segregated from the continuing operations.

(In millions of won)

	<b>2013</b>	<b>2012</b>
<b>Results of discontinued operations:</b>		
Operating revenue and other income	167,448	162,400
Operating expense	(140,203)	(291,809)
<b>Operating income (loss) generated by discontinued operations</b>	<b>27,245</b>	<b>(129,409)</b>
Finance income and costs	1,773	2,640
Gain related to investments in associates, net	1,000	281
Gain on disposal relating to discontinued operations	214,352	
Income tax benefit (expense)	(61,125)	10,990
<b>Profit (loss) generated by discontinued operations</b>	<b>183,245</b>	<b>(115,498)</b>
Attributable to :		
Owners of the Parent Company	175,867	(103,821)
Non-controlling interests	7,378	(11,677)

**(3) Cash flows from (used in) discontinued operations**

Cash flows from (used in) discontinued operations for the years ended December 31, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
<b>Cash flow from discontinued operations:</b>		
Net cash provided by operating activities	40,884	22,937
Net cash provided by (used in) investing activities	179,490	(19,931)
Net cash used in financing activities	(4,780)	(13,774)
	<b>215,594</b>	<b>(10,768)</b>

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

- (4) Changes in financial condition relating to discontinued operations due to the disposal of ownership interests in Loen Entertainment, Inc. at the date of disposal is as follows:

*(In millions of won)*

	<b>Date of disposal</b>
Cash and cash equivalents	55,527
Long-term and short-term financial instruments	42,404
Accounts receivable trade	49,700
Property and equipment, and intangible assets	26,334
Other assets	39,526
Accounts payable trade	(33,154)
Defined benefit liabilities	(737)
Other liabilities	(87,022)
<b>Decrease in net assets</b>	<b>92,578</b>
Consideration received for disposal	264,245
Cash and cash equivalents disposed	(55,527)
<b>Net cash inflow</b>	<b>208,718</b>



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012****39. Statements of Cash Flows**

(1) Adjustments for income and expenses from operating activities for the years ended December 31, 2014, 2013 and 2012 are as follows:

(In millions of won)

	2014	2013	2012
Interest income	(60,006)	(67,359)	(99,967)
Dividend	(13,048)	(10,197)	(27,732)
Gain on foreign currency translation	(6,277)	(4,401)	(4,065)
Gain on disposal of long-term investment securities	(13,994)	(9,300)	(282,605)
Gain on valuation of derivatives	(8,713)		
Gain on settlement of derivatives	(7,998)	(7,716)	(26,103)
Loss (gain) related to investments in subsidiaries and associates, net	(906,338)	(921,861)	24,279
Gain on disposal of property, equipment and intangible assets	(8,792)	(7,991)	(162,590)
Reversal of allowance for doubtful accounts		(359)	(5,902)
Gain on valuation of financial assets at fair value through profit or loss		(5,177)	
Other income	(608)	(3,951)	(2,558)
Interest expenses	323,910	331,834	412,379
Loss on foreign currency translation	5,079	2,634	4,608
Loss on disposal of long-term investment securities	2,694	31,909	10,802
Impairment loss on long-term investment securities	24,533	52,058	190,621
Loss on valuation of derivatives	10	2,106	286
Loss on settlement of derivatives	672		1,232
Income tax expense	454,508	461,922	277,217
Expense related to defined benefit plan	112,717	92,840	80,865
Depreciation and amortization	2,891,870	2,829,784	2,613,018
Bad debt expenses	45,754	57,163	52,393
Loss on disposal of property and equipment and intangible assets	32,950	267,702	15,117
Impairment loss on property and equipment and intangible assets	47,489	14,399	160,210
Loss relating to financial assets at fair value through profit or loss	1,352		1,262
Loss relating to financial liabilities at fair value through profit or loss	10,370	134,232	7,793
Loss on redemption of debentures			2,099
Bad debt for accounts receivable other	17,943	22,167	30,107
Impairment loss on other investment securities	22,749	6,136	1,307
Other expenses	10,169	6,802	15,788
	2,978,995	3,275,376	3,289,861

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2014, 2013 and 2012**

(2) Changes in assets and liabilities from operating activities for the years ended December 31, 2014, 2013 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Accounts receivable trade	(168,839)	(267,754)	(183,238)
Accounts receivable other	(52,137)	(41,243)	288,739
Accrued income	14	(502)	9,530
Advance payments	(62,873)	(26,064)	40,664
Prepaid expenses	(36,808)	(1,583)	18,525
V.A.T. refund receivable	7,200	(5,442)	(963)
Inventories	(171)	(39,610)	(108,904)
Long-term accounts receivables other	80		5,393
Guarantee deposits	(12,699)	59,431	19,460
Accounts payable trade	(37,790)	(4,708)	74,923
Accounts payable other	(296,875)	(131,142)	260,158
Advanced receipts	20,701	(2,916)	(7,977)
Withholdings	306,515	22,025	234,048
Deposits received	(4,395)	(1,745)	(6,089)
Accrued expenses	(79,831)	98,081	153,641
V.A.T. payable	2,711	(3,901)	(3,955)
Unearned revenue	(140,295)	(188,589)	(83,436)
Provisions	(38,469)	(226,644)	(373,213)
Long-term provisions	29,532	(72,398)	(33,254)
Plan assets	(96,847)	(61,856)	(51,422)
Retirement benefit payment	(46,531)	(42,948)	(46,066)
Others	474	(30,362)	(2,256)
	(707,333)	(969,870)	204,308

(3) Significant non-cash transactions for the years ended December 31, 2014, 2013 and 2012 are as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Transfer of construction in progress to property and equipment, and intangible assets	2,238,620	2,320,528	2,700,054
Transfer of other property and equipment and others to construction in progress	1,090,954	1,188,826	1,437,476
Increase(decrease) of accounts payable other related to acquisition of property and equipment and intangible assets	(184,614)	350,735	8,010
Return of the existing 1.8GHz frequency use rights		614,600	

**40. Cash Dividends paid to the Parent Company**

Cash dividends paid to the Parent Company for the years ended December 31, 2014, 2013 and 2012 are as follows:

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<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Cash dividends received from consolidated subsidiaries		13,657	5,739
Cash dividends received from associates	939		
	939	13,657	5,739

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

SK hynix, Inc.:

We have audited the accompanying consolidated statements of financial position of SK hynix, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of SK hynix, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SK hynix, Inc. and subsidiaries as of December 31, 2014 and 2013 and the results of their operations and their cash flows for the years then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 23, 2015

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Financial Position**

As of December 31, 2014 and 2013

	<i>Note</i>	<b>2014</b>	<b>2013</b>
		(In millions of won)	
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6,7	436,761	631,867
Short-term financial instruments	6,7,8	3,618,014	2,154,532
Trade receivables, net	6,7,9,33	3,732,926	1,941,675
Loans and other receivables, net	6,7,9,33	881,885	323,759
Other financial assets	6,7,23		245,808
Inventories, net	10	1,497,563	1,178,300
Current tax assets		1,629	9,242
Assets held for sale	11	27,661	26,557
Other current assets	12	167,075	141,384
		10,363,514	6,653,124
<b>Non-current assets</b>			
Equity-accounted investees	13	97,090	107,097
Available-for-sale financial assets	14	127,314	158,770
Loans and other receivables, net	6,7,9,33	58,989	43,090
Other financial assets	6,7,8,23	323	2,017
Property, plant and equipment, net	15,34	14,090,334	12,129,797
Intangible assets, net	16	1,336,680	1,110,403
Investment property, net	17	28,456	28,609
Deferred tax assets	23	272,102	198,570
Other non-current assets	12	508,476	365,821
		16,519,764	14,144,174
<b>Total assets</b>		<b>26,883,278</b>	<b>20,797,298</b>

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Financial Position, continued**

As of December 31, 2014 and 2013

	<i>Note</i>	<b>2014</b>	<b>2013</b>
		(In millions of won)	
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	6,7,33	787,822	648,793
Other payables	6,7,33	1,358,816	788,304
Other non-trade payables	6,7,33	1,182,956	677,120
Borrowings	6,7,18,33	1,755,020	870,320
Other financial liabilities	6,7,23	30	2,194
Provisions	20,34	25,932	52,584
Current tax liabilities		583,529	12,084
Other current liabilities	19	71,199	26,840
		5,765,304	3,078,239
<b>Non-current liabilities</b>			
Other non-trade payables	6,7,33	132,947	177,101
Borrowings	6,7,18,33	2,419,739	3,679,895
Other financial liabilities	6,7,23	708	107,094
Defined benefit liabilities, net	21	465,350	635,740
Deferred tax liabilities	22	3,463	
Other non-current liabilities	19	59,464	52,370
		3,081,671	4,652,200
<b>Total liabilities</b>		8,846,975	7,730,439
<b>Equity</b>			
<b>Equity attributable to owners of the Parent Company</b>			
Capital stock	1,24	3,657,652	3,568,645
Capital surplus	24	4,143,736	3,406,083
Other equity	24	(24)	
Accumulated other comprehensive loss	25	(41,815)	(108,807)
Retained earnings	26	10,276,904	6,201,322
<b>Total equity attributable to owners of the Parent Company</b>		18,036,453	13,067,243
<b>Non-controlling interests</b>		(150)	(384)
<b>Total equity</b>		18,036,303	13,066,859
<b>Total liabilities and equity</b>		26,883,278	20,797,298

See accompanying notes to the consolidated financial statements.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Comprehensive Income (Loss)****For the years ended December 31, 2014, 2013 and 2012**

	<i>Note</i>	<b>2014</b>	<b>2013</b>	<b>2012</b> (Unaudited)
		(In millions of won, except per share information)		
<b>Revenue</b>	5,33	17,125,566	14,165,102	10,162,210
Cost of sales	28,33	9,461,725	8,864,587	(8,550,989)
<b>Gross profit</b>		7,663,841	5,300,515	1,611,221
Selling and administrative expense	27,28	(2,554,375)	(1,920,730)	(1,838,570)
Finance income	29	678,570	560,570	689,709
Finance expenses	29	(799,771)	(747,329)	(682,594)
Share of profit of equity-accounted investees	13	23,145	19,256	16,713
Other income	30	618,684	368,513	67,130
Other expenses	30	(582,424)	(505,870)	(62,910)
<b>Profit (loss) before income tax</b>		5,047,670	3,074,925	(199,301)
Income tax expense (benefit)	31	852,501	202,068	(40,506)
<b>Profit (loss) for the year</b>		4,195,169	2,872,857	(158,795)
<b>Other comprehensive income (loss)</b>				
<b>Item that will never be reclassified to profit or loss:</b>				
Remeasurements of defined benefit liability, net of tax	21	(119,874)	15,587	(82,872)
<b>Items that are or may be reclassified to profit or loss:</b>				
Available-for-sale financial assets unrealized net change in fair value, net of tax	14,25	(7,824)	(655)	(1,896)
Foreign operations foreign currency translation differences, net of tax	25	71,631	8,419	(216,490)
Equity-accounted investees share of other comprehensive income (loss), net of tax	13,25	3,706	(1,226)	(4,343)
<b>Other comprehensive income (loss) for the year, net of tax</b>		(52,361)	22,125	(305,601)
<b>Total comprehensive income (loss) for the year</b>		4,142,808	2,894,982	(464,396)
<b>Profit (loss) attributable to:</b>				
Owners of the Parent Company		4,195,456	2,872,470	(158,886)
Non-controlling interests		(287)	387	91
<b>Total comprehensive income (loss) attributable to:</b>				
Owners of the Parent Company		4,142,574	2,894,652	(464,267)
Non-controlling interests		234	330	(129)
<b>Earnings (loss) per share</b>				
Basic and diluted earnings (loss) per share (in won)	32	5,842	4,045	(233)

See accompanying notes to the consolidated financial statements.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Changes in Equity (Unaudited)****For the year ended December 31, 2012**

	Attributable to owners of the Parent Company						Non-	
	Capital	Capital	Other	Accumulated	Retained	Total	controlling	Total equity
	stock	surplus	components	other	earnings		interests	
			of equity	comprehensive	(loss)			
				income	(loss)			
				(loss)	(loss)			
				(In millions of won)				
<b>Balance at January 1, 2012</b>	2,978,498	1,229,052	5,762	107,107	3,555,323	7,875,742	(471)	7,875,271
<b>Total comprehensive loss</b>								
Income (loss) for the year					(158,886)	(158,886)	91	(158,795)
Other comprehensive loss				(222,509)	(82,872)	(305,381)	(220)	(305,601)
<b>Total comprehensive loss</b>				(222,509)	(241,758)	(464,267)	(129)	(464,396)
<b>Transactions with owners of the Parent Company</b>								
Issuance of common stock	509,250	1,816,726				2,325,976		2,325,976
Exercise of conversion rights	52	210				262		262
Exercise of stock options	619	4,400	(2,200)			2,819		2,819
Expiration of stock options		3,562	(3,562)					
Changes in the Parent Company's ownership interest in subsidiaries		(76)				(76)	(105)	(181)
Others					(300)	(300)	(9)	(309)
<b>Total transactions with owners of the Parent Company</b>	509,921	1,824,822	(5,762)		(300)	2,328,681	(114)	2,328,567
<b>Balance at December 31, 2012</b>	3,488,419	3,053,874		(115,402)	3,313,265	9,740,156	(714)	9,739,442

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Changes in Equity**

For the years ended December 31, 2014 and 2013

	Attributable to owners of the Parent Company						Non-	
	Capital	Capital	Other	Accumulated	Retained	Total	controlling	Total equity
	stock	surplus	components	other	earnings		interests	
			of	comprehensive	(loss)			
			equity	income	(loss)			
				(loss)				
				(In millions of won)				
<b>Balance at January 1, 2013</b>	3,488,419	3,053,874		(115,402)	3,313,265	9,740,156	(714)	9,739,442
<b>Total comprehensive income</b>								
Profit for the year					2,872,470	2,872,470	387	2,872,857
Other comprehensive income (loss)				6,595	15,587	22,182	(57)	22,125
<b>Total comprehensive income</b>				6,595	2,888,057	2,894,652	330	2,894,982
<b>Transactions with owners of the Parent Company</b>								
Exercise of conversion rights	80,226	352,209				432,435		432,435
<b>Total transactions with owners of the Parent Company</b>	80,226	352,209				432,435		432,435
<b>Balance at December 31, 2013</b>	3,568,645	3,406,083		(108,807)	6,201,322	13,067,243	(384)	13,066,859
<b>Balance at January 1, 2014</b>	3,568,645	3,406,083		(108,807)	6,201,322	13,067,243	(384)	13,066,859
<b>Total comprehensive income</b>								
Profit for the year					4,195,456	4,195,456	(287)	4,195,169
Other comprehensive income (loss)				66,992	(119,874)	(52,882)	521	(52,361)
<b>Total comprehensive income</b>				66,992	4,075,582	4,142,574	234	4,142,808
<b>Transactions with owners of the Parent Company</b>								
Issue of ordinary shares related to acquisition of a subsidiary	6,793	47,277				54,070		54,070
Exercise of conversion rights	82,214	690,376				772,590		772,590
Acquisition of treasury shares			(24)			(24)		(24)
<b>Total transactions with owners of the Parent Company</b>	89,007	737,653	(24)			826,636		826,636
<b>Balance at December 31, 2014</b>	3,657,652	4,143,736	(24)	(41,815)	10,276,904	18,036,453	(150)	18,036,303

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Cash Flows**

For the years ended December 31, 2014, 2013 and 2012

	<i>Note</i>	<b>2014</b>	<b>2013</b>	<b>2012</b> (Unaudited)
		(In millions of won)		
<b>Cash flows from operating activities</b>				
Cash generated from operating activities	35	6,305,229	6,521,553	2,420,894
Interest received		35,658	58,888	81,931
Interest paid		(151,551)	(199,553)	(275,169)
Dividends received		17,134	17,414	12,098
Income tax paid		(339,779)	(26,246)	(28,103)
<b>Net cash provided by operating activities</b>		<b>5,866,691</b>	<b>6,372,056</b>	<b>2,211,651</b>
<b>Cash flows from investing activities</b>				
Decrease in short-term financial instruments		21,059,587	3,927,831	2,754,789
Increase in short-term financial instruments		(22,467,339)	(4,956,446)	(3,252,006)
Collection of loans and other receivables		3,501	2,728	11,640
Increase in loans and other receivables		(15,735)	(5,969)	(8,661)
Proceeds from disposal of available-for-sale financial assets		28,602	331	11,190
Acquisition of available-for-sale financial assets		(1,415)	(115,564)	(3,618)
Decrease in other financial assets		275,422	29,681	
Increase in other financial assets		(29,611)	(276,591)	
Cash inflows from derivative transactions		2,371	3,656	2,419
Cash outflows from derivative transactions		(4,534)	(6,550)	(44,507)
Proceeds from disposal of assets classified as held for sale				23
Proceeds from disposal of property, plant and equipment		198,959	15,509	35,809
Acquisition of property, plant and equipment		(4,800,722)	(3,205,797)	(3,772,879)
Proceeds from disposal of intangible assets		286	200	1,226
Acquisition of intangible assets		(336,291)	(301,496)	(159,072)
Receipt of government grants		20,241		
Cash outflows from business combinations		(19,682)	(3,648)	(274,732)
Cash outflows from disposal of investments in a subsidiary		(1,467)		
<b>Net cash used in investing activities</b>		<b>(6,087,827)</b>	<b>(4,892,125)</b>	<b>(4,698,379)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		3,848,816	3,528,687	6,966,003
Repayments of borrowings		(3,820,449)	(5,028,676)	(7,377,491)
Acquisition of treasury shares		(24)		
Proceeds from issuance of common stock				2,328,791
Acquisition of investments in subsidiaries				(181)
<b>Net cash provided by (used in) financing activities</b>		<b>28,343</b>	<b>(1,499,989)</b>	<b>1,917,122</b>
<b>Effect of movements in exchange rates on cash and cash equivalents</b>		<b>(2,313)</b>	<b>(6,462)</b>	<b>(15,795)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(195,106)</b>	<b>(26,520)</b>	<b>(585,401)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>631,867</b>	<b>658,387</b>	<b>1,243,788</b>

<b>Cash and cash equivalents at end of the year</b>	436,761	631,867	658,387
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See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****1. Reporting Entity**

(1) General information about SK hynix, Inc. (the Parent Company or the Company ) and its subsidiaries (collectively the Group ) is as follows:

The Parent Company is engaged in the manufacture, distribution and sales of semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Parent Company's headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Group has manufacturing facilities in Icheon-si and Cheongju-si, South Korea, and Wuxi and Chongqing, China.

As of December 31, 2014, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
National Pension Service	70,243,518	9.65
Share Management Council <sup>1</sup>	7,452,667	1.02
Other investors	504,206,180	69.26
	728,002,365	100.00

<sup>1</sup> As of December 31, 2014, the number of shares held by each member of Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Korea Exchange Bank	7,092,500	0.97
Shinhan Bank	355,000	0.05
Other financial institutions	5,167	0.00
	7,452,667	1.02

According to the share purchase agreement dated November 14, 2011, between SK Telecom Co., Ltd. and the Share Management Council, the Share Management Council should exercise its voting right on its shares following SK Telecom Co., Ltd.'s decision in designating officers of the Company or other matters unless this conflicts with the Share Management Council's interest.

Accordingly, in substance, SK Telecom Co., Ltd. has the voting rights over the Share Management Council's shares as of December 31, 2014.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****1. Reporting Entity, continued**

(2) Details of the Group's consolidated subsidiaries as of December 31, 2014 and 2013 are as follows:

Company	Location	Business	Ownership (%)	
			2014	2013
SK hyeng Inc. <sup>1</sup>	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc. <sup>2</sup>	Korea	Development and manufacturing of electronic component	100.00	
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
Hynix Semiconductor Manufacturing America Inc. (HSMA) <sup>3</sup>	U.S.A.	Discontinued subsidiary	100.00	100.00
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix Europe Holding Ltd. (SKHYE) <sup>4</sup>	U.K.	Holding company		100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS) <sup>5</sup>	India	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL) <sup>6</sup>	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS) <sup>7</sup>	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH) <sup>8</sup>	Hong Kong	Holding company	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) <sup>9</sup>	China	Overseas manufacturing subsidiary	100.00	100.00
Softeq Flash Solutions LLC. (SOFTEQ) <sup>10</sup>	Belarus	Overseas R&D center	100.00	
MMT (Money Market Trust) <sup>11</sup>	Korea	Money Market Trust	100.00	

<sup>1</sup> QRT Inc., that was established by spin-off from SK hyeng Inc.'s technical service division, has been sold during the year ended December 31, 2014.

<sup>2</sup> The Company acquired entire shares held by Siliconfile Technologies Inc.'s existing shareholders in exchange for the Company's newly issued ordinary shares during the year ended December 31, 2014.

<sup>3</sup> Subsidiary of SK hynix America Inc. (SKHYA)

<sup>4</sup> The liquidation process of SK hynix Europe Holding Ltd. has been completed during the year ended December 31, 2014.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2014, 2013 and 2012**

**1. Reporting Entity, continued**

<sup>5</sup> Subsidiary of SK hynix Asia Pte. Ltd. (SKHYS)

<sup>6</sup> The Company invested 109,960 million in SK hynix Semiconductor (China) Ltd. (SKHYCL) during the year ended December 31, 2014.

<sup>7</sup> The Company invested 23,681 million in SK hynix memory solutions Inc. (SKHMS) during the year ended December 31, 2014.

<sup>8</sup> The Company invested 103,699 million in SK APTECH Ltd. during the year ended December 31, 2014.

<sup>9</sup> Subsidiary of SK APTECH Ltd. (SKAPTECH)

<sup>10</sup> The Company acquired Softeq Flash Solutions LLC. (SOFTEQ) during the year ended December 31, 2014.

<sup>11</sup> The Company acquired MMT (Money Market Trust) during the year ended December 31, 2014.

(3) Changes in subsidiaries for the year ended December 31, 2014 are as follows:

	<b>Company</b>	<b>Reason</b>
Newly included	Siliconfile Technologies Inc.	Included in consolidation as subsidiaries through the additional acquisition of the remaining interests
	Softeq Flash Solutions LLC. (SOFTEQ)	Included in consolidation as subsidiaries due to the acquisition of interests
	QRT Inc.	Included in consolidation as subsidiaries through the spin-off from SK hyeng Inc.
Excluded	SK hynix Europe Holding Ltd.	Excluded from consolidation due to liquidation
	(SKHYE)	
	QRT Inc.	Excluded from consolidation due to disposal

(4) Major subsidiaries summarized statements of financial position as of December 31, 2014 and 2013 are as follows:

	2014	2013	2014	2013	2014	2013
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
	(In millions of won)					
SK hynix America Inc. (SKHYA)	1,711,746	1,634,047	77,699	964,682	911,513	53,169
SK hynix Asia Pte. Ltd. (SKHYS)	386,135	313,152	72,983	231,649	164,390	67,259

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SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	563,598	478,449	85,149	353,248	284,438	68,810
SK hynix Japan Inc.(SKHYJ)	285,122	227,860	57,262	302,971	250,962	52,009
SK hynix Semiconductor Taiwan Inc. (SKHYT)	628,791	605,861	22,930	240,489	197,975	42,514
SK hynix Semiconductor (China) Ltd. (SKHYCL)	4,179,186	1,197,588	2,981,598	3,652,044	1,212,007	2,440,037
SK hynix Deutschland GmbH (SKHYD)	135,384	98,477	36,907	98,150	63,706	34,444
SK hynix U.K. Ltd. (SKHYU)	194,318	179,990	14,328	78,020	66,080	11,940
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	341,984	174,936	167,048	52,857	2,287	50,570

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****1. Reporting Entity, continued**

(5) Major subsidiaries summarized statements of comprehensive income for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014		Total comprehensive income
	Revenue	Profit (In millions of won)	
SK hynix America Inc. (SKHYA)	6,360,992	21,385	21,385
SK hynix Asia Pte. Ltd. (SKHYS)	1,638,396	2,773	2,773
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	3,714,085	12,941	12,941
SK hynix Japan Inc. (SKHYJ)	843,383	9,890	10,478
SK hynix Semiconductor Taiwan Inc. (SKHYT)	2,176,739	7,599	7,599
SK hynix Semiconductor (China) Ltd. (SKHYCL)	1,914,452	381,729	381,729
SK hynix Deutschland GmbH (SKHYD)	551,528	6,197	6,197
SK hynix U.K. Ltd. (SKHYU)	575,959	1,813	1,813
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	109,769	6,813	6,813

	2013		Total comprehensive income
	Revenue	Profit (In millions of won)	
SK hynix America Inc. (SKHYA)	5,187,848	23,547	23,547
SK hynix Asia Pte. Ltd. (SKHYS)	1,203,290	2,385	2,385
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	3,022,397	19,471	19,471
SK hynix Japan Inc. (SKHYJ)	790,736	10,335	10,447
SK hynix Semiconductor Taiwan Inc. (SKHYT)	1,769,055	6,680	6,680
SK hynix Semiconductor (China) Ltd. (SKHYCL)	1,718,074	23,611	23,611
SK hynix Deutschland GmbH (SKHYD)	594,166	2,440	2,440
SK hynix U.K. Ltd. (SKHYU)	494,305	1,743	1,743

	2012 (Unaudited)		Total comprehensive income
	Revenue	Profit (In millions of won)	
SK hynix America Inc. (SKHYA)	3,848,368	10,498	10,498
SK hynix Asia Pte. Ltd. (SKHYS)	693,598	4,619	4,619
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	1,889,126	3,548	3,548
SK hynix Japan Inc. (SKHYJ)	736,702	13,410	13,416
SK hynix Semiconductor Taiwan Inc. (SKHYT)	1,428,484	3,815	3,815
SK hynix Semiconductor (China) Ltd. (SKHYCL)	2,400,043	244,995	244,995
SK hynix Deutschland GmbH (SKHYD)	415,572	2,534	2,534

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SK hynix U.K. Ltd. (SKHYU)	399,810	3,260	3,260
(6) There are no significant non-controlling interests to the Group as of December 31, 2014, 2013 and 2012.			

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2014, 2013 and 2012**

**2. Basis of Preparation**

**(1) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issuance by the board of directors on January 28, 2015.

**(2) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statements of financial position:

derivative financial instruments are measured at fair value

financial instruments at fair value through profit or loss are measured at fair value

available-for-sale financial assets are measured at fair value

liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

**(3) Functional and presentation currency**

Financial statements of entities within the Group are presented in functional currency and the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

**(4) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**(a) Critical judgments**

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Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4: estimated useful lives of property, plant and equipment and intangible assets

Note 6: classification of financial instruments

(b) *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 10: net realizable value of inventories

Note 16: impairment of goodwill

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2014, 2013 and 2012**

**2. Basis of Preparation, continued**

Note 20: recognition and measurement of provisions

Note 21: measurement of defined benefit obligations

Note 22: recognition of deferred tax assets and liabilities

*(c) Fair value measurement*

The Group establishes fair value measurement policies and procedures as its accounting policies and disclosures require fair value measurements for various financial and non-financial assets and liabilities. Such policies and procedures are executed by the valuation department, which is responsible for the review of significant fair value measurements including fair values classified as level 3 in the fair value hierarchy.

The valuation department regularly reviews unobservable significant inputs and valuation adjustments. If third party information such as prices available from an exchange, dealer, broker, industry group, pricing service or regulatory agency is used for fair value measurements, the valuation department reviews whether the valuation based on third party information includes classifications by levels within the fair value hierarchy and meets the requirements for the relevant standards.

The Group uses the best observable inputs in market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation methods as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If various inputs used to measure fair value of assets or liabilities fall into different levels of the fair value hierarchy, the Group classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value. The Group recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

Information about assumptions used for fair value measurements are included in note 7.

**3. Changes in Accounting Policies**

Except as described below, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2013.

*(1) Amendment to IAS 32, Financial Instruments: Presentation*

The Group has applied the amendment to IAS 32, *Financial Instruments: Presentation*, since January 1, 2014. The amendment provides that a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position only when an entity currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and

settle the liability simultaneously.

The legally enforceable right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances including the normal course of business; the event of default; and the event of insolvency or bankruptcy of the entity and all of the counterparties.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2014, 2013 and 2012**

**3. Changes in Accounting Policies, continued**

The net settlement criteria can be met when the amounts are settled in a manner such that the outcome is, in effect, equivalent to net settlement, which includes case that the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

The amendment has no impact on the Group's financial statements.

**(2) Amendment to IAS 36, Impairment of Assets**

The Group has applied the amendment to IAS 36, Impairment of Assets since January 1, 2014. The amendment provides that the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

The amendment has no impact on the Group's financial statements.

**(3) IFRIC 21, Levies**

The Group adopted IFRIC 21, Levies since January 1, 2014. The interpretation defines that an obligating event that gives rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. If the obligating event occurs over a year of time, the liability to pay a levy is recognized progressively and if the obligating event is the reaching of a minimum activity threshold, the liability to pay a levy is recognized when that minimum activity threshold is reached. An entity shall recognize an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The interpretation clarifies that a levy is not recognized until the obligating event specified in the legislation occurs, even if there is no realistic opportunity to avoid the obligation.

The interpretation has no significant impact on the Group's financial statements.

**4. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are explained below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

**(1) Operating Segments**

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ( CODM ) in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. The Group's CODM is the board of directors, who do not receive and therefore do not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic, product and customer information are provided in note 5.

**(2) Basis of consolidation**

**(a) Business combination**

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A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2014, 2013 and 2012**

**4. Significant Accounting Policies, continued**

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

*(b) Non-controlling interests*

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

*(c) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

*(d) Loss of control*

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

*(e) Interests in equity-accounted investees*

The Group's interest in equity-accounted investees comprises interests in an associate and a joint venture. An associate is an entity in which the Group has significant influence, but not control or joint control, over the entity's financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in an associate and a joint venture are initially recognized at cost including transaction costs. Subsequent to initial recognition, their carrying amounts are increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture. Distributions from equity-accounted investees are accounted for as deduction from the carrying amounts.



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**4. Significant Accounting Policies, continued**

*(f) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with equity-accounted investees are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

*(g) Business combinations under common control*

The assets and liabilities acquired in the combination of entities or business under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is added to or deducted from other capital adjustments.

**(3) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

**(4) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method (except for goods in-transit that is based on the specific identification method), and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing inventories to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

**(5) Non-derivative financial assets**

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets not at fair value through profit or loss are measured at their fair value plus transaction costs that are directly attributable to the asset's acquisition.

*(a) Financial assets at fair value through profit or loss*

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

*(b) Held-to-maturity investments*

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A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, is classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

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**December 31, 2014, 2013 and 2012**

**4. Significant Accounting Policies, continued**

*(c) Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

*(d) Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, and changes in their fair value, net of any tax effect, are recorded in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

*(e) De-recognition of financial assets*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, it derecognizes the financial assets when it does not retain control over the transferred financial assets. If the Group has retained control over the transferred financial assets, it continues to recognize the assets to the extent of its continuing involvement. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

*(f) Offsetting between financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

**(6) Derivative financial instruments**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

*(a) Embedded derivatives*

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

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a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

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**SK HYNIX, INC. and Subsidiaries**

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**December 31, 2014, 2013 and 2012**

**4. Significant Accounting Policies, continued**

*(b) Other derivative financial instruments*

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

*(7) Impairment of financial assets*

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified with the individual financial assets in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

*(a) Financial assets measured at amortized cost*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the

financial asset's estimated future cash flows, impairment losses would be measured based on prices from any observable current market transactions. Impairment losses are deducted through an allowance account or directly from the carrying amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

*(b) Financial assets carried at cost*

The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****4. Significant Accounting Policies, continued***(c) Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

*(8) Property, plant and equipment*

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Group and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and maintenance are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other income or expenses.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	<b>Useful lives (years)</b>
Buildings	10 - 50
Structures	10 - 30
Machinery	4 - 15
Vehicles	4 - 10
Other	3 - 15

Depreciation methods, useful lives, and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

*(9) Borrowing costs*

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The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale.

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Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

**(10) Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Goodwill arising from business combinations is recognized as the excess of the consideration transferred in the acquisition over the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, certain intangible assets are determined as having indefinite useful lives and not amortized as there is no foreseeable limit to the period over which the assets are expected to be available for use.

The estimated useful lives of the Group's intangible assets are as follows:

	<b>Useful lives (years)</b>
Industrial rights	5 - 10
Development costs	1 - 2
Software	5

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.



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**SK HYNIX, INC. and Subsidiaries**

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**4. Significant Accounting Policies, continued**

**(11) Government grants**

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

**(a) Grants related to assets**

Government grants whose primary condition is that the Group purchases, constructs or otherwise acquires non-current assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the useful lives of depreciable assets.

**(b) Grants related to income**

Government grants which are intended to compensate the Group for expenses incurred are recognized in profit or loss by as deduction of the related expenses.

**(12) Investment property**

Property held for the purpose of earning rental income or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Group and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and maintenance are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

**(13) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset; however if it is impossible to measure the individual recoverable amount of an asset, the Group estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

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**4. Significant Accounting Policies, continued**

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from business combination. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(14) Leases**

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

**(a) Finance leases**

At the commencement of the lease term, the Group recognizes as finance lease assets and finance lease liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews whether the leased asset is impaired.

**(b) Operating leases**

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability is reduced as payments are made and an imputed finance expense on the liability recognized using the purchaser's incremental borrowing rate of interest.



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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****4. Significant Accounting Policies, continued****(15) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

**(16) Non-derivative financial liabilities**

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

**(a) Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, any directly attributable transaction costs are recognized in profit or loss as incurred.

**(b) Other financial liabilities**

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The Group derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**(17) Employee benefits****(a) Short-term employee benefits**

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the reporting period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

**(b) Other long-term employee benefits**

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the reporting period in which the employees render the related service, and are calculated at the present value of



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**4. Significant Accounting Policies, continued**

the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.

*(c) Retirement benefits: defined benefit plans*

As of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized as present value of defined benefit obligations, net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability comprise of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit liability, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability are recognized in other comprehensive income. The Group determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Group recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

*(d) Termination benefits*

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring. If benefits are not payable within 12 months after the end of the reporting period, then they are discounted to their present value.

**(18) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

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**4. Significant Accounting Policies, continued**

**(19) Foreign currencies**

*(a) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on the settlement or retranslation of monetary items are recognized in profit or loss, except for differences arising on the retranslation of the net investment in a foreign operation, which are recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

*(b) Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

**(20) Equity capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares is recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

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**SK HYNIX, INC. and Subsidiaries**

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**December 31, 2014, 2013 and 2012**

**4. Significant Accounting Policies, continued**

**(21) Revenue**

Revenue from the sale of goods, rendering of services or use of assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

**(a) Sale of goods**

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

**(b) Sale of services**

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

**(22) Finance income and finance expenses**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, and changes in the fair value of financial instruments at fair value through profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

**(23) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

**(a) Current tax**

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

**(b) Deferred tax**



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Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures except to the extent that the Group is able to control the

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**SK HYNIX, INC. and Subsidiaries**

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**December 31, 2014, 2013 and 2012**

**4. Significant Accounting Policies, continued**

timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes deferred tax assets for all deductible temporary differences including unused tax loss and tax credit to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If there are any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.

**(24) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares including convertible notes.

**(25) Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

**(26) Standards issued but not yet adopted**

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2014. The Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

**(a) IFRS 9, Financial Instruments**

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****4. Significant Accounting Policies, continued**

general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adopting permitted.

The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

*(b) IFRS 15, Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18, Revenue, IAS 11, Construction Contracts and IFRIC 13, Customer Loyalty Programs. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted.

The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

**5. Geographic, Product and Customer Information**

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products.

(1) Details of the Group's revenue for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
Sale of goods	17,013,599	14,088,421	10,129,725
Sale of services	111,967	76,681	32,485
	17,125,566	14,165,102	10,162,210

(2) Details of the Group's revenue by product and service types for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 <sup>1</sup> (In millions of won)	2012 <sup>1</sup> (Unaudited)
DRAM	13,311,628	10,211,993	7,235,488
NAND Flash	3,320,658	3,391,561	2,535,012
Other	493,280	561,548	391,710
	17,125,566	14,165,102	10,162,210

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<sup>1</sup> Revenue by product and service types for the years ended December 31, 2013 and 2012 are reclassified to conform with the classification for the year ended December 31, 2014.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****5. Geographic, Product and Customer Information, continued**

(3) The Group's revenue information by region based on the location of selling entities for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
Korea	1,179,949	1,105,083	771,396
China	3,825,747	3,038,355	1,901,742
Taiwan	2,155,005	1,765,343	1,434,775
Asia (other than China and Taiwan)	2,482,716	1,986,394	1,417,804
U.S.A.	6,359,461	5,191,619	3,827,725
Europe	1,122,688	1,078,308	808,768
	17,125,566	14,165,102	10,162,210

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of December 31, 2014 and 2013 are as follows:

	2014 (In millions of won)	2013
Korea	12,356,735	10,424,568
China	3,255,550	2,912,948
Taiwan	5,831	5,036
Asia (other than China and Taiwan)	798	798
U.S.A.	333,908	289,682
Europe	11,124	1,598
	15,963,946	13,634,630

(5) Revenue from a customer that constitutes more than 10% of the Group's consolidated revenue for the years ended December 31, 2014, 2013 and 2012 amounts to 2,959,663 million, 2,457,867 million and 2,154,986 million (unaudited), respectively.

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(1) Categories of financial assets as of December 31, 2014 and 2013 are as follows:

	Financial assets at fair value through profit or loss	2014			Total
		Available- for-sale financial assets	Held-to- maturity financial assets	Loans and receivables	
(In millions of won)					
Cash and cash equivalents				436,761	436,761
Short-term financial instruments	1,842,020			1,775,994	3,618,014
Trade receivables				3,732,926	3,732,926
Loans and other receivables				940,874	940,874
Other financial assets <sup>1</sup>				323	323
Available-for-sale financial assets		127,314			127,314
	1,842,020	127,314		6,886,878	8,856,212

	Financial assets at fair value through profit or loss	2013			Total
		Available- for-sale financial assets	Held-to- maturity financial assets	Loans and receivables	
(In millions of won)					
Cash and cash equivalents				631,867	631,867
Short-term financial instruments	1,045,974			1,108,558	2,154,532
Trade receivables				1,941,675	1,941,675
Loans and other receivables				366,849	366,849
Other financial assets <sup>1</sup>	272		245,808	1,745	247,825
Available-for-sale financial assets		158,770			158,770
	1,046,246	158,770	245,808	4,050,694	5,501,518

<sup>1</sup> Details of other financial assets as of December 31, 2014 and 2013 are as follows:

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	2014	2013
	(In millions of won)	
<b>Current</b>		
Held-to-maturity financial assets		245,808
<b>Non-current</b>		
Time deposit	311	1,731
Bank overdraft guarantee deposits	12	14
Derivatives		272
	323	2,017
	323	247,825

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****6. Categories of Financial Instruments, continued**

(2) Categories of financial liabilities as of December 31, 2014 and 2013 are as follows:

	<b>2014</b>		
	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost (In millions of won)</b>	<b>Total</b>
Trade payables		787,822	787,822
Other payables		1,358,816	1,358,816
Other non-trade payables <sup>1</sup>		1,315,903	1,315,903
Borrowings		4,174,759	4,174,759
Other financial liabilities	738		738
	738	7,637,300	7,638,038

	<b>2013</b>		
	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost (In millions of won)</b>	<b>Total</b>
Trade payables		648,793	648,793
Other payables		788,304	788,304
Other non-trade payables <sup>1</sup>		854,221	854,221
Borrowings		4,550,215	4,550,215
Other financial liabilities	109,288		109,288
	109,288	6,841,533	6,950,821

<sup>1</sup> Details of other non-trade payables as of December 31, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
	<b>(In millions of won)</b>	
<b>Current</b>		
Accrued expenses	1,182,956	677,120
<b>Non-current</b>		

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Long-term other payables	130,566	166,641
Rent deposits payable	2,357	9,844
Long-term accrued expenses	24	616
	132,947	177,101
	1,315,903	854,221

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****6. Categories of Financial Instruments, continued**

(3) Finance income and expenses by categories for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
<b>Loans and receivables</b>			
Interest income	50,804	59,262	80,154
Foreign exchange differences	200,390	(61,819)	(127,274)
Reversal of impairment (loss)	(5,463)	2,250	460
	245,731	(307)	(46,660)
<b>Available-for-sale financial assets</b>			
Other comprehensive loss		(966)	(1,566)
Gain on disposal	6,553	205	5,943
Dividend income	1,233	2,381	216
	7,786	1,620	4,593
<b>Held-to-maturity financial assets</b>			
Interest income	1,318	853	
	1,318	853	
<b>Financial assets at fair value through profit or loss</b>			
Interest income		6,296	
Gain on valuation	6,920		
Gain from derivative instruments		73	198
Gain on disposal	28,493		
	35,413	6,369	198
<b>Financial liabilities measured at amortized cost</b>			
Interest expenses	(170,363)	(256,623)	(317,926)
Loss on redemption of debentures	(2,924)		(10,470)
Foreign exchange differences	(71,870)	169,509	381,687
	(245,157)	(87,114)	53,291
<b>Financial liabilities at fair value through profit or loss</b>			
Loss from derivative instruments	(171,754)	(93,546)	(14,519)

(126,663)

(172,125)

(3,097)

**7. Financial Risk Management*****(1) Financial risk management***

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Parent Company's corporate finance division under policies approved by the board of directors. The Parent Company's corporate finance division identifies, evaluates and hedges

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****7. Financial Risk Management, continued**

financial risks in close cooperation with the Group's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

*(a) Market risk**(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions; recognized assets and liabilities in foreign currencies; and net investments in foreign operations.

Monetary foreign currency assets and liabilities as of December 31, 2014 are as follows:

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
	(In millions of won and millions of foreign currencies)			
USD	4,729	5,198,150	2,844	3,126,097
EUR	3	4,508	50	67,141
JPY	11,558	106,347	26,580	244,575

As of December 31, 2014, effects on profit before income tax as a result of change in exchange rate by 10% are as follows:

	If increased by 10%	If decreased by 10%
	(In millions of won)	
USD	207,205	(207,205)
EUR	(6,263)	6,263
JPY	(13,823)	13,823

*(ii) Interest rate risk*

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings, and is partially offset by financial assets held at floating rates.

The Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between interests of fixed rates and floating rates, which are calculated based on the agreed notional amounts.

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As of December 31, 2014, the Group is partially exposed to a risk of increase in interest rates. As of December 31, 2014, if interest rates on borrowings were 100 basis points higher/lower with all other variables held constant, profit before income tax for the following year would be 15,267 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

*(iii) Price risk*

As of December 31, 2014, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

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**December 31, 2014, 2013 and 2012**

**7. Financial Risk Management, continued**

*(b) Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from operating and investing activities. In order to manage credit risk, the Group periodically evaluates the creditworthiness of each customer or counterparty through the analysis of its financial information, historical transaction records and other factors, based on which the Group establishes credit limits for each customer or counterparty.

*(i) Trade and other receivables*

For each new customer, the Group individually analyzes its creditworthiness before standard payment and delivery terms and conditions are offered. In addition, the Group consistently manages trade and other receivables by reevaluating the customer's creditworthiness and securing collaterals in order to limit its credit risk exposure. The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains Global Credit Insurance Program with a credit insurance companies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of December 31, 2014 is the carrying amount of trade and other receivables.

*(ii) Other financial assets*

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of December 31, 2014 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings including Shinhan Bank, and accordingly management does not expect any losses from non-performance by these counterparties.

*(c) Liquidity risk*

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Group forecasts its cash flow and liquidity status and sets action plans on a regular basis to manage liquidity risk proactively.

The Group invests surplus cash in interest-bearing current accounts, time deposits, demand deposits, marketable available-for-sale securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

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Contractual maturities of financial liabilities as of December 31, 2014 and 2013 are as follows:

	2014				Total
	Less than 1 year	1 - 2 years	2 - 5 years (In millions of won)	More than 5 years	
Borrowings (other than finance lease liabilities)	1,765,674	795,191	1,675,663		4,236,528
Finance lease liabilities	106,318	92,024	24,253		222,595
Trade payables	787,822				787,822
Other payables	1,369,959				1,369,959
Other non-trade payables	1,182,957	78,625	54,297		1,315,879
Derivatives	738				738
Financial guarantee contract	27				27
	5,213,495	965,840	1,754,213		7,933,548

  

	2013				Total
	Less than 1 year	1 - 2 years	2 - 5 years (In millions of won)	More than 5 years	
Borrowings (other than finance lease liabilities)	940,422	1,721,781	844,633	1,228,487	4,735,323
Finance lease liabilities	103,077	105,245	111,146		319,468
Trade payables	648,793				648,793
Other payables	801,425				801,425
Other non-trade payables	658,733	66,180	131,565		856,478
Derivatives	2,439				2,439
Financial guarantee contract	28				28
	3,154,917	1,893,206	1,087,344	1,228,487	7,363,954

The table above analyzes the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes estimated interest payments. The Group's derivative instruments have been included at their fair value of 738 million (2013: 2,439 million) within the less than one-year time bucket as of December 31, 2014. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Group to manage the Group's interest rate risk.

**(2) Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.



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In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****7. Financial Risk Management, continued**

The debt-to-equity ratio and net borrowing ratio as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
Total liabilities (A)	8,846,975	7,730,439
Total equity (B)	18,036,303	13,066,859
Cash and cash equivalents and short-term financial instruments (C)	4,054,775	2,786,399
Total borrowings (D)	4,174,759	4,550,215
Debt-to-equity ratio (A/B)	49%	59%
Net borrowing ratio (D-C)/B	1%	13%

**(3) Fair value**

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of December 31, 2014 and 2013:

	Carrying amounts	Level 1	Level 2	Level 3	Total
	2014 (In millions of won)				
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	1,842,020		1,842,020		1,842,020
	1,842,020		1,842,020		1,842,020
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	436,761				
Short-term financial instruments <sup>1</sup>	1,775,994				
Trade receivables <sup>1</sup>	3,732,926				
Loans and other receivables <sup>1</sup>	940,874				
Other financial assets <sup>1</sup>	323				
Available-for-sale financial assets <sup>1,2</sup>	127,314				
	7,014,192				
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	738		738		738
	738		738		738
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	787,822				
Other payables <sup>1</sup>	1,358,816				

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Other non-trade payables <sup>1</sup>	1,315,903		
Borrowings	4,174,759	4,243,974	4,243,974
	7,637,300	4,243,974	4,243,974

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	Carrying amounts	Level 1	2013 Level 2 (In millions of won)	Level 3	Total
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	1,045,974		1,045,974		1,045,974
Other financial assets	272		272		272
Available-for-sale financial assets	31,966	31,966			31,966
	1,078,212	31,966	1,046,246		1,078,212
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	631,867				
Short-term financial instruments <sup>1</sup>	1,108,558				
Trade receivables <sup>1</sup>	1,941,675				
Loans and other receivables <sup>1</sup>	366,849				
Other financial assets <sup>1</sup>	247,553				
Available-for-sale financial assets <sup>1,2</sup>	126,804				
	4,423,306				
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	109,288		109,288		109,288
	109,288		109,288		109,288
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	648,793				
Other payables <sup>1</sup>	788,304				
Other non-trade payables <sup>1</sup>	854,221				
Borrowings	4,550,215		4,785,180		4,785,180
	6,841,533		4,785,180		4,785,180

<sup>1</sup> Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are close to the reasonable approximate fair values.

<sup>2</sup> Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with IAS 39, Financial Instrument: Recognition and Measurement as fair values of such equity instruments cannot be reliably measured using other valuation methods.

(b) Valuation Techniques

The valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2 are as follows:

	Fair value (In millions of won)	Level	Valuation Techniques
<b>Short-term financial instruments:</b>			
Financial assets at fair value through profit or loss	1,842,020	2	The present value method
<b>Derivative financial Liabilities:</b>			
Interest swap	738	2	The present value method

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2014.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****8. Restricted Financial Instruments**

Details of restricted financial instruments as of December 31, 2014 and 2013 are as follows:

	2014	2013	Description
	(In millions of won)		
Short-term financial instruments	3	8	Restricted for government grants
	21,655	23,713	Pledged for borrowings
	4,601	5,023	Pledged for consumption tax
	46,000	34,600	Restricted for supporting small business
	4,764		Pledged for letter of credit
	584		Deposit for import duties
	77,607	63,344	
Other financial assets	308	308	Pledged for borrowings
	12	14	Bank overdraft guarantee deposit
		1,419	Deposit for import duties
	3	3	Others
	323	1,744	
	77,930	65,088	

**9. Trade Receivables and Loans and Other Receivables**

(1) Details of loans and other receivables as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
<b>Current</b>		
Other receivables	845,468	307,414
Accrued income	28,337	11,071
Short-term loans	3,504	2,665
Short-term guarantee and other deposits	4,576	2,609
	881,885	323,759
<b>Non-current</b>		
Long-term other receivables	22,880	21,152
Long-term loans	7,199	6,659
Guarantee deposits	28,585	14,409

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Long-term deposits	325	870
	58,989	43,090
	940,874	366,849

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****9. Trade Receivables and Loans and Other Receivables, continued**

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2014 and 2013 are as follows:

	<b>Gross amount</b>	<b>2014 Provision for impairment (In millions of won)</b>	<b>Carrying amount</b>
Trade receivables	3,735,845	(2,919)	3,732,926
Current loans and other receivables	883,553	(1,668)	881,885
Non-current loans and other receivables	65,023	(6,034)	58,989
	4,684,421	(10,621)	4,673,800

	<b>Gross amount</b>	<b>2013 Provision for impairment (In millions of won)</b>	<b>Carrying amount</b>
Trade receivables	1,945,121	(3,446)	1,941,675
Current loans and other receivables	325,821	(2,062)	323,759
Non-current loans and other receivables	55,600	(12,510)	43,090
	2,326,542	(18,018)	2,308,524

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the years ended December 31, 2014 and 2013 are as follows:

	<b>2014 (In millions of won)</b>	<b>2013</b>
<b>Beginning balance</b>	3,446	3,257
Provision for receivables impairment	525	174
Receivables written off during the year as uncollectible	(885)	
Foreign exchange difference	(167)	15
<b>Ending balance</b>	2,919	3,446

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2014 and 2013 are as follows:



	<b>2014</b>	<b>2013</b>
	<b>(In millions of won)</b>	
<b>Beginning balance</b>	2,062	5,035
Provision for receivables impairment	302	47
Unused amounts reversed	(1)	(2,685)
Receivables written off during the year as uncollectible	(697)	(293)
Foreign exchange difference	2	(42)
<b>Ending balance</b>	1,668	2,062

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****9. Trade Receivables and Loans and Other Receivables, continued**

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
<b>Beginning balance</b>	12,510	12,839
Provision for receivables impairment	4,636	225
Unused amounts reversed		(12)
Receivables written off during the year as uncollectible	(10,891)	(137)
Foreign exchange difference	(221)	(405)
<b>Ending balance</b>	6,034	12,510

(4) The aging analyses of trade receivables and loans and other receivables as of December 31, 2014 and 2013 are as follows:

	2014				Impaired	Total
	Not Past due	Not impaired Less than 3 months	Overdue Over 3 months and less than 6 months	Over 6 months		
	(In millions of won)					
Trade receivables	3,731,621	3,809	415			3,735,845
Current loans and other receivables	882,274				1,279	883,553
Non-current loans and other receivables	41,599				23,424	65,023
	4,655,494	3,809	415		24,703	4,684,421

	2013				Impaired	Total
	Not Past due	Not impaired Less than 3 months	Overdue Over 3 months and less than 6 months	Over 6 months		
	(In millions of won)					
Trade receivables	1,940,110	3,784	205	14	1,008	1,945,121
Current loans and other receivables	323,838				1,983	325,821
Non-current loans and other receivables	43,436				12,164	55,600

2,307,384 3,784 205 14 15,155 2,326,542

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****10. Inventories**

(1) Details of inventories as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
Finished goods	408,256	345,872
Work-in-process	762,421	608,402
Raw materials	188,037	141,625
Supplies	102,705	45,672
Goods in transit	36,144	36,729
	1,497,563	1,178,300

(2) The amount of the inventories recognized as cost of sales is as follows:

	2014	2013	2012
	(In millions of won)		
			(Unaudited)
Inventories recognized as cost of sales	9,458,480	8,594,938	8,546,702

(3) The changes in inventory valuation allowance during the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013
	(In millions of won)	
<b>Beginning balance</b>	73,116	124,889
Charged to cost of sales	20,924	5,388
Write-off upon sales	(25,512)	(57,161)
<b>Ending balance</b>	68,528	73,116

There were no significant reversals of inventory write-downs recognized during 2014 and 2013.

**11. Non-current assets held for sale**

Details of changes in non-current assets held for sale for the years ended December 31, 2014 and 2013 are as follows:

2014	2013
------	------

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	(In millions of won)	
<b>Beginning balance</b>	26,557	26,958
Disposal		(4)
Other	1,104	(397)
<b>Ending balance</b>	27,661	26,557

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****12. Other Current and Non-current Assets**

Details of other current and non-current assets as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
<b>Current</b>		
Advance payments	4,501	7,405
Prepaid expenses	156,590	128,125
Others	5,984	5,854
	167,075	141,384
<b>Non-current</b>		
Long-term prepaid expenses <sup>1</sup>	494,908	346,795
Others	13,568	19,026
	508,476	365,821
	675,551	507,205

<sup>1</sup> Long-term prepaid expenses primarily consist of prepaid royalties.**13. Investments in Associates and Joint Ventures**

(1) Details of investments in associates and joint ventures as of December 31, 2014 and 2013 are as follows:

Type	Investee	Ownership (%)	2014		2013
			Net asset value (In millions of won)	Carrying amount	Carrying amount
Associate	Siliconfile Technologies Inc. <sup>1</sup>				10,962
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45	97,090	97,090	96,135
			97,090	97,090	107,097

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<sup>1</sup> Siliconfile Technologies Inc. became a subsidiary due to the Group's additional acquisition of the remaining interest in 2014.

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2014 and 2013 are as follows:

	Beginning balance	Acquisition (disposal) <sup>1</sup>	2014 Share of profit (loss) (In millions of won)	Other equity movement	Dividend	Ending balance
Siliconfile Technologies Inc.	10,962	(10,319)	(579)	171	(235)	
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	96,135		13,084	3,535	(15,664)	97,090
	107,097	(10,319)	12,505	3,706	(15,899)	97,090

<sup>1</sup> The remeasurement to fair value of the Group's existing 27.93% interest in Siliconfile Technologies Inc. resulted in gain on disposal of 10,640 million.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****13. Investments in Associates and Joint Ventures, continued**

	Beginning balance	Acquisition (disposal)	2013		Dividend	Ending balance
			Share of profit (In millions of won)	Other equity movement		
Siliconfile Technologies Inc.	8,909		2,153	(99)		10,963
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	95,191		17,103	(1,127)	(15,033)	96,134
	104,100		19,256	(1,226)	(15,033)	107,097

(3) Associate and joint ventures summary of statements of financial position as of December 31, 2014 and 2013 is as follows:

	2014		Current liabilities (In millions of won)	Non-current liabilities
	Current assets	Non-current assets		
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	251,443	306,344	289,990	52,042

	2013		Current liabilities (In millions of won)	Non-current liabilities
	Current assets	Non-current assets		
Siliconfile Technologies Inc.	44,042	19,644	26,034	1,860
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	213,172	353,432	182,036	170,935

(4) Associate and joint ventures summary statements of comprehensive income for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014		2013		2012 (Unaudited)	
	Revenue	Profit (loss) for the year	Revenue (In millions of won)	Profit for the year	Revenue	Profit for the year
Siliconfile Technologies Inc. <sup>1</sup>	40,339	(2,072)	131,914	7,708	131,126	3,083
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	608,300	29,077	566,065	38,008	597,091	37,892

<sup>1</sup> Siliconfile Technologies Inc. became a subsidiary due to the Group's additional acquisition of the remaining interest on April 22, 2014. Accordingly, the information presented in the above table includes the results of Siliconfile Technologies Inc. only for the period from January 1 to April 22, 2014.





**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****14. Available-for-sale Financial Assets**

(1) Details of available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

	Number of stock	2014 Ownership (%)	2014 Acquisition cost (In millions of won)	Book value	2013 Book value
Hyundai Information Technology Co, Ltd.					1,885
HYUNDAI LOGISTICS CO., LTD.					98
EQ bestech Co., Ltd.					10
Itest Co., Ltd.					768
Hyundai IBT Co., Ltd.					4
Fidelix Co., Ltd.					3,870
iA, Inc. (formerly, C&S Technology Co., Ltd.)					3,389
Phison Electronics Corp.					22,050
ProMos	201,600,000	7.93	21,847		
JNT Frontier Private Equity Unit	Certificate		1,307	1,307	1,307
SV M&A No.1 Equity Unit	Certificate		1,196	1,196	1,196
Daishin Aju IB Investment Co., Ltd.	Certificate		1,265	1,265	1,518
Seoul Investment Early & Green Venture Fund	Certificate		1,760	1,760	1,867
TS 2011-4 Technology Transfer & Business	Certificate		1,262	1,262	1,600
IMM Investment			1,040	1,040	786
L&S Venture Capital	Certificate		1,899	1,899	1,124
KTC-NP-Growth	Certificate		516	516	540
Intellectual Discovery, Ltd.	800,000	8.94	4,000	4,000	4,000
SKY Property Mgmt. Ltd.	5,745	15	112,360	112,360	112,360
Equity investment in a construction guarantee association	526	0.01	709	709	396
Others			199		2
			149,360	127,314	158,770

(2) Changes in the carrying amount of available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

	2014 (In millions of won)	2013 (In millions of won)
<b>Beginning balance</b>	158,770	44,297
Acquisition	1,414	115,564
Disposal	(32,870)	(125)
Change in fair value		(966)
<b>Ending balance</b>	127,314	158,770



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****15. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows:

	2014							Total
	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	
<b>Beginning net book amount</b>	504,398	1,309,816	207,299	9,222,376	227	209,111	676,570	12,129,797
<b>Changes during 2014</b>								
Additions		59,216	12,454	160,039	71	26,552	5,160,807	5,419,139
Receipt of government grants				(502)				(502)
Business combination and disposal of a subsidiary			(468)	(5,945)	27	1,462	(242)	(5,166)
Disposals		(1,114)	(1,437)	(197,242)	(14)	(734)	(5,231)	(205,772)
Depreciation		(55,986)	(21,260)	(3,117,150)	(177)	(73,893)		(3,268,466)
Transfers	38,097	139,858	83,673	3,874,433	730	90,310	4,228,187	(1,086)
Impairments		(23,620)	(1,777)	(4,139)				(29,536)
Exchange differences	457	5,371	3,707	42,431	(1)	1,321	(1,360)	51,926
<b>Ending net book amount</b>	542,952	1,433,541	282,191	9,974,301	863	254,129	1,602,357	14,090,334
Acquisition cost	542,952	2,020,429	621,345	34,956,922	3,037	772,844	1,602,357	40,519,886
Accumulated depreciation		(562,724)	(319,991)	(24,721,171)	(2,174)	(516,775)		(26,122,835)
Accumulated impairment		(23,847)	(19,163)	(254,597)		(1,646)		(299,253)
Government grants		(317)		(6,853)		(294)		(7,464)
	542,952	1,433,541	282,191	9,974,301	863	254,129	1,602,357	14,090,334

  

	2013							Total
	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction -in-progress	
<b>Beginning net book amount</b>	462,067	1,301,330	181,615	9,033,566	340	188,021	419,253	11,586,192
<b>Changes during 2013</b>								
Additions	226	125	82	14,682	34	6,486	3,528,676	3,550,311
Business combination				47		12		59
Disposals	(33)	(3,347)	(690)	(7,423)		(565)	(336)	(12,394)
Depreciation		(52,154)	(19,600)	(2,788,978)	(148)	(60,086)		(2,920,966)
Transfers	42,302	62,012	46,149	3,031,495	13	75,393	(3,257,364)	
Impairments		(985)	(1,507)	(88,407)			(10,633)	(101,532)
Exchange differences	(164)	2,835	1,250	27,394	(12)	(150)	(3,026)	28,127
<b>Ending net book amount</b>	504,398	1,309,816	207,299	9,222,376	227	209,111	676,570	12,129,797

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Acquisition cost	504,398	1,853,434	533,333	31,885,948	2,412	741,869	676,570	36,197,964
Accumulated depreciation		(518,446)	(304,622)	(22,299,425)	(2,185)	(530,357)		(23,655,035)
Accumulated impairment		(24,841)	(21,412)	(356,843)		(2,289)		(405,385)
Government grants		(331)		(7,304)		(112)		(7,747)
	504,398	1,309,816	207,299	9,222,376	227	209,111	676,570	12,129,797

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****15. Property, Plant and Equipment, continued**

(2) Details of depreciation expense allocation for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
Cost of sales	3,040,674	2,616,341	2,859,445
Selling and administrative expenses	197,196	154,673	179,425
Other expenses <sup>1</sup>	4,902	122,471	
Development costs	25,694	27,481	17,706
	3,268,466	2,920,966	3,056,576

<sup>1</sup> During 2013, depreciation expense of 122,471 million related to idle assets of the manufacturing facility in Wuxi, China, has been charged to casualty losses in other expenses (note 30).

(3) Impairment of 4,139 million (2013: 101,532 million and 2012: nil - unaudited) has been charged to casualty losses caused by a fire on the manufacturing facilities in Wuxi, China, which is included in other expenses (Note 30).

(4) Certain property, plant and equipment are pledged as collaterals for borrowings as of December 31, 2014 (Note 34).

(5) During 2014, the Group capitalized borrowing costs amounting to 20,762 million (2013: 7,687 million and 2012: 5,859 million - unaudited) on qualifying assets. Borrowing costs were calculated using a capitalization rate of 5.08% (2013: 3.87% and 2012: 2.96% - unaudited) for the year ended December 31, 2014.

(6) The Group leases certain machinery and others from ME Semiconductor Rental First L.L.C. and other under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to 165,414 million as of December 31, 2014 (as of December 31, 2013: 242,187 million). The machinery and others are pledged as collateral for the finance lease liabilities.

The Group leases certain machinery and others from Macquarie Capital and others under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of December 31, 2014 is as follows:

	Minimum lease payments (In millions of won)
No later than 1 year	57,325
Later than 1 year	133,943
	191,268



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****15. Property, Plant and Equipment, continued**

(7) As of December 31, 2014, certain inventories; property, plant and equipment; and investment properties are insured and details of insured assets is as follows:

	<b>Insured assets</b>	<b>Insured amount (In millions of won)</b>	<b>Insurance Company</b>
Package insurance	Property, plant and equipment, inventories and others		
	Business interruption	36,717,090	
Fire insurance	Property, plant and equipment, investment property		Hyundai Marine & Fire Insurance Co., Ltd. and others
Erection all risks insurance	Property, plant and equipment	415,948	
		37,133,038	

**16. Intangible Assets**

(1) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

	<b>Goodwill</b>	<b>Industrial property rights</b>	<b>2014 Development costs (In millions of won)</b>	<b>Others<sup>1</sup></b>	<b>Total</b>
<b>Beginning net book amount</b>	632,311	73,860	276,930	127,302	1,110,403
<b>Changes during 2014</b>					
Additions		32,229	181,287	122,775	336,291
Receipt of government grants				(19,739)	(19,739)
Business combinations	62,618			21,858	84,476
Disposals		(9,428)		(380)	(9,808)
Impairment				(529)	(529)
Amortization		(13,374)	(138,389)	(22,512)	(174,275)
Other	9,256	463	(4)	146	9,861
<b>Ending net book amount</b>	704,185	83,750	319,824	228,921	1,336,680
Acquisition cost	704,185	173,828	777,226	301,252	1,956,491
Accumulated amortization and impairment		(90,078)	(457,402)	(34,987)	(582,467)
Government grants				(37,344)	(37,344)



704,185      83,750      319,824      228,921      1,336,680

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****16. Intangible Assets, continued**

	Goodwill	Industrial property rights	2013		Total
			Development costs (In millions of won)	Others <sup>1</sup>	
<b>Beginning net book amount</b>	633,170	92,188	223,188	35,084	983,630
<b>Changes during 2013</b>					
Additions		13,187	190,271	98,038	301,496
Business combinations	2,905			684	3,589
Disposals		(17,288)			(17,288)
Impairment				(183)	(183)
Amortization		(14,227)	(136,534)	(5,515)	(156,276)
Other	(3,764)		5	(806)	(4,565)
<b>Ending net book amount</b>	632,311	73,860	276,930	127,302	1,110,403
Acquisition cost	632,311	164,125	595,943	161,329	1,553,708
Accumulated amortization and impairment		(90,265)	(319,013)	(16,813)	(426,091)
Government grants				(17,214)	(17,214)
	632,311	73,860	276,930	127,302	1,110,403

<sup>1</sup> Others include software and club memberships.

(2) Amortization of 3,106 million (2013: 501 million and 2012: 54 million - unaudited) is included in the cost of sales and 171,169 million (2013: 155,775 million and 2012: 145,644 million - unaudited) in selling and administrative expenses in the statements of comprehensive income for the year ended December 31, 2014.

(3) Among costs associated with development activities, 181,287 million (2013: 190,271 million and 2012: 130,576 million unaudited) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2014. In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to 1,409,530 million (2013: 968,804 million and 2012: 975,057 million unaudited) were recognized as expenses for the year ended December 31, 2014.

(4) Goodwill impairment tests

Goodwill impairment tests are undertaken annually. As the Group has only one CGU, goodwill was allocated to one CGU. Recoverable amount of the CGU was determined based on fair value less costs to sell, which was determined using the current stock price as of December 31, 2014. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2014.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****17. Investment Property**

Changes in investment property during the years ended December 31, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
	<b>(In millions of won)</b>	
<b>Beginning net book amount</b>	28,609	29,888
<b>Changes for the year</b>		
Depreciation	(1,239)	(1,279)
Transfer <sup>1</sup>	1,086	
<b>Ending net book amount</b>	28,456	28,609
Acquisition cost	50,839	48,390
Accumulated depreciation	(22,383)	(19,781)
	28,456	28,609

<sup>1</sup> Transfer from property, plant and equipment.

The depreciation expense of 1,239 million was charged to cost of sales for the year ended December 31, 2014 (2013: 1,279 million and 2012: 1,280 million unaudited).

Rental income from investment property during the year ended December 31, 2014 was 4,534 million (2013: 4,283 million and 2012: 4,666 million unaudited).

**18. Borrowings**

(1) Details of borrowings as of December 31, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
	<b>(In millions of won)</b>	
<b>Current</b>		
Short-term borrowings	734,165	137,979
Current installments of debentures	200,000	
Current installments of long-term borrowings	820,855	732,341
	1,755,020	870,320
<b>Non-current</b>		
Debentures	1,156,967	1,450,777

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Convertible bonds		498,935
Long-term borrowings	1,262,772	1,730,183
	2,419,739	3,679,895
	4,174,759	4,550,215

(2) Details of short-term borrowings as of December 31, 2014 and 2013 are as follows:

	Financial Institutions	Annual interest rate in 2014 (%)	2014 (In millions of won)	2013
Import finance	Woori Bank	0.58	22,060	10,610
Borrowings on trade receivables collateral		3M LIBOR +		
	NH NongHyup Bank and others	0.47 ~ 0.55	220,663	
Refinancing and others	China Construction Bank and others	1.23 ~ 3.20	491,442	127,369
			734,165	137,979

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(3) Details of long-term borrowings as of December 31, 2014 and 2013 are as follows:

	Financial institutions	Annual interest rate in 2014 (%)	2014 (In millions of won)	2013
<b>Local currency borrowings:</b>				
Borrowing for housing	Kookmin Bank	3.5	10	24
Borrowings for childcare facilities	NongHyup Bank	2	185	246
Funds for equipment	Korea Finance Corporation	Industrial financial debentures (4 years) <sup>2</sup> + 1.31	250,000	250,000
Funds for equipment	Korea Exchange Bank	CD (91days) <sup>3</sup> + 1.31	50,000	50,000
Commercial paper	Korea Exchange Bank	3.9	200,000	370,000
Finance lease liabilities	ME Semiconductor Rental First L.L.C.	5	147,870	212,442
			648,065	882,712
<b>Foreign currency borrowings:</b>				
General borrowings	Export-Import Bank of Korea	3M LIBOR <sup>4</sup> + 3.15	274,800	105,530
General borrowings <sup>1</sup>	Standard Chartered Bank Korea Ltd.	3M LIBOR <sup>4</sup> + 3.00	12,366	86,271
General borrowings	Hana Bank			23,744
General borrowings	Korea Development Bank	Exchange equalization fund rate <sup>5</sup> + 0.60	109,920	316,590
General borrowings	Comerica Bank			32,954
General borrowings	NongHyup Bank and others	Exchange equalization fund rate <sup>5</sup> + 0.63	175,872	
General borrowings	NongHyup Bank and others	3M LIBOR <sup>4</sup> + 3.19 ~ 3.79	274,800	263,825
General borrowings	Agricultural Bank of China and other	3M LIBOR <sup>4</sup> + 2.65	182,841	280,212
Syndicated loans	Development Bank of China and others	3M LIBOR <sup>4</sup> + 2.95	209,348	298,787
Funds for equipment	Standard Chartered Bank Korea Ltd.	3M LIBOR <sup>4</sup> + 3.45	118,653	
Mortgage loans	HITECH	7.16	18,162	96,236
Finance lease liabilities	HITECH and others	4.70 ~ 7.16	59,415	81,615
			1,436,177	1,585,764
			2,084,242	2,468,476
Less: Discount on present value			(615)	(5,952)
Current maturities			(820,855)	(732,341)

1,262,772 1,730,183

<sup>1</sup> The Group entered into interest swap contracts with Standard Chartered Bank Korea Ltd for the interest on the foreign currency loans.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****18. Borrowings, continued**

<sup>2</sup> As of December 31, 2014, industrial financial debentures (4 years) rate is 3.05%.

<sup>3</sup> As of December 31, 2014, CD (91 days) rate is 2.13%.

<sup>4</sup> As of December 31, 2014, 3M LIBOR rate is 0.2552%.

<sup>5</sup> As of December 31, 2014, exchange equalization fund rate is 0.78%.

(4) Details of debentures as of December 31, 2014 and 2013 are as follows:

	<b>Maturity date</b>	<b>Annual interest rate in 2014 (%)</b>	<b>2014</b>	<b>2013</b>
			<b>(In millions of won)</b>	
<b>Unsecured notes in local currency:</b>				
210th	Jan. 14, 2015	6.35	200,000	200,000
211th	May 6, 2016	6.20	400,000	400,000
212th	May 30, 2019	5.35	450,000	550,000
213th	Sep. 4, 2017	3.72	200,000	200,000
<b>Secured notes in foreign currency</b>				
Foreign 8th <sup>1</sup>	Jun. 20, 2017	3M Libor + 2.85	109,920	105,530
			1,359,920	1,455,530
Less: Discounts on debentures			(2,953)	(4,753)
Current portion			(200,000)	
			1,156,967	1,450,777

<sup>1</sup> The Group is provided with USD100 million of payment guarantee from Shinhan Bank as of December 31, 2014.

(5) Details of convertible bonds as of December 31, 2014 and 2013 are as follows:

	<b>Maturity date</b>	<b>Annual interest rate in 2014 (%)</b>	<b>2014</b>	<b>2013</b>
			<b>(In millions of won)</b>	
<b>Convertible bond in foreign currency:</b>				
Foreign 7th <sup>1</sup>	May 14, 2015			527,650

	527,650
Less: Conversion rights adjustment	(26,434)
Discount on bonds	(2,281)
	498,935

<sup>1</sup> The entire convertible bond was converted or repaid during the year ended December 31, 2014.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****18. Borrowings, continued**

## (6) Finance lease liability

Lease liabilities are effectively secured as the rights to the leased asset belong to the lessor.

Details of future minimum lease payments to the lessor as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
<b>Total minimum lease payment</b>		
No later than 1 year	106,318	103,077
Between 1 and 5 years	116,277	216,391
	222,595	319,468
<b>Discount on present value</b>	(16,346)	(25,410)
<b>Net minimum lease payment</b>		
No later than 1 year	97,567	90,139
Between 1 and 5 years	108,682	203,919
	206,249	294,058

(7) Details of book value and fair value of non-current borrowings as of December 31, 2014 and 2013 are as follows:

	2014		2013	
	Book value	Fair value	Book value	Fair value
	(In millions of won)			
Long-term borrowings	1,262,772	1,271,718	1,730,183	1,759,397
Debentures	1,156,967	1,217,236	1,450,777	1,501,810
Convertible bond			498,935	653,653
	2,419,739	2,488,954	3,679,895	3,914,860

**19. Other Current and Non-current Liabilities**

Details of other current and non-current liabilities as of December 31, 2014 and 2013 are as follows:

2014	2013
(In millions of won)	

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<b>Current</b>		
Advance receipts	2,682	2,616
Unearned income	322	2,403
Withholdings	67,174	21,180
Deposits received	858	531
Others	163	110
	71,199	26,840
<b>Non-current</b>		
Long-term advance receipts		155
Long-term withholdings		935
Other long-term employee benefits	59,464	51,280
	59,464	52,370
	130,663	79,210

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****20. Provisions**

(1) Details of changes in provisions for the years ended December 31, 2014 and 2013 are as follows:

	Beginning balance	Increase	2014		Ending balance
			Utilization	Reversal	
			(In millions of won)		
Warranty	13,914	10,862	(17,890)		6,886
Sales returns	12,564	51,148	(49,066)		14,646
Legal claims	26,106		(21,031)	(675)	4,400
	52,584	62,010	(87,987)	(675)	25,932

	Beginning balance	Increase	2013			Ending balance
			Utilization	Reversal	Other <sup>1</sup>	
			(In millions of won)			
Warranty	2,949	13,656	(2,691)			13,914
Sales returns	5,305	12,564	(5,305)			12,564
Legal claims	322,361	58,959	(158,762)	(211,152)	14,700	26,106
	330,615	85,179	(166,758)	(211,152)	14,700	52,584

<sup>1</sup> Others include foreign exchange rate differences.

**(2) Provisions for warranty**

The Group estimates the expected warranty costs based on historical results and accrues provisions for warranty.

**(3) Provisions for sales returns**

The Group estimates the expected sales returns based on historical results and adjusts sales and cost of sales, respectively. Accordingly, related gross profit and estimated expenses related to the return (such as transportation costs) are recorded as provisions for sales returns.

**(4) Provisions for legal claims**

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated.

**21. Defined Benefit Liabilities**

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(1) Details of defined benefit liabilities as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
Present value of defined benefit obligations	887,277	656,080
Fair value of plan assets	(421,927)	(20,340)
	465,350	635,740

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****21. Defined Benefit Liabilities, continued**

(2) Principal actuarial assumptions as of December 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate for defined benefit obligations <sup>1</sup>	3.19% ~ 4.50%	1.11% ~ 5.85%
Expected rate of salary increase	4.92% ~ 5.81%	4.92% ~ 6.18%

<sup>1</sup> As of December 31, 2014, discount rate of 3.19% was applied for SK hystec Inc., which comprises 0.8% of total defined benefit liabilities, and 4.50% was applied for the others in defined benefit liabilities. As of December 31, 2013, 1.11% of discount rate was applied for SKHYJ, which comprises 0.2% of total defined benefit liabilities, and 4.26% to 5.85% was applied for the others.

(3) Weighted average durations of defined benefit obligations as of December 31, 2014 and 2013 are 12.67 and 13.07 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
<b>Beginning balance</b>	656,080	592,171
Current service cost	109,403	98,095
Interest cost	35,442	28,079
Benefits paid	(35,529)	(46,538)
Remeasurements:		
Demographic assumption	7	
Financial assumption	119,206	(18,324)
Adjustment based on experience	262	2,559
Business combinations and disposal of a subsidiary	1,711	
Transfer from associates	552	344
Others	143	(306)
<b>Ending balance</b>	887,277	656,080

(5) Changes in plan assets for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
<b>Beginning balance</b>	20,340	17,075
Interest income	1,413	679
Contributions	402,894	4,131
Benefits paid	(1,385)	(1,367)

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Remeasurements	(399)	(178)
Business combinations and disposal of a subsidiary	(1,133)	
Others	197	
<b>Ending balance</b>	421,927	20,340

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****21. Defined Benefit Liabilities, continued**

(6) The amounts recognized in profit or loss for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
Current service cost	109,403	98,095	81,034
Net interest expense	34,029	27,400	26,696
	143,432	125,495	107,730

(7) The amounts in which defined benefit plan related expenses are included for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
Cost of sales (manufacturing costs)	82,922	73,950	68,462
Selling and administrative expenses	60,510	51,545	39,268
	143,432	125,495	107,730

(8) Details of plan assets as of December 31, 2014 and 2013 are as follows:

	2014 (In millions of won)	2013 (In millions of won)
Deposits	420,300	18,485
Other	1,627	1,855
	421,927	20,340

Actual return on plan assets for the year ended December 31, 2014 amounted to 1,014 million (2013: 492 million and 2012: 274 million - unaudited).

(9) As of December 31, 2014, the Group funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies.

(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2014 to changes in the principal assumptions is as follows:

	Effects on defined benefit obligation	
	Increase of rate	Decrease of rate
	(In millions of won)	
Discount rate (if changed by 1%)	(100,702)	119,599
Expected rate of salary increase (if changed by 1%)	120,284	(103,002)

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****22. Deferred Income Tax**

(1) Changes in deferred taxes for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
<b>At January 1</b>	198,570	378,366
Recorded in profit or loss	69,176	(180,928)
Tax charge relating to components of other comprehensive income		311
Exchange differences	893	821
<b>At December 31</b>	268,639	198,570

(2) Changes in deferred income tax assets and liabilities for the years ended December 31, 2014 and 2013 without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	January 1, 2014	Profit or loss	2014 Other comprehensive income (In millions of won)	Currency translation differences	December 31, 2014
<b>Deferred tax liabilities:</b>					
Advanced depreciation provision	(55,666)				(55,666)
Valuation of derivatives	(5,452)	5,244			(208)
Gains on foreign currency translation	(2,597)	261		11	(2,325)
Conversion rights adjustment	(6,827)	6,827			
Plan assets	(725)	(96,177)			(96,902)
Others	(13,897)	(2,996)		(74)	(16,967)
	(85,164)	(86,841)		(63)	(172,068)
<b>Deferred tax assets:</b>					
Loss on valuation of inventories	18,876	(873)		(2)	18,001
Valuation of equity-method investments	216,334	35,920		(1,572)	250,682
Accumulated depreciation	92,829	(41,917)		776	51,688
Net defined benefits	137,578	49,091		(42)	186,627
Deemed investments and others	162,390	(395)			161,995
Provisions and others	5,816	(4,750)			1,066
Impairment of available-for-sale financial assets	40,134	(2,896)			37,238
Losses on foreign currency translation	2,546	(24)			2,522
Property, plant and equipment	15,217	(11,836)			3,381
Losses on valuation of derivative	31,367	(30,981)			386
Tax loss carryforwards	72,736	(50,412)		1,257	23,581

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Tax credit carryforwards	642,121	(76,048)	131	566,204
Others	209,967	30,701	5,938	246,606
	1,647,911	(104,420)	6,486	1,549,977
Deferred tax assets, net	1,562,747	(191,261)	6,423	1,377,909
Deferred tax assets not recognized	(1,364,177)	260,437	(5,530)	(1,109,270)
<b>Deferred tax assets recognized</b>	198,570	69,176	893	268,639

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****22. Deferred Income Tax, continued**

	January 1, 2013	Profit or loss	2013 Other comprehensive income (In millions of won)	Currency translation differences	December 31, 2013
<b>Deferred tax liabilities:</b>					
Advanced depreciation provision	(55,666)				(55,666)
Valuation of derivatives	(5,356)	(96)			(5,452)
Gains on foreign currency translation	(30,398)	27,801			(2,597)
Conversion rights adjustment	(14,944)	8,117			(6,827)
Others	(19,676)	4,720	311	23	(14,622)
	(126,040)	40,542	311	23	(85,164)
<b>Deferred tax assets:</b>					
Loss on valuation of inventories	27,804	(8,915)		(13)	18,876
Valuation of equity-method investments	322,919	(111,402)		4,817	216,334
Accumulated depreciation	98,499	(6,214)		544	92,829
Net defined benefits	107,219	30,414		(55)	137,578
Deemed investments and others	162,507	(117)			162,390
Provisions and others	104,468	(98,652)			5,816
Impairment of available-for-sale financial assets	36,964	3,170			40,134
Losses on foreign currency translation	29,906	(27,360)			2,546
Property, plant and equipment	24,439	(9,222)			15,217
Losses on valuation of derivative	9,182	22,185			31,367
Tax loss carryforwards	612,111	(538,748)		(627)	72,736
Tax credit carryforwards	658,899	(16,732)		(46)	642,121
Others	230,455	(18,423)		(2,065)	209,967
	2,425,372	(780,016)		2,555	1,647,911
Deferred tax assets, net	2,299,332	(739,474)	311	2,578	1,562,747
Deferred tax assets not recognized	(1,920,966)	558,546		(1,757)	(1,364,177)
<b>Deferred tax assets recognized</b>	<b>378,366</b>	<b>(180,928)</b>	<b>311</b>	<b>821</b>	<b>198,570</b>

(3) Deferred tax assets are recognized for deductible temporary differences, tax loss carryforwards and tax credit carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

As of December 31, 2014 and 2013 the Group recognized the entire deferred tax assets for tax loss carryforwards which are deductible from future taxable income.

In addition, the Group did not recognize deferred tax assets of 722,182 million (2013: 799,182 million) associated with deductible temporary differences amounting to 2,984,230 million (2013: 3,302,398 million).

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For the year ended December 31, 2014, 148,052 million (2013: 108,433) of tax credit incurred which can be utilized in the future period. The unused tax credit and others that were not recognized as deferred tax assets amounted to 387,088 million (2013: 564,995 million) as of December 31, 2014.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****22. Deferred Income Tax, continued**

(4) Expiration schedule of tax loss carryforwards and tax credit carryforwards as of December 31, 2014 is as follows:

	Tax loss carryforwards	Tax credit carryforwards
	(In millions of won)	
2015		22,231
2016		140,030
2017		144,840
2018		107,851
Thereafter	62,878	151,252
	62,878	566,204

**23. Derivative Financial Instruments**

(1) The Group has managed financial risk including interest rate risk and foreign exchange risk through interest rate swaps and other derivative instruments. In addition, the Group bifurcated convertible options and separately accounted for them as derivative instruments which were embedded in the foreign-currency convertible bond. These convertible options were measured at fair value and changes in therein were recognized in profit or loss.

(2) Details of derivative financial assets and liabilities as of December 31, 2014 and 2013 are as follows:

	2014	2013	
	Liabilities	Assets	Liabilities
	(In millions of won)		
<b>Current</b>			
Interest rates swap	30		2,194
	30		2,194
<b>Non-current</b>			
Interest rates swap	708	272	245
Embedded derivative instruments			106,849
	708	272	107,094
	738	272	109,288

(3) Details of gains and losses from derivative instruments for the years ended December 31, 2014, 2013 and 2012 are follows:

	Gain on valuation	Loss on valuation	2014	
			Gain on transaction	Loss on transaction
(In millions of won)				
Interest rates swap	215	980	2,955	237
Embedded derivative instruments		171,016		2,691
	215	171,996	2,955	2,928

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****23. Derivative Financial Instruments, continued**

	Gain on valuation	2013		Loss on transaction
		Loss on valuation	Gain on transaction	
(In millions of won)				
Foreign currency forward contract			3,630	5,308
Interest rates swap	2,507		26	1,242
Embedded derivative instruments		93,085		
	2,507	93,085	3,656	6,550

  

	Gain on valuation	2012 (Unaudited)		Loss on transaction
		Loss on valuation	Gain on transaction	
(In millions of won)				
Foreign currency forward contract			913	4,924
Interest and principal swap			1,450	4,030
Interest rates swap	1,359	613	675	1,858
Embedded derivative instruments		7,305	12	
	1,359	7,918	3,050	10,812

**24. Capital Stock, Capital Surplus and Other Equity**

(1) Details of capital stock, capital surplus and other equity as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won, thousands of shares)	
Authorized shares	9,000,000	9,000,000
Issued shares <sup>1</sup>	731,530	713,729
Capital stock:		
Common stock	3,657,652	3,568,645
Capital surplus:		
Additional paid in capital	3,625,797	2,888,144
Consideration for conversion rights	42,928	42,928
Others	475,011	475,011

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	4,143,736	3,406,083
Other equity		
Acquisition cost of treasury shares	(24)	
Number of treasury shares	1	

<sup>1</sup> As of December 31, 2014, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the result of stock retirement.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****24. Capital Stock, Capital Surplus and Other Equity, continued**

(2) Issue of ordinary shares related to the acquisition of a subsidiary and exercise of conversion rights resulted in increase in both capital stock and capital surplus during the year ended December 31, 2014. Changes in number of outstanding shares as of December 31, 2014 and December 31, 2013 are as follows:

	2014	2013
	(In thousands of shares)	
<b>Beginning</b>	710,201	694,156
Issue of ordinary shares related to the acquisition of a subsidiary	1,358	
Exercise of conversion rights	16,443	16,045
<b>Ending</b>	728,002	710,201

**25. Accumulated Other Comprehensive Loss**

(1) Details of accumulated other comprehensive loss as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
Available-for-sale financial assets unrealized net change in fair value		7,824
Equity-accounted investees share of other comprehensive loss	(4,631)	(8,337)
Foreign operations foreign currency translation differences	(37,184)	(108,294)
	(41,815)	(108,807)

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013 are as follows:

	Beginning	Change	2014 Reclassification to profit or loss (In millions of won)	Ending
Available-for-sale financial assets unrealized net change in fair value	7,824	(7,824)		
Equity-accounted investees share of other comprehensive loss	(8,337)	3,706		(4,631)
Foreign operations foreign currency translation differences	(108,294)	71,110		(37,184)
	(108,807)	66,992		(41,815)

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	<b>Beginning</b>	<b>Change</b>	<b>2013 Reclassification to profit or loss (In millions of won)</b>	<b>Ending</b>
Available-for-sale financial assets unrealized net change in fair value	8,479	(655)		7,824
Equity-accounted investees share of other comprehensive loss	(7,111)	(1,226)		(8,337)
Foreign operations foreign currency translation differences	(116,770)	8,476		(108,294)
	(115,402)	6,595		(108,807)

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****26. Retained Earnings**

(1) Retained earnings as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In millions of won)	
Legal reserve <sup>1</sup>	8,854	8,854
Discretionary reserve <sup>2</sup>	235,506	235,506
Unappropriated retained earnings	10,032,544	5,956,962
	10,276,904	6,201,322

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial year, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit.

<sup>2</sup> Discretionary reserve is a reserve for technology development.

(2) Dividends of the Parent Company for the years ended December 31, 2014, 2013 and 2012 are as follows:

(a) Details of dividends for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
	(In millions of won and In thousands of shares)		
Type of dividends	Cash Dividends		
Outstanding ordinary shares	728,002	710,201	694,156
Par value (in won)	5,000	5,000	5,000
Dividend rate	6%		
Total dividends	218,401		

(b) Dividend payout ratio for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
	(In millions of won)		
Dividends	218,401		

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Profit (loss) attributable to owners of the Parent Company	4,195,456	2,872,470	(158,886)
Dividend payout ratio	5.21%		

(c) Dividend yield ratio for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014	2013 (In won)	2012 (Unaudited)
Dividends per share	300		
Closing price	47,750	36,800	25,750
Dividend yield ratio	0.63%		

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****27. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2014, 2013 and 2012 are as follows:

	<b>2014</b>	<b>2013<sup>1</sup></b> (In millions of won)	<b>2012<sup>1</sup></b> (Unaudited)
Salaries	351,318	265,137	211,210
Defined benefit plan related expenses	22,801	19,132	16,702
Employee benefits	60,277	60,459	57,502
Commission expense	211,111	158,107	161,783
Depreciation	58,608	51,240	55,602
Amortization	169,844	155,313	145,154
Research and development	1,409,530	968,804	975,057
Freight and custody charge	37,453	33,201	13,812
Legal cost	7,210	11,374	34,204
Rental expense	11,521	14,650	15,257
Taxes and dues	15,145	17,912	10,231
Training expense	42,737	26,863	15,660
Sales promotional expenses	31,018	28,414	22,788
Utility expense	5,673	10,804	10,924
Supplies	42,737	26,863	16,859
Repair expense	9,994	19,890	11,649
Other	67,398	52,567	64,176
	2,554,375	1,920,730	1,838,570

<sup>1</sup> Expenses for the years ended December 31, 2013 and 2012 are reclassified to conform with the classification for the year ended December 31, 2014.

**28. Expenses by Nature**

Nature of expenses for the years ended December 31, 2014, 2013 and 2012 is as follows:

	<b>2014</b>	<b>2013<sup>2</sup></b> (In millions of won)	<b>2012<sup>2</sup></b> (Unaudited)
Changes in finished goods and work-in-process	(216,403)	292,330	(332,250)
Raw materials and consumables	2,595,972	2,328,140	2,677,328
Employee benefit expenses	2,429,533	1,969,650	1,551,700
Depreciation and amortization	3,439,078	2,956,040	3,193,513
Royalty expense	167,167	14,597	167,352

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Commission expense	723,946	445,231	371,975
Utilities expense	616,422	552,413	496,753
Repair expense	1,032,816	1,031,023	911,792
Outsourcing expense	1,018,075	952,457	1,015,512
Other	209,494	243,436	335,884
Total <sup>1</sup>	12,016,100	10,785,317	10,389,559

<sup>1</sup> Total expenses consist of cost of sales and selling and administrative expenses.

<sup>2</sup> Expenses for the years ended December 31, 2013 and 2012 were reclassified to conform with the classification for the year ended December 31, 2014.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****29. Finance Income and Expenses**

Finance income and expenses for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012 (Unaudited)
	(In millions of won)		
<b>Finance income:</b>			
Interest income	52,122	66,410	80,154
Dividend income	1,233	2,381	216
Gain on disposal of financial assets	38,547	205	5,944
Foreign exchange differences	576,577	485,411	598,986
Gain from derivative instruments	3,170	6,163	4,409
Gain on valuation of financial assets at fair value through profit or loss	6,921		
	678,570	560,570	689,709
<b>Finance expenses:</b>			
Interest expenses	170,363	256,623	317,926
Loss on disposal of financial assets	3,500		
Foreign exchange differences	448,060	391,071	335,468
Loss on redemption of debentures	2,924		10,470
Loss from derivative instruments	174,924	99,635	18,730
	799,771	747,329	682,594
<b>Net finance income (expense)</b>	<b>(121,201)</b>	<b>(186,759)</b>	<b>7,115</b>

**30. Other Income and Expenses**

Other income for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012 (Unaudited)
	(In millions of won)		
Rental income			17,425
Gain on disposal of assets held-for-sale			18
Gain on disposal of property, plant and equipment	5,611	9,560	3,231
Gain on disposal of intangible assets		191	298
Insurance compensation <sup>1</sup>	587,429	327,659	
Other	25,644	31,103	46,158

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****30. Other Income and Expenses, continued**

Other expenses for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
Loss on disposal of property, plant and equipment	11,522	7,952	1,369
Loss on disposal of intangible assets	9,522	17,278	5,672
Donation	16,111	3,222	2,614
Loss on disposal of trade receivables	3,756	3,317	1,031
Loss on impairment of property, plant and equipment	25,397		
Loss on impairment of intangible assets	529	183	265
Amortization of suspended assets	4,902	3,254	10,041
Casualty losses <sup>1</sup>	123,957	450,752	
Other <sup>2</sup>	386,728	19,912	41,918
	582,424	505,870	62,910

<sup>1</sup> For the year ended December 31, 2014, the Group recognized casualty losses of 123,957 million (2013: 450,752 million) caused by a fire in the manufacturing facilities located in Wuxi, China, which includes impairment losses on property, plant and equipment, impairment losses on inventories, depreciation of temporarily idle property, plant and equipment and others. In 2014, the Group and insurance companies reached an agreement about the insurance compensation amounting to USD560 million ( 587,429 million), which was recognized as other income (2013: 327,659 million).

<sup>2</sup> Expenses related to settlement of trade secret lawsuit alleged by Toshiba Corporation amounting to USD 278 million ( 306,161 million equivalent) during 2014 are included (Note 34 (1)).

**31. Income Tax Expense**

(1) Income tax expense for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
<b>Current tax:</b>			
Current tax on profits for the year	922,228	22,728	29,555
Adjustments in respect of prior years	(551)	(1,588)	(657)
	921,677	21,140	28,898

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<b>Deferred tax:</b>			
Origination and reversal of temporary differences	(69,176)	180,928	(69,404)
	(69,176)	180,928	(69,404)
<b>Income tax expense</b>	852,501	202,068	(40,506)

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****31. Income Tax Expense, continued**

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
<b>Profit (loss) before tax</b>	5,047,670	3,074,925	(199,301)
<b>Tax calculated at domestic tax rates applicable to profits in the respective countries</b>	1,181,621	744,847	(89,590)
<b>Tax effects of:</b>			
Tax-exempt income	(13)	76	(469)
Non-deductible expenses	71,531	13,545	4,123
Tax credit	(148,052)	(108,433)	(140,711)
Changes in unrecognized deferred tax assets	(260,437)	(450,113)	183,314
Others	7,851	2,146	2,827
<b>Income tax expense</b>	852,501	202,068	(40,506)

(3) The income taxes recorded directly in equity for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
Recognized in other comprehensive income: Gains (loss) on valuation of available-for-sale financial assets		311	(330)

(4) The income taxes charged directly to equity as of December 31, 2014, 2013 and 2012 are as follows:

	Before Tax	2014 Tax Charge	After Tax	Before Tax	2013 Tax Charge	After Tax	2012 (Unaudited) Before Tax	Tax Charge	After Tax
	(In millions of won)								
Gain on valuation of available-for-sale financial assets				11,447	(3,623)	7,824	11,791	(3,312)	8,479
Remeasurements of the net defined benefit liability	(305,551)		(305,551)	(185,677)		(185,677)	(202,090)		(202,090)
	(305,551)		(305,551)	(174,230)	(3,623)	(177,853)	(190,299)	(3,312)	(193,611)



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****32. Earnings (Loss) Per Share**

(1) Basic earnings (loss) per share for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
	(In millions of won, except for		
	shares and per share amounts)		
Profit (loss) attributable to ordinary shareholders	4,195,456	2,872,470	(158,886)
Weighted average number of outstanding ordinary shares <sup>1</sup>	718,197,377	710,200,891	681,854,577
<b>Basic earnings (loss) per share</b>	<b>5,842</b>	<b>4,045</b>	<b>(233)</b>

<sup>1</sup> Weighted average number of outstanding ordinary shares is calculated as follows:

	2014	2013	2012
	(In shares)		
Outstanding ordinary shares	710,200,891	694,155,767	592,171,582
Exercise of conversion rights	7,051,443	16,045,124	10,385
Exercise of stock options			66,872
Issue of ordinary shares			89,605,738
Issue of ordinary shares related to the acquisition of a subsidiary	945,393		
Acquisition of treasury shares	(350)		
<b>Weighted average number of outstanding ordinary shares</b>	<b>718,197,377</b>	<b>710,200,891</b>	<b>681,854,577</b>

(2) Diluted earnings (loss) per share for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
	(In millions of won, except for		
	shares and per share amounts)		
Profit (loss) attributable to ordinary shareholders	4,195,456	2,872,470	(158,886)
Add : Convertible bond related benefits			(438)

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Adjusted profit attributable to ordinary shares	4,195,456	2,872,470	(159,324)
Adjusted weighted average number of ordinary shares outstanding <sup>1</sup>	718,197,377	710,200,891	682,727,787
<b>Diluted earnings (loss) per share</b>	<b>5,842</b>	<b>4,045</b>	<b>(233)</b>

<sup>1</sup> Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

	<b>2014</b>	<b>2013</b> <b>(In shares)</b>	<b>2012</b> <b>(Unaudited)</b>
Weighted average number of ordinary shares outstanding	718,197,377	710,200,891	681,854,577
Convertible bond			873,210
<b>Adjusted weighted average number of outstanding ordinary shares outstanding</b>	<b>718,197,377</b>	<b>710,200,891</b>	<b>682,727,787</b>

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****33. Related Party Transactions**

(1) Details of joint venture and other related parties as of December 31, 2014 are as follows:

Type	Name of related parties
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.
Other related parties	SK Telecom Co., Ltd., which has significant influence over the Company, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries

(2) Significant transactions for the years ended December 31, 2014, 2013 and 2012 are as follows:

Company	2014 Operating revenue and others	Operating expense and others	Dividend income (In millions of won)	Asset acquisition
Associate	Siliconfile Technologies Inc. <sup>1</sup>	25,109	411	236
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	1,734	612,890	15,664
Other related parties	SK Telecom Co., Ltd.	3,391	7,493	2,685
	SK Holdings Co., Ltd. <sup>2</sup>		33,273	
	SK C&C Co., Ltd. <sup>3</sup>	70	5,879	12,225
	SK Engineering & Construction Co., Ltd.	481	44,928	959,985
	SK Energy Co., Ltd.	5,121	44,664	
	SK Networks Co., Ltd.		2,777	2,772
	Ko-one energy service Co., Ltd.		3,074	
	SKC solmics Co., Ltd.		28,023	718
	Chungcheong energy service Co., Ltd.		27,496	
	HAPPYNARAE Co., Ltd.	53	63,398	10,187
	Others	427	19,837	1,548
		36,386	894,143	15,900
				990,120

<sup>1</sup> Siliconfile Technologies Inc. became a subsidiary through the Parent Company's additional acquisition of the remaining interest on April 22, 2014.

<sup>2</sup> The Group entered into a contract with SK Holdings Co., Ltd. under which the Group shall pay royalty for the use of SK brand in proportion to sales amount from March 2012 to December 2014. For the year ended December 31, 2014, royalty paid for the use of the SK brand amounted to 28,780 million (2013: 18,251 million, 2012: 7,860 unaudited).

<sup>3</sup> SK C&C Co., Ltd. was excluded from related party after April 2014 due to exchange in CEO.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****33. Related Party Transactions, continued**

	Company	2013 Operating revenue and others	Operating expense and others	Dividend Income	Asset acquisition
Associate	Siliconfile Technologies Inc.	100,975	1,585		
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	61,368	581,374	15,033	
Other related parties	SK Telecom Co., Ltd.	954	2,811		230
	SK Holdings Co., Ltd.		20,583		
	SK C&C Co., Ltd.	150	22,374		30,522
	SK Engineering & Construction Co., Ltd.	637	12,056		166,423
	SK Energy Co., Ltd.	13,103	28,258		
	SK Networks Co., Ltd. <sup>1</sup>		927		112,360
	Ko-one energy service Co., Ltd.		20,452		
	SKC solmics Co., Ltd.		24,041		300
	Chungcheong energy service Co., Ltd.		28,231		
	HAPPYNARAE Co., Ltd.	62	59,624		7,763
	Others	261	9,095		332
		177,510	811,411	15,033	317,930

<sup>1</sup> The Group acquired 5,745 shares of Sky Property Management Ltd. at 112,360 million from SK Networks Co., Ltd., a related party during 2013 and recognized them as available-for-sale securities.

	Company	2012 (Unaudited) Operating revenue and others	Operating expense and others	Dividend Income	Asset acquisition
Associate	Siliconfile Technologies Inc.	107,132	931		
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	67,662	625,657	11,882	17,168
Other related parties <sup>1</sup>	SK Telecom Co., Ltd.	1,196	812		
	SK Holdings Co., Ltd.		7,860		
	SK C&C Co., Ltd.	43	3,240		15,825
	SK Engineering & Construction Co., Ltd.				1,817
	Ko-one energy service Co., Ltd.		34,286		
	SKC solmics Co., Ltd.		8,967		387
	Chungcheong energy service Co., Ltd.		18,381		
	HAPPYNARAE Co., Ltd.	36	24,271		563
	Others	135	4,128		1,015

<sup>1</sup> Transactions that occurred after February 14, 2012, the date when SK telecom Co., Ltd. obtained significant influence over the Group.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****33. Related Party Transactions, continued**

(3) The balances of significant transactions as of December 31, 2014 and December 31, 2013 are as follows:

		<b>2014</b>		
<b>Company</b>		<b>Trade receivables and others</b>	<b>Other payables and others</b>	<b>Borrowings<sup>1</sup></b>
(In millions of won)				
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	18,393	113,257	22,552
Other related parties	SK Telecom Co., Ltd.	2,763	2,622	
	SK Holdings Co., Ltd.		3,080	
	SK Engineering & Construction Co., Ltd.	23	561,004	
	SK Energy Co., Ltd.	462	5,961	
	SK Networks Co., Ltd.		479	
	SKC solmics Co., Ltd.		9,258	
	Chungcheong energy service Co., Ltd.		3,295	
	HAPPYNARAE Co., Ltd.	1	14,606	
	Others	32	14,455	
		21,674	728,017	22,552

<sup>1</sup> The Parent Company repaid 78,541 million of borrowings from HITECH Semiconductor (Wuxi) Co., Ltd. during the year ended December 31, 2014.

		<b>2013</b>		
<b>Company</b>		<b>Trade receivables and others</b>	<b>Other payables and others</b>	<b>Borrowings</b>
(In millions of won)				
Associate	Siliconfile Technologies Inc.	18,102		
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	11,356	2,828	101,093
Other related parties	SK Telecom Co., Ltd.		419	
	SK Holdings Co., Ltd.		2,332	
	SK C&C Co., Ltd.	11	25,388	
	SK Engineering & Construction Co., Ltd.	234	82,238	
	SK Energy Co., Ltd.	76	5,802	
	SK Networks Co., Ltd.		78	
	SKC solmics Co., Ltd.		3,116	

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Chungcheong energy service Co., Ltd.		3,102	
HAPPYNARAE Co., Ltd.	22	13,670	
Others		1,579	
	29,801	140,552	101,093

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****33. Related Party Transactions, continued****(4) Key management compensation**

Key management includes directors, members of the board of directors, chief financial officer, subsidiary s executives and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2014, 2013 and 2012 are as follows:

Details	2014	2013 (In millions of won)	2012 (Unaudited)
Salaries	74,599	30,909	23,157
Defined benefit plan related expenses	7,061	4,546	2,859
Others	19	6	1
	81,679	35,461	26,017

**34. Commitments and Contingencies****(1) Significant pending litigations and claims of the Group as of December 31, 2014 are as follows:****(a) Lawsuit from Toshiba Corporation ( Toshiba ) and SanDisk Corporation ( SanDisk )**

Toshiba filed a lawsuit against the Parent Company in Tokyo District Court, alleging misappropriation of trade secrets, on March 13, 2014, in which it is seeking damages of JPY 109,151 million ( Toshiba lawsuit ). The Parent Company s response against the petition was submitted, and oral proceedings began. On December 19, 2014, Toshiba agreed with the Parent Company to withdraw the lawsuit filed against the Parent Company in return for settlement fee amounting to USD278 million ( 306,101 million equivalent). This settlement fee was recorded as other expenses in the Company s financial statements for the year ended December 31, 2014.

SanDisk filed a lawsuit against the Parent Company and its subsidiaries (SK hynix America Inc. and SK hynix memory solutions Inc.) in Santa Clara Superior Court of the United States of America, alleging misappropriation of trade secrets jointly owned by SanDisk and Toshiba, on March 13, 2014 ( SanDisk lawsuit ). The litigation value of the SanDisk lawsuit has not been determined. Meanwhile, on November 6, 2014, the Parent Company requested transfer of the lawsuit to the United States District Court for California (the federal courts), for which SanDisk filed opposition. A hearing on this case is scheduled in the near future. As of December 31, 2014, above lawsuits are at an early stage and the final outcome of these matters cannot be predicted.

**(b) Lawsuit regarding ordinary wages**

On August 1, 2014, some of the Parent Company s employees filed a lawsuit against the Parent Company to the Suwon District Court, seeking additional payment of overtime allowance in relation to ordinary wages. In this regard, the Parent Company submitted a written response on September 5, 2014, and oral pleading is planned in the near future. As of December 31, 2014, the Group did not recognize any provision as the likelihood of defending this case appears probable. However, the final outcome of this contingency cannot be predicted as of December 31, 2014.

**(c) Other patent infringement claims and litigation**

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The Group is involved in various alleged patent infringement claims and litigation. No provisions have been made as management believes it not likely an outflow of the Group's resources will be required to settle these matters. As of December 31, 2014, the final outcome of these matters cannot be determined, but could have a material effect on the Group's consolidated financial statements.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****34. Commitments and Contingencies, continued****(2) Technology and patent license agreements**

The Group has entered into a number of patent license agreements with several companies. The related royalties are paid in a lump sum or running basis in accordance with the respective agreements. Lump-sum royalties are expensed over the contract period using the straight-line method.

**(3) Contract for supply of industrial water**

In March 2001, the Group and Veolia Water Industrial Development Co., Ltd. ( VWID ) entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. In December 2006, the contract was extended to March 2018, and subsequently amended due to the establishment of additional plants. According to the amended contract, the Group is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the amount of water used.

**(4) Post-process service contract with HITECH**

In 2009, the Group entered into an agreement with HITECH to be provided with post-process service by HITECH. In addition, HITECH entered into agreements to purchase corresponding machinery from the Parent Company and its subsidiary, SKHYMC. According to the contracts, HITECH should use the machinery only for the purpose of providing the post-process service to the Group exclusively until September 2015. In 2011, the Parent Company entered into an additional contract for the purpose of module processing service and HITECH purchased corresponding machinery from the Parent Company. According to the agreement, the Group is liable to guarantee a certain level of margin to HITECH.

**(5) Assets provided as collateral**

Details of assets provided as collateral as of December 31, 2014 are as follows:

	Book value	Pledged amount	Remark
	(In millions of won)		
Land	25,202		
Buildings	119,622	1,236,513	Borrowings for equipment and others
Machinery	868,487		
	1,013,311	1,236,513	

Other than the above assets provided as collateral, the finance lease assets of the Group are pledged as collateral for the finance lease liabilities in accordance with the finance lease contracts.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****34. Commitments and Contingencies, continued****(6) Financing agreements**

Details of credit lines with financial institutions as of December 31, 2014 are as follows:

	<b>Financial Institution</b>	<b>Commitment</b>	<b>Currency</b>	<b>Amount (In millions of won and millions of foreign currencies)</b>
The Parent Company	Korea Exchange	Import finance including usance	USD	445
	Bank and others	Export finance including bills bought	USD	370
		Comprehensive limit contract for import and export	USD	1,040
SK Hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,700
			EUR	21
			USD	1,514
SK Hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	784
Domestic subsidiaries	Korea Exchange Bank	Export finance including bills bought	KRW	5,000
		Guarantee	KRW	2,000
		Foreign currency forward	KRW	1

The Group has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted corresponding to 220,663 million as of December 31, 2014 (as of December 31, 2013: nil). The Group is obliged to redeem discounted receivables to financial institutions in case of the default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

**(7) Details of guarantees provided to others as of December 31, 2014 are as follows:**

	<b>Amount (In millions of won)</b>	<b>Remark</b>
Employees	27	Guarantees for employees borrowings relating to employee stock ownership

**(8) Capital commitments**

As of December 31, 2014, the Group has 348,802 million (as of December 31, 2013: 385,106 million) of commitments in relation to the capital expenditures on fixed assets.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****35. Cash Generated from Operating Activities**

(1) Reconciliations between profit for the year and net cash inflow from operating activities for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
<b>Profit for the year</b>	4,195,169	2,872,857	(158,795)
<b>Adjustment</b>			
Income tax expense (benefit)	852,501	202,068	(40,506)
Defined benefit plan related expenses	143,432	125,495	107,730
Depreciation of property, plant and equipment and investment property	3,269,705	2,922,245	3,057,856
Amortization	174,275	156,276	145,698
Loss on foreign currency translation	116,726	24,415	24,597
Interest expense	170,363	256,623	317,926
Gain on foreign currency translation	(79,678)	(94,175)	(211,345)
Interest income	(52,122)	(66,410)	(80,154)
Loss on derivative instruments, net	171,754	93,473	14,321
Gain on equity method investments, net	(12,506)	(19,256)	(16,713)
Others, net	13,072	116,735	22,050
<b>Changes in operating assets and liabilities</b>			
Increase in trade receivables	(1,628,665)	(278,141)	(322,127)
Decrease (increase) in loans and other receivables	(579,225)	(249,778)	69,539
Decrease (increase) in inventories	(314,547)	333,179	(335,580)
Increase (decrease) in trade payables	69,290	113,552	(374)
Increase (decrease) in other payables	(105,971)	74,666	(56,749)
Increase in other non-trade payables	498,152	309,974	26,604
Increase (decrease) in provisions	(26,793)	(127,052)	1,446
Payment of defined benefit liabilities	(34,144)	(45,171)	(69,161)
Contribution to plan assets	(402,894)	(4,113)	(5,994)
Others, net	(132,665)	(195,909)	(69,375)
<b>Cash generated from operating activities</b>	6,305,229	6,521,553	2,420,894

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013 (In millions of won)	2012 (Unaudited)
Other payables related to acquisition of property, plant and equipment	588,435	190,667	(78,585)
Issue of ordinary shares related to the acquisition of a subsidiary	54,070		
Exercise of conversion rights	772,590	432,434	266

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Transferred to non-current convertible bond due to expiration of early redemption rights	486,569
Acquisition of property, plant and equipment subject to finance lease agreements	216,682

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****36. Business Combination**

(1) In April 2014, the Parent Company acquired all remaining interest in Siliconfile Technologies Inc., which is CMOS image sensor developer, located in Korea, in exchange for the Parent Company's newly issued ordinary shares and obtained control over Siliconfile Technologies Inc. The fair value of the identifiable net assets acquired at acquisition date was 42,432 million and the excess of the consideration transferred amounting to 75,028 million over the identifiable net assets acquired was accounted for as goodwill.

The following table summarizes the consideration transferred for Siliconfile Technologies Inc., the fair value of assets acquired and liabilities assumed at the acquisition date:

	<b>Amount</b> <b>(In millions of won)</b>
<b>Consideration</b>	75,028
Recognized amounts of identifiable assets acquired and liabilities assumed <sup>1</sup>	
Cash and cash equivalents	14,872
Other current assets	30,179
Non-current assets	25,052
Current liabilities	20,588
Non-current liabilities	7,083
Fair value of net identifiable assets	42,432
<b>Goodwill</b>	<b>32,596</b>

<sup>1</sup> Assets acquired and liabilities assumed were measured at their fair values.

The revenue of Siliconfile Technologies Inc. included in the consolidated statement of comprehensive income after acquisition date was 71,014 million. Siliconfile Technologies Inc. also contributed a profit of 3,239 million over the same year.

(2) In June 2014, the Parent Company acquired Softeq Flash Solutions LLC., which is NAND solution developer, located in Belarus, for 10,236 million. The fair value of the identifiable net asset acquired was 1,546 million and the excess of the consideration transferred over the identifiable net assets acquired was recognized as goodwill.

(3) In September 2014, the Group acquired PCIe card operation division of Violin Memory, Inc., which is memory solution developer, located in United States, for USD23 million. The fair value of the identifiable net asset acquired was USD3 million and the excess of the consideration transferred over the identifiable net assets acquired was recognized as goodwill.

(4) In August 2012, the Group acquired 100% of the share capital of SK hynix memory solutions Inc. (SKHMS) (formerly, Link\_A\_Media Devices Corporation ( LAMD )), which is a Nand Flash controller developer, located in United States for 282,293 million and obtained control over SKHMS.

The goodwill amounting to 261,047 million arising from the acquisition is attributable to the synergy benefits from reduction of R&D expenses and expected increase in sales as a result of acquisition of SKHMS.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2014, 2013 and 2012****36. Business Combination, continued**

The following table summarizes the consideration paid for SKHMS, the fair value of assets acquired and liabilities assumed at the acquisition date:

	<b>Amount</b> <b>(In millions of won)</b>
<b>Consideration</b>	<b>282,293</b>
Recognized amounts of identifiable assets acquired and liabilities assumed <sup>1</sup>	
Current assets	
Cash and cash equivalents	4,542
Trade receivables <sup>2</sup>	650
Inventories	14
Other current assets	822
Non-current assets	
Property, plant and equipment	1,621
Intangible assets	24,105
Other non-current assets	83
Current liabilities	
Trade payables	6,574
Other current liabilities	3,627
Non-current liabilities	390
Fair value of net identifiable assets	21,246
<b>Goodwill</b>	<b>261,047</b>

<sup>1</sup> Assets acquired and liabilities assumed were measured at their fair values.

<sup>2</sup> The trade receivables comprise gross contractual amounts due of 650 million and none of these is expected to be uncollectible. The acquisition-related costs amounting to 5,669 million were all expensed for the year ended December 31, 2012.

The revenue of SKHMS included in the consolidated statement of comprehensive income after acquisition date was 4,289 million. SKHMS also contributed a net loss of 5,802 million over the same period.

Had SKHMS been consolidated from January 1, 2012, the sales of 13,490 million and net loss of 27,240 million would have been included in the consolidated statement of comprehensive income.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**SK TELECOM CO., LTD.**

*(Registrant)*

/s/ Yong Hwan Lee  
Name: Yong Hwan Lee  
Title: Chief Financial Officer

Date: April 30, 2015