

SK TELECOM CO LTD  
Form 6-K  
March 24, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16 OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE MONTH OF March 2014**  
**Commission File Number: 333-04906**

**SK Telecom Co., Ltd.**

**(Translation of registrant's name into English)**

**Euljiro 65(Euljiro2-ga), Jung-gu**  
**Seoul 100-999, Korea**

**(Address of principal executive office)**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

**Table of Contents****Results of the Annual General Meeting of Shareholders****1. Approval of the Financial Statements<sup>(1)(2)</sup>**The 30<sup>th</sup> Fiscal Year (Fiscal Year ended December 31, 2013)

|                  |                     |            |                            | (in millions of Won, except for basic earnings per share) |  |
|------------------|---------------------|------------|----------------------------|---|--|
| Consolidated     | - Total Assets      | 26,576,515 | - Operating Revenue        | 16,602,054  |  |
|                  | - Total Liabilities | 12,409,958 | - Operating Income         | 2,011,109   |  |
|                  | - Share Capital     | 44,639     | - Profit for the Year      | 1,609,549   |  |
|                  | - Total Equity      | 14,166,557 | - Basic earnings per Share | 23,211  |  |
| Non-Consolidated | - Total Assets      | 22,827,420 | - Operating Revenue        | 12,860,379  |  |
|                  | - Total Liabilities | 9,512,012  | - Operating Income         | 1,969,684   |  |
|                  | - Share Capital     | 44,639     | - Profit for the Year      | 910,157   |  |
|                  | - Total Equity      | 13,315,408 | - Basic earnings per Share | 12,837  |  |

(1) prepared in accordance with International Financial Reporting Standards as adopted in Korea

(2) opinion of independent auditors: Appropriate

**2. Approval of Dividends**

|                   |                     |                 |                             | (in Won, except for percentages and stock dividend) |  |
|-------------------|---------------------|-----------------|-----------------------------|---|--|
| a. Cash Dividends | Dividend per Share  | Common Stock    | Year-end Dividend           | 8,400   |  |
|                   |                     |                 | Interim/Quarterly Dividends | 1,000   |  |
|                   |                     | Preferred Stock | Year-end Dividend           |   |  |
|                   |                     |                 | Interim/Quarterly Dividend  |   |  |
|                   | Total Cash Dividend |                 |                             | 666,373,704,400                                     |  |

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|                    |  |                 |      |
|--------------------|--|-----------------|------|
|                    | Market Dividend Rate (%)<br>(including interim dividend) | Common Stock    | 4.09 |
|                    |  | Preferred Stock |      |
| b. Stock Dividends | Stock Dividend Rate (%)                                  | Common Stock    |      |
|                    |  | Preferred Stock |      |
|                    | Total Stock Dividend (Shares)                            | Common Stock    |      |
|                    |  | Preferred Stock |      |

**Table of Contents****3. Status of Directors (as of the date of appointment)**

|  |  |      |
|--|--|------|
| a. Approval of the Appointment of Directors                            | - One (1) Executive Director   |      |
|  | - One (3) Independent Non-Executive Director                                     |      |
|  | - One (1) Member of the Audit Committee  |      |
|  | (Who is an Independent Non-Executive Director)                                   |      |
| b. Number of Independent Non-Executive Directors Following Appointment | Total Number of Directors  | 8    |
|  | Total Number of Independent Non-Executive Directors                              | 5    |
|  | Percentage of Independent Non-Executive Directors (%)                            | 62.5 |
| c. Number of Auditors Following Appointment                            | Full-time Auditors   |      |
|  | Part-time Auditors   |      |
| d. Number of Members of Audit Committee Following Appointment          | Number of Members of Audit Committee who are Independent Non-Executive Directors | 3    |
|  | Number of Members of Audit Committee who are not Independent Non-Executive       |      |

Directors

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**4. Other Resolutions**

Agenda No. 1. Approval of Financial Statements for the 30<sup>th</sup> Fiscal Year

(Fiscal Year ended December 31, 2013)

: Approved as originally submitted.

Agenda No. 2. Amendment to the Articles of Incorporation

: Approved as originally submitted.

Agenda No. 3. Approval of the Appointment of Directors

Agenda No. 3.1. Election of an Executive Director (Ha, Sung-Min)

: Approved as originally submitted.

Agenda No. 3.2. Election of an Independent Non-Executive Director

(Chung, Jay-Young)

: Approved as originally submitted.

Agenda No. 3.3. Election of an Independent Non-Executive Director

(Lee, Jae-Hoon)

: Approved as originally submitted.

Agenda No. 3.4. Election of an Independent Non-Executive Director

(Ahn, Jae-Hyeon)

: Approved as originally submitted.

Agenda No. 4. Approval of the Appointment of a Member of the Audit Committee

(Ahn, Jae-Hyeon)

: Approved as originally submitted.

Agenda No. 5. Approval of Ceiling Amount of the Remuneration for Directors

: Approved as originally submitted.

5. Date of General Meeting of Shareholders

March 21, 2014

6. Other Matters To Be Considered Before Investing

\* Related Disclosure: The Company's report on Form 6-K furnished on February 25, 2014.



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**1. Approval of Financial Statements  
SK TELECOM CO., LTD. AND SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2013 and 2012**

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

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 its subsidiaries (the Group) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of SK Broadband Co., Ltd., a domestic subsidiary, and an associate, whose financial statements constitute 21.2% of the Group's consolidated total assets as of December 31, 2013, 11.7% of the Group's consolidated operating revenue and 33.6% of the Group's profit before income tax for the year ended December 31, 2013 and the financial statements of SK Broadband Co., Ltd., and two other domestic subsidiaries and an associate, whose financial statements constitute 26.6% of the Group's consolidated total assets as of December 31, 2012 and 15.1% of the Group's consolidated operating revenue for the year ended December 31, 2012. Other auditors audited those financial statements and our report, insofar as it relates to the amounts included for these entities, is based solely on the results of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, based on our audits and reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

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Without qualifying our opinion, we draw attention to the following:

As discussed in note 38 to the consolidated financial statements, the Group disposed of its partial interests in Loen Entertainment, Inc., a subsidiary, which resulted in loss of control during the year ended December 31, 2013. The Group presented the results of operations of Loan Entertainment, Inc. as a discontinued operation in the consolidated statement of income for the year ended December 31, 2013 and accordingly restated the comparative information for the year ended December 31, 2012.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 21, 2014

This report is effective as of February 21, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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| <i>(In millions of won)</i>                  | <i>Note</i>   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012<br/>(Restated)</b> |
|--|---------------|------------------------------|---|
| <b>Assets</b>                                |               |                              |   |
| <b>Current Assets:</b>                       |               |                              |   |
| Cash and cash equivalents                    | 34,35         | 1,398,639                    | 920,125                                     |
| Short-term financial instruments             | 6,34,35,36,37 | 311,474                      | 514,417                                     |
| Short-term investment securities             | 9,34,35       | 106,068                      | 60,127                                      |
| Accounts receivable - trade, net             | 7,34,35,36    | 2,257,316                    | 1,954,920                                   |
| Short-term loans, net                        | 7,34,35,36    | 79,395                       | 84,908                                      |
| Accounts receivable - other, net             | 7,34,35,36    | 643,603                      | 582,098                                     |
| Prepaid expenses                             |               | 108,909                      | 102,572                                     |
| Derivative financial assets                  | 22,34,35      | 10                           | 9,656                                       |
| Inventories, net                             | 8,37          | 177,120                      | 242,146                                     |
| Assets classified as held for sale           | 10            | 3,667                        | 775,556                                     |
| Advanced payments and other                  | 7,9,34,35     | 37,214                       | 47,896                                      |
| <b>Total Current Assets</b>                  |               | <b>5,123,415</b>             | <b>5,294,421</b>                            |
| <b>Non-Current Assets:</b>                   |               |                              |   |
| Long-term financial instruments              | 6,34,35,37    | 8,142                        | 144   |
| Long-term investment securities              | 9,34,35       | 968,527                      | 953,712                                     |
| Investments in associates and joint ventures | 12            | 5,325,297                    | 4,632,477                                   |
| Property and equipment, net                  | 13,36,37      | 10,196,607                   | 9,712,719                                   |
| Investment property, net                     | 14            | 15,811                       | 27,479                                      |
| Goodwill                                     | 15            | 1,733,261                    | 1,744,483                                   |
| Intangible assets, net                       | 16            | 2,750,782                    | 2,689,658                                   |
| Long-term loans, net                         | 7,34,35,36    | 57,442                       | 69,299                                      |
| Long-term prepaid expenses                   | 37            | 32,008                       | 31,341                                      |
| Guarantee deposits                           | 6,7,34,35,36  | 249,600                      | 236,242                                     |
| Long-term derivative financial assets        | 22,34,35      | 41,712                       | 52,992                                      |
| Deferred tax assets                          | 31            | 26,322                       | 124,098                                     |
| Other non-current assets                     | 7,34,35       | 47,589                       | 26,494                                      |
| <b>Total Non-Current Assets</b>              |               | <b>21,453,100</b>            | <b>20,301,138</b>                           |
| <b>Total Assets</b>                          |               | <b>26,576,515</b>            | <b>25,595,559</b>                           |

See accompanying notes to the consolidated financial statements.

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| <i>(In millions of won)</i>                                | <i>Note</i>           | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012<br/>(Restated)</b> |
|--|-----------------------|------------------------------|---|
| <b>Liabilities and Equity</b>                              |                       |                              |   |
| <b>Current Liabilities:</b>                                |                       |                              |   |
| Short-term borrowings                                      | <i>17,34,35</i>       | 260,000                      | 600,245                                     |
| Current portion of long-term debt, net                     | <i>17,18,20,34,35</i> | 1,268,427                    | 892,867                                     |
| Accounts payable - trade                                   | <i>34,35,36</i>       | 214,716                      | 253,884                                     |
| Accounts payable - other                                   | <i>34,35,36</i>       | 1,864,024                    | 1,811,038                                   |
| Withholdings   | <i>34,35,36</i>       | 728,936                      | 717,170                                     |
| Accrued expenses   | <i>34,35</i>          | 988,193                      | 890,863                                     |
| Income tax payable   | <i>31</i>             | 112,316                      | 60,253                                      |
| Unearned revenue   |                       | 441,731                      | 258,691                                     |
| Derivative financial liabilities                           | <i>22,34,35</i>       | 21,171                       |   |
| Provisions   | <i>19</i>             | 66,775                       | 287,307                                     |
| Advanced receipts and other                                | <i>34,35</i>          | 102,931                      | 108,272                                     |
| Liabilities classified as held for sale                    | <i>10,37</i>          |                              | 294,305                                     |
| <b>Total Current Liabilities</b>                           |                       | <b>6,069,220</b>             | <b>6,174,895</b>                            |
| <b>Non-Current Liabilities:</b>                            |                       |                              |   |
| Debentures, net, excluding current portion                 | <i>17,34,35</i>       | 4,905,579                    | 4,979,220                                   |
| Long-term borrowings, excluding current portion            | <i>17,34,35</i>       | 104,808                      | 369,237                                     |
| Long-term payables - other                                 | <i>18,34,35</i>       | 838,585                      | 715,508                                     |
| Long-term unearned revenue                                 |                       | 50,894                       | 160,821                                     |
| Finance lease liabilities                                  | <i>20,34,35</i>       | 3,867                        | 22,036                                      |
| Defined benefit obligations                                | <i>21</i>             | 74,201                       | 86,521                                      |
| Long-term derivative financial liabilities                 | <i>22,34,35</i>       | 103,168                      | 63,599                                      |
| Long-term provisions                                       | <i>19</i>             | 28,106                       | 106,561                                     |
| Deferred tax liabilities                                   | <i>31</i>             | 168,825                      |   |
| Other non-current liabilities                              | <i>34,35</i>          | 62,705                       | 62,379                                      |
| <b>Total Non-Current Liabilities</b>                       |                       | <b>6,340,738</b>             | <b>6,565,882</b>                            |
| <b>Total Liabilities</b>                                   |                       | <b>12,409,958</b>            | <b>12,740,777</b>                           |
| <b>Equity</b>  |                       |                              |   |
| Share capital  | <i>1,23</i>           | 44,639                       | 44,639                                      |
| Capital surplus (deficit) and other capital adjustments    | <i>24,25</i>          | 317,508                      | (288,883)                                   |
| Retained earnings  | <i>26</i>             | 13,102,495                   | 12,124,657                                  |
| Reserves   | <i>27</i>             | (12,270)                     | (25,636)                                    |
| <b>Equity attributable to owners of the Parent Company</b> |                       | <b>13,452,372</b>            | <b>11,854,777</b>                           |
| <b>Non-controlling interests</b>                           |                       | <b>714,185</b>               | <b>1,000,005</b>                            |
| <b>Total Equity</b>  |                       | <b>14,166,557</b>            | <b>12,854,782</b>                           |

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| <b>Total Liabilities and Equity</b> | <b>26,576,515</b> | <b>25,595,559</b> |
|-------------------------------------|-------------------|-------------------|

*See accompanying notes to the consolidated financial statements.*

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| <i>(In millions of won except for per share data)</i>                                    | <i>Note</i>  | <b>2013</b>      | <b>2012<br/>(Restated)</b> |
|--|--------------|------------------|----------------------------|
| <b>Continuing operations</b>   |              |                  |                            |
| <b>Operating revenue:</b>  | <i>5,36</i>  |                  |                            |
| Revenue  |              | 16,602,054       | 16,141,409                 |
| <b>Operating expense:</b>  | <i>36</i>    |                  |                            |
| Labor cost   | <i>21</i>    | 1,561,358        | 1,267,928                  |
| Commissions paid   |              | 5,498,695        | 5,949,542                  |
| Depreciation and amortization  | <i>5</i>     | 2,661,623        | 2,421,128                  |
| Network interconnection  |              | 1,043,733        | 1,057,145                  |
| Leased line  |              | 448,833          | 468,785                    |
| Advertising  |              | 394,066          | 384,353                    |
| Rent   |              | 443,639          | 422,388                    |
| Cost of products that have been resold   |              | 1,300,375        | 1,292,304                  |
| Other operating expenses   | <i>28</i>    | 1,238,623        | 1,147,787                  |
|  |              | 14,590,945       | 14,411,360                 |
| <b>Operating income</b>  | <i>5</i>     | <b>2,011,109</b> | <b>1,730,049</b>           |
| Finance income   | <i>5,30</i>  | 113,392          | 444,558                    |
| Finance costs  | <i>5,30</i>  | (571,203)        | (638,285)                  |
| Gain (losses) related to investments in subsidiaries, associates and joint ventures, net | <i>5,12</i>  | 706,509          | (24,560)                   |
| Other non-operating income   | <i>20,29</i> | 74,467           | 195,910                    |
| Other non-operating expenses   | <i>29</i>    | (507,173)        | (188,304)                  |
| <b>Profit before income tax</b>  |              | <b>1,827,101</b> | <b>1,519,368</b>           |
| Income tax expense from continuing operations  | <i>5,31</i>  | 400,797          | 288,207                    |
| <b>Profit from continuing operations</b>   |              | <b>1,426,304</b> | <b>1,231,161</b>           |
| <b>Discontinued operations</b>   |              |                  |                            |
| Profit (loss) from discontinued operations, net of income taxes                          | <i>38</i>    | 183,245          | (115,498)                  |
| <b>Profit for the year</b>   | <i>5</i>     | <b>1,609,549</b> | <b>1,115,663</b>           |
| Attributable to :  |              |                  |                            |
| Owners of the Parent Company   |              | 1,638,964        | 1,151,705                  |
| Non-controlling interests  |              | (29,415)         | (36,042)                   |
| <b>Earnings per share</b>  | <i>32</i>    |                  |                            |
| Basic earnings per share (in won)  |              | 23,211           | 16,525                     |
| Diluted earnings per share (in won)  |              | 23,211           | 16,141                     |



|   |    |        |        |
|---|----|--------|--------|
| <b>Earnings per share - Continuing operations</b> | 32 |        |        |
| Basic earnings per share (in won)                 |    | 20,708 | 18,015 |
| Diluted earnings per share (in won)               |    | 20,708 | 17,583 |

*See accompanying notes to the consolidated financial statements.*

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| <i>(In millions of won)</i>  | <i>Note</i>       | <b>2013</b>      | <b>2012<br/>(Restated)</b> |
|--|-------------------|------------------|----------------------------|
| <b>Profit for the year</b>   |                   | <b>1,609,549</b> | <b>1,115,663</b>           |
| <b>Other comprehensive income (loss)</b>   |                   |                  |                            |
| <b>Items that will not be reclassified to profit or loss:</b>                            |                   |                  |                            |
| Remeasurement of defined benefit obligations   | <i>3,21</i>       | 5,946            | (15,048)                   |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                    |                   |                  |                            |
| Net change in unrealized fair value of available-for-sale financial assets               | <i>3,27,30</i>    | 2,009            | (149,082)                  |
| Net change in other comprehensive income of investments in associates and joint ventures | <i>3,12,27</i>    | 3,034            | (82,513)                   |
| Net change in unrealized fair value of derivatives                                       | <i>3,22,27,30</i> | 11,222           | (23,361)                   |
| Foreign currency translation differences for foreign operations                          | <i>3,27</i>       | (3,714)          | (49,538)                   |
|  |                   | 18,497           | (319,542)                  |
| <b>Total comprehensive income</b>  |                   | <b>1,628,046</b> | <b>796,121</b>             |
| Total comprehensive income attributable to:  |                   |                  |                            |
| Owners of the Parent Company   |                   | 1,655,570        | 851,565                    |
| Non-controlling interests  |                   | (27,524)         | (55,444)                   |
| <i>See accompanying notes to the consolidated financial statements.</i>                  |                   |                  |                            |

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|   | Controlling interest |   |                   |                 |                   |                           |                   |
|---|----------------------|---|-------------------|-----------------|-------------------|---------------------------|-------------------|
|   | Share capital        | Capital deficit and other capital adjustments | Retained earnings | Reserves        | Sub-total         | Non-controlling interests | Total equity      |
| <b>Balance, January 1, 2012</b>           | <b>44,639</b>        | <b>(285,347)</b>                              | <b>11,642,525</b> | <b>260,064</b>  | <b>11,661,881</b> | <b>1,070,828</b>          | <b>12,732,709</b> |
| Cash dividends                            |                      |   | (655,133)         |                 | (655,133)         | (2,133)                   | (657,266)         |
| Total comprehensive income                |                      |   |                   |                 |                   |                           |                   |
| Profit (loss)                             |                      |   | 1,151,705         |                 | 1,151,705         | (36,042)                  | 1,115,663         |
| Other comprehensive loss                  |                      |   | (14,440)          | (285,700)       | (300,140)         | (19,402)                  | (319,542)         |
|   |                      |   | 1,137,265         | (285,700)       | 851,565           | (55,444)                  | 796,121           |
| Changes in ownership in subsidiaries      |                      | (3,536)                                       |                   |                 | (3,536)           | (13,246)                  | (16,782)          |
| <b>Balance, December 31, 2012</b>         | <b>44,639</b>        | <b>(288,883)</b>                              | <b>12,124,657</b> | <b>(25,636)</b> | <b>11,854,777</b> | <b>1,000,005</b>          | <b>12,854,782</b> |
| <b>Balance, January 1, 2013</b>           | <b>44,639</b>        | <b>(288,883)</b>                              | <b>12,124,657</b> | <b>(25,636)</b> | <b>11,854,777</b> | <b>1,000,005</b>          | <b>12,854,782</b> |
| Cash dividends                            |                      |   | (655,946)         |                 | (655,946)         | (2,242)                   | (658,188)         |
| Total comprehensive income                |                      |   |                   |                 |                   |                           |                   |
| Profit (loss)                             |                      |   | 1,638,964         |                 | 1,638,964         | (29,415)                  | 1,609,549         |
| Other comprehensive loss                  |                      |   | 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 bond                   |                      | 398,518                                       |                   |                 | 398,518           |                           | 398,518           |
| Interest on hybrid bond                   |                      |   | (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>317,508</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.*

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| <i>(In millions of won)</i>  | <i>Note</i> | <b>2013</b>      | <b>2012</b>      |
|--|-------------|------------------|------------------|
| <b>Cash flows from operating activities:</b>                           |             |                  |                  |
| Cash generated from operating activities                               |             |                  |                  |
| Profit for the year  |             | 1,609,549        | 1,115,663        |
| Adjustments for income and expenses                                    | 39          | 3,275,376        | 3,289,861        |
| Changes in assets and liabilities related to operating activities      | 39          | (969,870)        | 204,308          |
| Sub-total  |             | 3,915,055        | 4,609,832        |
| Interest received  |             | 64,078           | 88,711           |
| Dividends received   |             | 10,197           | 27,732           |
| Interest paid  |             | (300,104)        | (363,685)        |
| Income tax paid  |             | (130,656)        | (362,926)        |
| <b>Net cash provided by operating activities</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                      |             | 186,425          | 464,531          |
| Decrease in short-term investment securities, net                      |             |                  | 65,000           |
| Collection of short-term loans   |             | 290,856          | 282,658          |
| Proceeds from disposal of long-term financial instruments              |             | 16               | 23               |
| Proceeds from disposal of long-term investment securities              |             | 287,777          | 511,417          |
| Proceeds from disposal of investments in associates and joint ventures |             | 43,249           | 1,518            |
| Proceeds from disposal of property and equipment                       |             | 12,579           | 271,122          |
| Proceeds from disposal of investment property                          |             |                  | 43,093           |
| Proceeds from disposal of intangible assets                            |             | 2,256            | 21,048           |
| Net proceeds from the disposition of non-current assets held for sale  |             | 190,393          |                  |
| Collection of long-term loans  |             | 13,104           | 11,525           |
| Decrease of deposits   |             | 8,509            | 41,785           |
| Proceeds from disposal of other non-current assets                     |             | 683              | 1,853            |
| Proceeds from disposal of subsidiaries                                 |             | 215,939          | 89,002           |
| Increase in cash due to acquisition of a subsidiary                    |             |                  | 26,651           |
| Sub-total  |             | 1,251,786        | 1,831,226        |
| Cash outflows for investing activities:                                |             |                  |                  |
| Increase in short-term investment securities, net                      |             | (45,032)         |                  |
| Increase in short-term loans   |             | (279,926)        | (245,465)        |
| Increase in long-term loans  |             | (4,050)          | (3,464)          |
| Increase in long-term financial instruments                            |             | (7,510)          | (16)             |
| Acquisition of long-term investment securities                         |             | (22,141)         | (92,929)         |
| Acquisition of investments in associates and joint ventures            |             | (97,366)         | (3,098,833)      |
| Acquisition of property and equipment                                  |             | (2,879,126)      | (3,394,349)      |
| Acquisition of investment property                                     |             |                  | (129)            |
| Acquisition of intangible assets                                       |             | (243,163)        | (146,249)        |
| Increase in assets held for sale                                       |             |                  | (51,831)         |
| Increase in deposits   |             | (83,314)         | (43,534)         |
| Increase in other non-current assets                                   |             | (1,830)          | (8,619)          |

|  |                    |                    |
|--|--------------------|--------------------|
| Acquisition of business, net of cash acquired    | (94,805)           | (43,389)           |
| Decrease in cash due to disposal of a subsidiary |                    | (12,003)           |
| <b>Sub-total</b>                                 | <b>(3,758,263)</b> | <b>(7,140,810)</b> |
| <b>Net cash used in investing activities</b>     | <b>(2,506,477)</b> | <b>(5,309,584)</b> |

*See accompanying notes to the consolidated financial statements.*

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| <i>(In millions of won)</i>                                   | <i>Note</i> | <b>2013</b>        | <b>2012</b>        |
|---|-------------|--------------------|--------------------|
| <b>Cash flows from financing activities:</b>                  |             |                    |                    |
| Cash inflows from financing activities:                       |             |                    |                    |
| Issuance of debentures  |             | 1,328,694          | 2,098,351          |
| Proceeds from long-term borrowings                            |             | 105,055            | 2,059,004          |
| Issuance of hybrid bond                                       |             | 398,518            |                    |
| Cash inflows from derivative transactions                     |             | 19,970             | 87,899             |
| <b>Sub-total</b>  |             | <b>1,852,237</b>   | <b>4,245,254</b>   |
| Cash outflows for financing activities:                       |             |                    |                    |
| Decrease in short-term borrowings, net                        |             | (340,245)          | (61,401)           |
| Repayment of current portion of long-term debt                |             | (161,575)          | (102,672)          |
| Repayment of debentures                                       |             | (771,976)          | (1,145,691)        |
| Repayment of long-term borrowings                             |             | (467,217)          | (1,660,509)        |
| Cash outflows from derivative transactions                    |             |                    | (5,415)            |
| Payment of finance lease liabilities                          |             | (20,342)           | (20,794)           |
| Payment of dividends  |             | (655,946)          | (655,133)          |
| Decrease in cash from the consolidated capital transaction    |             | (8,093)            | (8,372)            |
| <b>Sub-total</b>  |             | <b>(2,425,394)</b> | <b>(3,659,987)</b> |
| <b>Net cash provided by (used in) financing activities</b>    |             | <b>(573,157)</b>   | <b>585,267</b>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>   |             | <b>478,936</b>     | <b>(724,653)</b>   |
| Cash and cash equivalents at beginning of the year            |             | 920,125            | 1,650,794          |
| Effects of exchange rate changes on cash and cash equivalents |             | (422)              | (6,016)            |
| <b>Cash and cash equivalents at end of the year</b>           |             | <b>1,398,639</b>   | <b>920,125</b>     |

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****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, 2013, the Parent Company's total issued shares are held by the following:

|   | Number of<br>shares | Percentage of<br>total shares<br>issued (%) |
|---|---------------------|---|
| SK Holdings Co., Ltd.                                   | 20,363,452          | 25.22                                       |
| National Pension Service                                | 4,760,489           | 5.90  |
| Institutional investors and other minority stockholders | 45,812,395          | 56.73                                       |
| Treasury stock  | 9,809,375           | 12.15                                       |
| <b>Total number of shares</b>                           | <b>80,745,711</b>   | <b>100.00</b>                               |

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

## (2) List of subsidiaries

The list of subsidiaries as of December 31, 2013 and 2012 is as follows:

| Subsidiary                   | Location | Primary business                 | Ownership (%)    |                  |
|------------------------------|----------|----------------------------------|------------------|------------------|
|                              |          |                                  | Dec. 31,<br>2013 | Dec. 31,<br>2012 |
| SK Telink Co., Ltd.          | Korea    | Telecommunication service        | 83.5             | 83.5             |
| M&Service Co., Ltd.(*)       |          | Data base and online information |                  |                  |
|                              | Korea    | services                         | 100.0            |                  |
| SK Communications Co., Ltd.  | Korea    | Internet website services        | 64.6             | 64.6             |
| PAXNet Co., Ltd.(*)          | Korea    | Internet website services        |                  | 59.7             |
| Loen Entertainment, Inc.(*)  | Korea    | Release of music disc.           |                  | 67.6             |
| Stonebridge Cinema Fund      | Korea    | Investment association           | 56.0             | 57.0             |
| Commerce Planet Co., Ltd.    |          | Online shopping mall operation   |                  |                  |
|                              | Korea    | agency                           | 100.0            | 100.0            |
| SK Broadband Co., Ltd.       | Korea    | Telecommunication services       | 50.6             | 50.6             |
| Broadband Media Co., Ltd.(*) | Korea    | Multimedia TV portal services    |                  | 100.0            |
|                              | Korea    | Investment association           | 59.0             | 59.0             |



K-net Culture and Contents Venture  
Fund

|                                     |       |  |       |       |
|-------------------------------------|-------|--|-------|-------|
| 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<br>business | 100.0 | 100.0 |
| Service Ace Co., Ltd.               | Korea | Customer center management<br>service    | 100.0 | 100.0 |

**Table of Contents****1. Reporting Entity, Continued**

## (2) List of subsidiaries, Continued

| Subsidiary                                | Location      | Primary business                     | Ownership (%) |               |
|---|---------------|--------------------------------------|---------------|---------------|
|   |               |                                      | Dec. 31, 2013 | Dec. 31, 2012 |
| 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         |
| SK Planet Co., Ltd.                       | Korea         | Telecommunication service            | 100.0         | 100.0         |
| Madsmart, Inc.(*)                         | Korea         | Application software production      |               | 100.0         |
| SK Telecom China Holdings Co., Ltd.       | China         | Investment association               | 100.0         | 100.0         |
| SKY Property Mgmt. Ltd.(*)                | Virgin Island | Real estate investment               |               | 60.0          |
| Shenzhen E-eye High Tech Co., Ltd.        | China         | Manufacturing                        | 65.5          | 65.5          |
| SK Global Healthcare Business Group, Ltd. | Hong Kong     | Investment association               | 100.0         | 100.0         |
| SK China Real Estate Co., Ltd.(*)         | Hong Kong     | Real estate investment               |               | 99.4          |
| SK Planet Japan                           | Japan         | Digital contents sourcing service    | 100.0         | 100.0         |
| SKT Vietnam PTE. Ltd.                     | Singapore     | Telecommunication service            | 73.3          | 73.3          |
| SK Planet Global PTE. Ltd.                | Singapore     | Digital contents sourcing service    | 100.0         | 100.0         |
| SKP GLOBAL HOLDINGS PTE. LTD.(*)          | Singapore     | Investment association               | 100.0         |               |
| SKT Americas, Inc.                        | USA           | Information gathering and consulting | 100.0         | 100.0         |
| SKP America LLC.                          | USA           | Digital contents sourcing service    | 100.0         | 100.0         |
| YTK Investment Ltd.                       | Cayman        | Investment association               | 100.0         | 100.0         |
| Atlas Investment                          | Cayman        | Investment association               | 100.0         | 100.0         |
| Technology Innovation Partners, LP.       | USA           | Investment association               | 100.0         | 100.0         |
| SK Telecom China Fund I L.P.              | Cayman        | Investment association               | 100.0         | 100.0         |

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

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

**Table of Contents****1. Reporting Entity, Continued**

(3) Condensed financial information of subsidiaries

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

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

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

**Table of Contents****1. Reporting Entity, Continued**

## (3) Condensed financial information of subsidiaries, Continued

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****1. Reporting Entity, Continued**

## (4) Changes in subsidiaries

The list of subsidiaries that were newly included or excluded from consolidation during the year ended December 31, 2013 is as follows:

## 1) Newly included subsidiaries

| <b>Subsidiary</b>             | <b>Reason</b>  |
|-------------------------------|--|
| M&Service Co., Ltd.           | SK Planet Co., Ltd. acquired ownership interest in M&Service Co., Ltd. |
| SKP GLOBAL HOLDINGS PTE. LTD. | SK Planet Co., Ltd. invested in SKP GLOBAL HOLDINGS PTE. LTD.          |

## 2) Excluded subsidiaries

| <b>Subsidiary</b>              | <b>Reason</b>   |
|--------------------------------|---|
| PAXNet Co., Ltd.               | The Parent Company sold its investment during the year. |
| Broadband media Co., Ltd.      | Merged into SK Broadband Co., Ltd. during the year.     |
| Madsmart, Inc.                 | Merged into SK Planet Co., Ltd. during the year.        |
| SKY Property Mgmt. Ltd.        | The Parent Company sold its investment during the year. |
| SK China Real Estate Co., Ltd. | The Parent Company sold its investment during the year. |
| Loen Entertainment, Inc.       | The Parent Company sold its investment during the year. |

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

| <i>(In millions of won)</i>                  | <b>December 31, 2013</b>                   |                                   |
|--|--|-----------------------------------|
|  | <b>SK Communications<br/>Co.,<br/>Ltd.</b> | <b>SK Broadband<br/>Co., Ltd.</b> |
| 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                           |

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|  |          |           |
|--|----------|-----------|
| Revenue  | 128,272  | 2,539,366 |
| Profit (loss) for the period                         | (41,893) | 12,306    |
| Amortization of adjustment for fair value            |          | (30,977)  |
| Loss of the consolidated entities                    | (41,893) | (18,671)  |
| Total comprehensive loss                             | (43,318) | (13,059)  |
| Loss attributable to non-controlling interests       | (14,853) | (9,231)   |
| Net cash provided by (used in) operating activities  | (22,867) | 440,036   |
| Net cash provided by (used in) investing activities  | 41,788   | (329,346) |
| Net cash provided by (used in) financing activities  | 19       | (129,181) |
| Net increase (decrease) in cash and cash equivalents | 18,940   | (18,491)  |

**Table of Contents****1. Reporting Entity, Continued**

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

(In millions of won)

|  | <b>December 31, 2012</b> |                          |                           |
|--|--------------------------|--------------------------|---------------------------|
|  | <b>SK</b>                |                          |                           |
|  | <b>Communication</b>     | <b>SK Broadband Co.,</b> | <b>SKY Property Mgmt.</b> |
|  | <b>Co., Ltd.</b>         | <b>Ltd.(*1)</b>          | <b>Ltd.(*2)</b>           |
| Ownership of non-controlling interests (%)           | 35.4                     | 49.4                     | 40.0                      |
| Current assets                                       | 99,599                   | 684,804                  | 69,093                    |
| Non-current assets                                   | 166,220                  | 2,394,352                | 704,319                   |
| Current liabilities                                  | (64,811)                 | (907,000)                | (51,068)                  |
| Non-current liabilities                              | (5,672)                  | (1,061,608)              | (243,236)                 |
| Net assets   | 195,336                  | 1,110,548                | 479,108                   |
| Adjustment for fair value                            |                          | 144,455                  |                           |
| Net assets of consolidated entities                  | 195,336                  | 1,255,003                | 479,108                   |
| Carrying amount of non-controlling interests         | 69,222                   | 621,055                  | 195,907                   |
| Revenue  | 197,153                  | 2,492,160                | 70,808                    |
| Profit (loss) for the period                         | (35,334)                 | 22,499                   | 10,390                    |
| Amortization of adjustment for fair value            |                          | (72,192)                 |                           |
| Profit (loss) of the consolidated entities           | (35,334)                 | (49,693)                 | 10,390                    |
| Total comprehensive Income (loss)                    | (36,785)                 | 17,397                   | (23,948)                  |
| Profit (loss) attribute to non-controlling interests | (12,525)                 | (24,595)                 | 4,156                     |
| Net cash provided by (used in) operating activities  | (14,925)                 | 375,848                  | 16,258                    |
| Net cash provided by (used in) Investing activities  | 5,319                    | (287,975)                | (396)                     |
| Net cash provided by (used in) financing activities  | 92                       | (224,837)                | (1,405)                   |
| Net increase (decrease) in cash and cash equivalents | (9,514)                  | (136,964)                | 14,457                    |

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

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



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**2. Basis of Presentation**

(1) Statement of compliance

These consolidated financial statements were prepared in accordance with K-IFRS, as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

The consolidated financial statements were authorized for issuance by the Board of Directors on February 6, 2014, which will be submitted for approval at the shareholders meeting to be held on March 21, 2014.

(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 and unrecognized past service costs

(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 K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes: revenue and classification of investment property.

2) Assumptions and estimation uncertainties

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

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**2. Basis of Presentation, Continued**

(4) Use of estimates and judgments, Continued

3) Fair value measurement

The Group establishes fair value measurement policies and procedures as its accounting policies and disclosures require fair value measurements for the majority of financial and non-financial assets and liabilities. Such policies and procedures are executed by the valuation division, which is responsible for the review of significant fair value measurements including fair values classified as level 3 in the fair value hierarchy, and the results of which are directly reported to the finance executive.

The valuation division regularly reviews unobservable significant inputs and valuation adjustments. If third party information such as prices available from an exchange, dealer, broker, industry group, pricing service or regulatory agency is used for fair value measurements, the valuation division reviews whether the valuation based on third party information includes classifications by levels within the fair value hierarchy and meets the requirements for the relevant standards.

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 are transferred between levels of the fair value hierarchy, the Group classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value and recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

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



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**3. Changes in Accounting Policies**

The accounting policies have been applied consistently to all periods presented in these consolidated financial statements except for new standards, interpretations and amendments to existing standards mandatory for the Group for annual periods beginning on or after January 1, 2013 set out below.

K-IFRS No. 1110, Consolidated Financial Statements

K-IFRS No. 1111, Joint Arrangements

K-IFRS No. 1112, Disclosure of Interests in Other Entities

K-IFRS No. 1113, Fair Value Measurement

K-IFRS No. 1019, Employee Benefits

Amendments to K-IFRS No. 1001, Presentation of Items of Other Comprehensive Income ( OCI )

Amendments to K-IFRS No. 1107, Disclosure of offsetting financial assets and financial liabilities

Amendments to K-IFRS No. 1036, Disclosure of recoverable amount of non-financial assets

(1) Subsidiaries

In accordance with the adoption of K-IFRS No. 1110, Consolidated Financial Statements, the Group's accounting policy to determine whether an entity has control over an investee has been changed. The standard introduces a new control model focusing on whether the Group 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.

The Group remeasured control over investees as of January 1, 2013, the amendment's initial adoption date, and there were no changes in the Group's subsidiaries as a result of adopting this amendment.

(2) Joint arrangements

K-IFRS No. 1111 classifies joint arrangements into two types - joint operations and joint ventures. The Company assesses its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances

The Group reassessed its involvement in joint arrangements and reclassified investment property in relation to joint controlling entities as joint ventures. There were no effects on the Group's recognized assets, liabilities and comprehensive income due to the reclassification, as the Group consistently recognizes an investment and accounted for that investment using the equity method.

(3) Disclosure of interests in other entities

As described in notes 1 and 11, the Group provides more detailed information on interests in subsidiaries and investees accounted for using the equity method in accordance with the amendments to K-IFRS 1112.

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**3. Changes in Accounting Policies, Continued**

(4) Fair value measurement

K-IFRS No. 1113 has been amended to provide a single framework for fair value and information of fair value measurements when other standards requires or permits fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard replaces disclosures relating to fair value measurements required by other standards including K-IFRS No. 1107, and requires additional disclosures. The required disclosures are included in note 35.

(5) Defined benefit pension plans

The Group changed its accounting policy for recognition of gains and losses relating to defined benefit pension plans in accordance with the amendments to K-IFRS No. 1019, Employee Benefits. The Group determines net interest costs for net defined benefit liabilities using the discount rates used for the measurement of defined benefit obligations at the beginning of the reporting period and considers changes in net defined benefit liabilities due to contributions and retirement benefit payments. Accordingly, net interests on net defined benefits liabilities consist of interest costs on defined benefits obligations, interest income on plan assets and, if applicable, interest on the effects of limitations on asset recognition. Prior to the amendments, the Group determined interest income on plan assets based on the long-term expected return rate.

(6) Presentation of other comprehensive income items

In accordance with the amendments, the Group classifies other comprehensive income items by nature and presents items as items that will never be reclassified to profit or loss and items that are or may be reclassified to profit or loss. Accordingly, the consolidated statement of comprehensive income for the year ended December 31, 2012 presented for comparative purposes, has been restated.

(7) Offsetting financial assets and liabilities

As described in note 35, the Group provides disclosures relating to offsetting financial assets and financial liabilities in accordance with the amendments to K-IFRS No. 1107.

(8) Disclosure of recoverable amount of non-financial assets

The Group early adopted the amendments to K-IFRS No. 1036. Accordingly, the Group makes the additional disclosures on required by the amendment when impairment losses are recognized and recoverable amounts are based on net fair value.

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**4. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements in accordance with K-IFRSs 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.

Presentation and classification of certain items on the consolidated statements of comprehensive income for the year ended December 31, 2012, presented for the comparative purposes, have been modified by applying changes to the standards and classification method of other comprehensive income items and results of discontinued operations.

(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.

(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 K-IFRS No. 1032 and 1039.

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.



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**4. Significant Accounting Policies, Continued**

(2) Basis of consolidation, Continued

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

(ii) Non-controlling interests

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

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.

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**4. Significant Accounting Policies, Continued**

(2) Basis of consolidation, Continued

(vi) Intra-group transactions

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

(vii) Business combinations under common control

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

(3) Cash and cash equivalents

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

(4) Inventories

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

(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.



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**4. Significant Accounting Policies, Continued**

(5) Non-derivative financial assets, Continued

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

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

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale financial assets

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

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

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**4. Significant Accounting Policies, Continued**

(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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**4. Significant Accounting Policies, Continued**

(6) Derivative financial instruments, including hedge accounting, Continued

(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.

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**4. Significant Accounting Policies, Continued**

(7) Impairment of financial assets, Continued

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(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.

**Table of Contents****4. Significant Accounting Policies, Continued****(8) Property, plant and equipment, Continued**

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other non-operating income (loss).

The estimated useful lives of the Group's property, plant and equipment are as follows:

|  | Useful lives (years) |
|--|----------------------|
| Buildings and structures                           | 15 ~ 40              |
| Machinery  | 3 ~ 15               |
| Other property, plant and equipment ( Other PP&E ) | 4 ~ 10               |

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**(9) Borrowing costs**

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.

**Table of Contents****4. Significant Accounting Policies, Continued****(10) Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Group's intangible assets are as follows:

|                       | Useful lives (years) |
|-----------------------|----------------------|
| Frequency use rights  | 6 ~ 13               |
| Land use rights       | 5                    |
| Industrial rights     | 5, 10                |
| Development costs     | 5                    |
| Facility usage rights | 10, 20               |
| Customer relations    | 3 ~ 7                |
| Other                 | 3 ~ 20               |

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

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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.

(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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**Table of Contents****4. Significant Accounting Policies, Continued****(13) Impairment of non-financial assets, Continued**

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.

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**4. Significant Accounting Policies, Continued**

(14) Leases, Continued

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

(15) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are 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 K-IFRS No. 1036, 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).

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**4. Significant Accounting Policies, Continued**

(16) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(17) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.

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**4. Significant Accounting Policies, Continued**

(17) Employee benefits, Continued

(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 obligation, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability comprise of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit liability, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and recognized in other comprehensive income. The Group determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Group recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

(v) Termination benefits

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

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**4. Significant Accounting Policies, Continued**

(18) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

(19) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are 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.

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**4. Significant Accounting Policies, Continued**

(19) Foreign currencies, Continued

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(20) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(21) Hybrid bond

The Group recognizes a financial instrument issued by the Group as an equity instrument if it does not include contractual obligation to deliver financial assets including cash to the counter party.

(22) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable. Returns, trade discounts and volume rebates are recognized as a reduction of revenue.

(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.



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**4. Significant Accounting Policies, Continued**

(22) Revenue, Continued

(ii) Goods sold

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programmes is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Group performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

(iv) Bundled arrangements

When the Group sells both handsets and wireless services to subscribers, the Group recognizes these transactions separately as sales for handset sales and wireless telecommunication services.

(23) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

(24) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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**4. Significant Accounting Policies, Continued**

(24) Income taxes, Continued

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. 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.

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**4. Significant Accounting Policies, Continued**

(25) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(26) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(27) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and but not effective for the Group for annual periods beginning on or after January 1, 2013 are as follows. The Group has not early adopted them.

As of December 31, 2013, management is not able to evaluate the impact, if any, of applying these standards on its financial position and results of operations.

(i) K-IFRS No.1032, Financial instruments: Presentation

K-IFRS No. 1032, Financial Instruments has been amended to clarify requirements for offsetting financial assets and financial liabilities by adding application guidance. The amendment is mandatorily effective for annual periods beginning on or after January 1, 2014.

**Table of Contents****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, game manufacturing and other immaterial operations, do not meet the quantitative thresholds to be considered reportable segments and are presented as Other.

Segment information of the Group as of and for the year ended December 31, 2012 has been retrospectively restated to exclude discontinued operations.

(1) Segment information as of and for the years ended December 31, 2013 and 2012 is as follows:

*(In millions of won)*

|   | <b>2013</b>              |  |              |                       |                                  |                            |
|---|--------------------------|--|--------------|-----------------------|----------------------------------|----------------------------|
|   | <b>Cellular services</b> | <b>Fixed-line telecommunication services</b> | <b>Other</b> | <b>Total segments</b> | <b>Consolidation adjustments</b> | <b>Consolidated amount</b> |
| Total sales   | 14,501,829               | 2,972,642                                    | 1,741,599    | 19,216,070            | (2,614,016)                      | 16,602,054                 |
| Internal sales  | 1,186,297                | 648,253                                      | 779,466      | 2,614,016             | (2,614,016)                      |                            |
| External sales  | 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             |                                  | 2,011,109                  |
| Finance income and costs, net   |                          |  |              |                       |                                  | (457,811)                  |
| Gain related to investments in subsidiaries, associates and joint ventures, net |                          |  |              |                       |                                  | 706,509                    |
| Other non-operating income and expense, net                                     |                          |  |              |                       |                                  | (432,706)                  |
| Profit from continuing operations before income tax                             |                          |  |              |                       |                                  | 1,827,101                  |
| Total assets  | 23,263,268               | 3,288,275                                    | 3,075,321    | 29,626,864            | (3,050,349)                      | 26,576,515                 |
| Total liabilities   | 9,744,248                | 2,033,978                                    | 901,563      | 12,679,789            | (269,831)                        | 12,409,958                 |

**Table of Contents****5. Operating Segments, Continued***(In millions of won)*

|   | <b>2012</b>              |  |              |                       |                                  |                            |
|---|--------------------------|--|--------------|-----------------------|----------------------------------|----------------------------|
|   | <b>Cellular services</b> | <b>Fixed-line telecommunication services</b> | <b>Other</b> | <b>Total segments</b> | <b>Consolidation adjustments</b> | <b>Consolidated amount</b> |
| Total sales   | 14,475,379               | 3,018,156                                    | 1,469,457    | 18,962,992            | (2,821,583)                      | 16,141,409                 |
| Internal sales  | 1,256,475                | 824,295                                      | 740,813      | 2,821,583             | (2,821,583)                      |                            |
| External sales  | 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             |                                  | 1,730,049                  |
| Finance income and costs, net   |                          |  |              |                       |                                  | (193,727)                  |
| Gain related to investments in subsidiaries, associates and joint ventures, net |                          |  |              |                       |                                  | (24,560)                   |
| Other non-operating income and expense, net                                     |                          |  |              |                       |                                  | 7,606                      |
| Profit from continuing operations before income tax                             |                          |  |              |                       |                                  | 1,519,368                  |
| Total assets  | 22,860,867               | 3,349,715                                    | 3,298,774    | 29,509,356            | (3,913,797)                      | 25,595,559                 |
| Total liabilities   | 10,281,115               | 2,105,282                                    | 860,336      | 13,246,733            | (505,956)                        | 12,740,777                 |

Intersegment sales and purchases are conducted on an arms-length basis and eliminated on consolidation. Since there are no intersegment sales of inventory, there is no unrealized intersegment profit to be eliminated on consolidation. The Group principally operates its business in its domestic market in Korea and the amounts outside of Korea are immaterial, therefore no entity-wide geographical information is presented.

No single customer contributed 10% or more to the Group's total sales for the years ended December 31, 2013 and 2012.

**Table of Contents****5. Operating Segments, Continued**

(2) The Group's revenues are generated as follows:

(In billions of won except percentage)

|  | 2013              |                                | 2012              |                                |
|--|-------------------|--------------------------------|-------------------|--------------------------------|
|  | Amount            | Percentage of total revenue(%) | Amount            | Percentage of total revenue(%) |
| <b>Cellular revenue</b>                              |                   |                                |                   |                                |
| Wireless service                                     | 11,001,123        | 66.3                           | 10,591,489        | 65.6                           |
| Interconnection                                      | 844,977           | 5.1                            | 860,250           | 5.3                            |
| Digital handset sales                                | 645,914           | 3.9                            | 1,131,657         | 7.1                            |
| Other(*1)  | 823,518           | 5.0                            | 635,508           | 3.9                            |
|  | 13,315,532        | 80.2                           | 13,218,904        | 81.9                           |
| <b>Fixed-line telecommunication services revenue</b> |                   |                                |                   |                                |
| Fixed line telephone service                         | 474,430           | 2.9                            | 485,941           | 3.0                            |
| Interconnection revenue                              | 78,731            | 0.5                            | 98,460            | 0.6                            |
| Broadband internet service                           | 1,023,156         | 6.2                            | 864,955           | 5.4                            |
| International calling service                        | 127,005           | 0.8                            | 144,073           | 0.9                            |
| Miscellaneous(*2)                                    | 621,067           | 3.7                            | 600,432           | 3.7                            |
|  | 2,324,389         | 14.0                           | 2,193,861         | 13.6                           |
| <b>Other revenue</b>                                 |                   |                                |                   |                                |
| Commerce service(*3)                                 | 742,616           | 4.5                            | 391,894           | 2.5                            |
| Portal service(*4)                                   | 92,153            | 0.6                            | 167,815           | 1.0                            |
| Other(*5)  | 127,364           | 0.7                            | 168,935           | 1.0                            |
|  | 962,133           | 5.8                            | 728,644           | 4.5                            |
| <b>Total operating revenue</b>                       | <b>16,602,054</b> | <b>100.0</b>                   | <b>16,141,409</b> | <b>100.0</b>                   |

(\*1) Other cellular revenue includes revenue from the sale and licensing of Internet platform solutions.

(\*2) Miscellaneous includes revenues from leased line, corporate data and internet solutions businesses.

(\*3) Commerce service revenue includes sales from online shopping mall, such as, 11<sup>th</sup> Street. As the Parent Company acquired the ownership interests in SK Marketing & Company Co., Ltd. during 2013, commerce service revenue for the year ended December 31, 2013 include revenue from advertising and e-commerce agency.

(\*4)

Portal service revenue includes revenues from Nate, an online portal service and Cyworld, a social network service.

(\*5) Other includes revenue from T store, online marketplace for mobile application, and the platform businesses.



**Table of Contents****6. Restricted Deposits**

Deposits which are restricted in use as of December 31, 2013 and 2012 are summarized as follows:

*(In millions of won)*

|   | December 31,<br>2013 | December 31,<br>2012 |
|---|----------------------|----------------------|
| Short-term financial instruments                        |                      |                      |
| Charitable fund(*1)                                     | 76,500               | 76,500               |
| Guarantees for loans and other similar instruments (*2) |                      | 149,000              |
| Other   | 5,134                | 16,087               |
| Long-term financial instruments                         | 7,589                | 106                  |
| Guarantee deposits                                      | 40                   | 40                   |
|   | 89,263               | 241,733              |

(\*1) The Group established a trust fund for charitable purposes. Profits from the fund are donated to charitable institutions. As of December 31, 2013, the funds cannot be withdrawn.

(\*2) For the year ended December 31, 2012, SK Broadband Co., Ltd., a subsidiary, had guaranteed certain loans of Broadband Media Co., Ltd. and provided short-term financial instruments as collateral. As of December 31, 2013, there are no guarantees for loans and other similar instruments.

**7. Trade and Other Receivables**

(1) Details of trade and other receivables as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                           | December 31, 2013 |            |           |
|---------------------------|-------------------|------------|-----------|
|                           | Gross             | Allowances | Carrying  |
|                           | amount            | for        | amount    |
|                           |                   | impairment |           |
| Current assets:           |                   |            |           |
| 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 |
| Non-current assets:       |                   |            |           |
| Long-term loans           | 84,176            | (26,734)   | 57,442    |
| Guarantee deposits        | 249,600           |            | 249,600   |

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|                               |       |           |           |           |
|-------------------------------|-------|-----------|-----------|-----------|
| Long-term accounts receivable | trade | 13,154    |           | 13,154    |
|                               |       | 346,930   | (26,734)  | 320,196   |
|                               |       | 3,638,983 | (323,984) | 3,314,999 |

**Table of Contents****7. Trade and Other Receivables, Continued**

- (1) Details of trade and other receivables as of December 31, 2013 and 2012 are as follows, Continued

*(In millions of won)*

|                                     | <b>December 31, 2012</b> |                   |                  |
|-------------------------------------|--------------------------|-------------------|------------------|
|                                     | <b>Gross</b>             | <b>Allowances</b> | <b>Carrying</b>  |
|                                     | <b>amount</b>            | <b>for</b>        | <b>amount</b>    |
|                                     |                          | <b>impairment</b> |                  |
| <b>Current assets:</b>              |                          |                   |                  |
| Accounts receivable trade           | 2,166,293                | (211,373)         | 1,954,920        |
| Short-term loans                    | 86,789                   | (1,881)           | 84,908           |
| Accounts receivable other           | 639,386                  | (57,288)          | 582,098          |
| Accrued income                      | 8,857                    | (142)             | 8,715            |
| Others                              | 431                      |                   | 431              |
|                                     | <b>2,901,756</b>         | <b>(270,684)</b>  | <b>2,631,072</b> |
| <b>Non-current assets:</b>          |                          |                   |                  |
| Long-term loans                     | 97,636                   | (28,337)          | 69,299           |
| Guarantee deposits                  | 236,242                  |                   | 236,242          |
| Long-term accounts receivable trade | 15,024                   | (1,647)           | 13,377           |
|                                     | <b>348,902</b>           | <b>(29,984)</b>   | <b>318,918</b>   |
|                                     | <b>3,250,658</b>         | <b>(300,668)</b>  | <b>2,949,990</b> |

- (2) The movements in allowances for doubtful accounts of trade and other receivables during the years ended December 31, 2013 and 2012 were as follows:

*(In millions of won)*

|  | <b>2013</b>    | <b>2012</b>    |
|--|----------------|----------------|
| <b>Balance at January 1</b>                  | 300,668        | 318,820        |
| Increase of bad debt allowances              | 79,330         | 82,500         |
| Reversal of allowances for doubtful accounts | (359)          | (5,902)        |
| Write-offs                                   | (76,697)       | (111,611)      |
| Other  | 21,042         | 16,861         |
| <b>Balance at December 31</b>                | <b>323,984</b> | <b>300,668</b> |

- (3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                  | <b>December 31, 2013</b>                   |                              | <b>December 31, 2012</b>                   |                              |
|----------------------------------|--|------------------------------|--|------------------------------|
|                                  | <b>Accounts<br/>receivable<br/>- trade</b> | <b>Other<br/>receivables</b> | <b>Accounts<br/>receivable<br/>- trade</b> | <b>Other<br/>receivables</b> |
| Neither overdue or impaired      | 1,882,607                                  | 938,131                      | 1,589,911                                  | 976,882                      |
| Overdue but not impaired         | 46,773                                     | 2,030                        | 38,590                                     | 1,588                        |
| Impaired                         | 565,775                                    | 203,667                      | 552,816                                    | 90,871                       |
|                                  | 2,495,155                                  | 1,143,828                    | 2,181,317                                  | 1,069,341                    |
| Allowances for doubtful accounts | (224,685)                                  | (99,299)                     | (213,020)                                  | (87,648)                     |
|                                  | 2,270,470                                  | 1,044,529                    | 1,968,297                                  | 981,693                      |

The Group establishes allowances for doubtful accounts based on the likelihood of recoverability of trade and other receivables based on their aging at the end of the period, past customer default experience, customer credit status, and economic and industrial factors.

**Table of Contents****7. Trade and Other Receivables, Continued**

- (4) The aging of overdue but not impaired accounts receivable as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|                    | December 31, 2013           |                   | December 31, 2012           |                   |
|--------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|                    | Accounts receivable - trade | Other receivables | Accounts receivable - trade | Other receivables |
| Less than 1 month  | 12,036                      | 20                | 4,067                       | 171               |
| 1 ~ 3 months       | 15,686                      | 1,220             | 10,264                      | 673               |
| 3 ~ 6 months       | 3,610                       | 516               | 10,507                      | 101               |
| More than 6 months | 15,441                      | 274               | 13,752                      | 643               |
|                    | 46,773                      | 2,030             | 38,590                      | 1,588             |

**8. Inventories**

Details of inventories as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|                            | December 31, 2013 |                         |                 | December 31, 2012 |                         |                 |
|----------------------------|-------------------|-------------------------|-----------------|-------------------|-------------------------|-----------------|
|                            | Acquisition cost  | Write-down of inventory | Carrying amount | Acquisition cost  | Write-down of inventory | Carrying amount |
| Merchandise                | 165,080           | (3,152)                 | 161,928         | 230,640           | (1,784)                 | 228,856         |
| Finished goods             | 1,711             | (34)                    | 1,677           | 3,525             | (962)                   | 2,563           |
| Work in process            |                   |                         |                 | 309               |                         | 309             |
| Raw materials and supplies | 13,515            |                         | 13,515          | 10,487            | (69)                    | 10,418          |
|                            | 180,306           | (3,186)                 | 177,120         | 244,961           | (2,815)                 | 242,146         |

The amount of the inventory write-downs charged to the consolidated statements of income and write-offs of inventories are as follows:

(In millions of won)

|   | 2013    | 2012    |
|---|---------|---------|
| Charged to cost of products that have been resold | 1,498   | 510     |
| Write-offs upon sale                              | (1,127) | (2,844) |

371 (2,334)

There are no significant reversals of inventory write-downs for the periods presented.

**Table of Contents****9. Investment Securities**

(1) Details of short-term investment securities as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Beneficiary certificates(*)                        | 102,828                      | 56,160                       |
| Current portion of long-term investment securities | 3,240                        | 3,967                        |
|  | <b>106,068</b>               | <b>60,127</b>                |

(\*) The distributions arising from beneficiary certificates as of December 31, 2013 were accounted for as accrued income.

(2) Details of long-term investment securities as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| <b>Equity securities:</b>                               |                              |                              |
| Marketable equity securities                            | 638,445                      | 584,035                      |
| Unlisted equity securities(*1)                          | 47,145                       | 99,643                       |
| Equity investments(*2)                                  | 239,354                      | 223,370                      |
|   | <b>924,944</b>               | <b>907,048</b>               |
| <b>Debt securities:</b>                                 |                              |                              |
| Public bonds  | 356                          | 377                          |
| Investment bonds(*3)                                    | 46,467                       | 50,254                       |
|   | <b>46,823</b>                | <b>50,631</b>                |
| <b>Total</b>  | <b>971,767</b>               | <b>957,679</b>               |
| Less current portion of long-term investment securities | (3,240)                      | (3,967)                      |
| <b>Long-term investment securities</b>                  | <b>968,527</b>               | <b>953,712</b>               |

- (\*1) Unlisted equity securities whose fair value cannot be measured reliably are recorded at cost.
- (\*2) Equity investments are recorded at cost.
- (\*3) The Group classified convertible bonds of NanoEnTek, Inc. (carrying amount as of December 31, 2013: 20,532 million), which were acquired during the year ended December 31, 2011, as financial assets at fair value through profit or loss. The difference between acquisition cost and fair value is accounted for as finance income (loss).



**Table of Contents****10. Assets and Liabilities Classified as Held for Sale****(1) Subsidiary**

For the year ended December 31, 2012, the Group classified assets and liabilities of a subsidiary, SKY Property Mgmt. Ltd., as held for sale as a result of the Board of Directors' December 21, 2012 decision to dispose of the Group's ownership interests of 27% in the subsidiary in order to utilize the proceeds for new business opportunities. The ownership interests were disposed as of January 11, 2013.

Non-current assets and liabilities held for sale as of December 31, 2012 are as follows:

*(In millions of won)*

|                               | <b>December 31,<br/>2012</b> |
|-------------------------------|------------------------------|
| Asset group held-for sale     | 773,413                      |
| Current assets(*1)            | 69,094                       |
| Non-current assets            | 704,319                      |
| Long-term prepaid expense     | 486,439                      |
| Investment property           | 186,682                      |
| Property and equipment        | 1,566                        |
| Other non-current assets      | 29,632                       |
| Liability group held-for-sale | 294,305                      |
| Current liabilities           | 51,069                       |
| Non-current liabilities       | 243,236                      |

(\*1) Cash and cash equivalents of 51,831 million which are included in current assets are recognized as cash outflows from investing activities in the consolidated statements of cash flows as the cash equivalents are expected to be recovered through the disposal of assets and liabilities held for sale.

The assets and liabilities classified as held for sale as of December 31, 2012 are measured at the lower of their carrying amount and fair value less cost to sell.

The Group disposed of 27% of its ownership interests in SKY Property Mgmt. Ltd., which were accounted for as non-current assets held for sale and non-current liabilities held for sale, to SK Innovation, Co., Ltd., a related party, and recognized 140,689 thousand of a gain on disposal.

**Table of Contents****10. Assets and Liabilities Classified as Held for Sale, Continued**

## (2) Investments in associates

Non-current assets held for sale relating to investments in associates as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                       | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|-----------------------|------------------------------|------------------------------|
| TR Entertainment(*1)  | 2,611                        |                              |
| SK Fans Co., Ltd.(*2) | 1,056                        | 2,143                        |
|                       | <b>3,667</b>                 | <b>2,143</b>                 |

(\*1) A disposal contract for the Group's entire ownership interests in TR Entertainment was entered into during the year ended December 31, 2013 and the investment in the associate was reclassified to non-current assets held for sale after an impairment loss of 4,019 million was recognized.

(\*2) A disposal contract for the Group's ownership interests in SK Fans Co., Ltd., an associate, was entered into during the year ended December 31, 2012. However, the contract was modified during the year ended December 31, 2013 and the difference between the contractual disposal amount and carrying amount of 1,088 million was recognized as an impairment loss.

**11. Business Combinations**

- (1) In January 2013, the Parent Company acquired an additional 50% ownership interest in SK Marketing & Company Co., Ltd., advertising and e-commerce agency, from SK Innovation Co., Ltd., a related party under common control, through the additional purchase of shares and obtained control over SK Marketing & Company Co., Ltd., and its subsidiary, M&Service Co., Ltd.

Prior to the acquisition, the Parent Company owned 50% of SK Marketing & Company Co., Ltd. After obtaining control over SK Marketing & Company Co., Ltd, the Parent Company acquired the shares of SK Planet Co., Ltd. by investing its ownership interest of 100% of SK Marketing & Company Co., Ltd. as a form of investment in kind. On February 1, 2013, SK Planet Co., Ltd. merged with SK Marketing & Company Co., Ltd.

As the business combination occurred during the year ended December 31, 2013 and was a business combination between entities under common control, the difference between the consideration and book value of net assets was recognized as a capital deficit and other capital adjustments.

**Table of Contents****11. Business Combination, Continued**

(2) Consideration and assets and liabilities transferred as of the acquisition date are as follows:

*(In millions of won)*

|  | <b>Amount</b> |
|--|---------------|
| Consideration paid   |               |
| Cash and cash equivalents  | 190,605       |
| Investments in associates (carrying value)                       | 141,534       |
|  | 332,139       |
| Assets and liabilities transferred                               |               |
| Cash and cash equivalents  | 95,800        |
| Accounts receivable trade  | 132,514       |
| Inventories  | 3,472         |
| Property and equipment, and intangible assets                    | 68,699        |
| Other assets   | 457,431       |
| Accounts payable trade   | (150,014)     |
| Other liabilities  | (337,617)     |
|  | 270,285       |
| Amount recorded in capital surplus and other capital adjustments | 61,854        |

**12. Investments in Associates and Joint Ventures**

(1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                      | Country | December 31, 2013    |                 | December 31, 2012    |                 |
|--------------------------------------|---------|----------------------|-----------------|----------------------|-----------------|
|                                      |         | Ownership percentage | Carrying amount | Ownership percentage | Carrying amount |
| <b>Investments in associates</b>     |         |                      |                 |                      |                 |
| SK Marketing & Company Co., Ltd.(*1) | Korea   |                      |                 | 50.0                 | 145,333         |
| SK China Company Ltd.(*2)            | China   | 9.6                  | 37,434          | 9.6                  | 37,628          |
| Korea IT Fund(*3)                    | Korea   | 63.3                 | 231,402         | 63.3                 | 230,016         |
| JYP Entertainment Corporation(*5)    | Korea   |                      |                 | 25.5                 | 4,232           |
| Etoos Co., Ltd. (*2)                 | Korea   | 15.6                 | 12,029          | 15.6                 | 12,037          |
| HanaSK Card Co., Ltd.                | Korea   | 49.0                 | 378,616         | 49.0                 | 378,457         |
| Candle Media Co., Ltd.               | Korea   | 40.9                 | 21,241          | 40.9                 | 21,935          |
| NanoEnTek, Inc. (*2)                 | Korea   | 9.2                  | 9,312           | 9.3                  | 9,276           |

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|   |               |      |           |      |           |
|---|---------------|------|-----------|------|-----------|
| SK Industrial Development China Co., Ltd.           | Hong Kong     | 21.0 | 77,517    | 35.0 | 77,967    |
| Packet One Network                                  | Malaysia      | 27.0 | 60,706    | 28.2 | 88,389    |
| SK Technology Innovation Company                    | Cayman        | 49.0 | 53,874    | 49.0 | 63,559    |
| ViKi, Inc.(*6)                                      | USA           |      |           | 26.3 | 15,667    |
| HappyNarae Co., Ltd.                                | Korea         | 42.5 | 13,935    | 42.5 | 13,113    |
| SK hynix Inc.(*8)                                   | Korea         | 20.6 | 3,943,232 | 21.1 | 3,328,245 |
| SK MENA Investment B.V.                             | Netherlands   | 32.1 | 13,477    | 32.1 | 13,666    |
| SKY Property Mgmt. Ltd.(*4)                         | Virgin Island | 33.0 | 238,278   |      |           |
| Xinan Tianlong Science and Technology Co., Ltd.(*7) | China         | 49.0 | 26,562    |      |           |
| Daehan Kanggun BcN Co., Ltd. and others             |               |      | 164,976   |      | 170,747   |
| Sub-total   |               |      | 5,282,591 |      | 4,610,267 |

**Table of Contents****12. Investments in Associates and Joint Ventures, Continued**

- (1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2013 and 2012 are as follows, Continued

(In millions of won)

|                                      | Country   | December 31, 2013    |                  | December 31, 2012    |                  |
|--------------------------------------|-----------|----------------------|------------------|----------------------|------------------|
|                                      |           | Ownership percentage | Carrying amount  | Ownership percentage | Carrying amount  |
| <b>Investments in joint ventures</b> |           |                      |                  |                      |                  |
| Dogus Planet, Inc.                   | Turkey    | 50.0                 | 10,105           | 50.0                 | 6,005            |
| PT. Melon Indonesia                  | Indonesia | 49.0                 | 3,230            | 49.0                 | 4,447            |
| Television Media Korea Ltd.          | Korea     | 51.0                 | 8,659            | 51.0                 | 11,758           |
| PT XL Planet Digital(*7)             | Indonesia | 50.0                 | 20,712           |                      |                  |
| Sub-total                            |           |                      | 42,706           |                      | 22,210           |
| <b>Total</b>                         |           |                      | <b>5,325,297</b> |                      | <b>4,632,477</b> |

- (\*1) SK Marketing & Company Co., Ltd. was merged into SK Planet Co., Ltd., a subsidiary of the Parent Company during the year ended December 31, 2013 (Refer to note 11).
- (\*2) Classified as investments in associates as the Group can exercise significant influence through participation on the board of directors even though the Group has less than 20% of equity interests.
- (\*3) 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.
- (\*4) Reclassified from investment in subsidiaries to investment in associates due to the partial disposal of its shares.
- (\*5) Decreased as Loen Entertainment, Inc., which holds ownership interests in JYP Entertainment Corporation, has been classified as non-current assets held for sale.
- (\*6) De-recognized this investment during the year ended December 31, 2013 upon disposal.
- (\*7) Newly acquired investment during the year ended December 31, 2013.
- (\*8) The Group's ownership interests in SK hynix Inc. decreased as investors of convertible bonds issued by SK hynix Inc. exercised their convertible rights during the year ended December 31, 2013.

**Table of Contents****12. Investments in Associates and Joint Ventures, Continued**

(2) The market price of investments in listed associates as of December 31, 2013 and 2012 are as follows:

*(In millions of won, except for share and per share data)*

|                        | December 31, 2013               |                  |              | December 31, 2012               |                  |              |
|------------------------|---------------------------------|------------------|--------------|---------------------------------|------------------|--------------|
|                        | Market value per share (In won) | Number of shares | Market price | Market value per share (In won) | Number of shares | Market price |
| Candle Media Co., Ltd. | 810                             | 21,620,360       | 17,512       | 858                             | 21,620,360       | 18,550       |
| NanoEnTek, Inc.        | 5,170                           | 1,807,130        | 9,343        | 3,915                           | 1,807,130        | 7,075        |
| SK hynix Inc.          | 36,800                          | 146,100,000      | 5,376,480    | 25,750                          | 146,100,000      | 3,762,075    |

(3) The financial information of the significant investees as of and for the years ended December 31, 2013 and 2012 is as follows:

*(In millions of won)*

As of and for the year ended December 31, 2013

|  | SKY           |                       |                     |               |                    |
|--|---------------|-----------------------|---------------------|---------------|--------------------|
|  | SK hynix Inc. | HanaSK Card Co., Ltd. | Property Mgmt. Ltd. | Korea IT Fund | Packet One Network |
| Current assets                           | 6,653,123     | 4,687,020             | 106,122             | 132,968       | 45,936             |
| Non-current assets                       | 14,144,175    | 211,376               | 695,653             | 232,566       | 206,973            |
| Current liabilities                      | 3,078,240     | 2,053,942             | 137,544             | 6             | 106,038            |
| Non-current liabilities                  | 4,652,200     | 2,155,165             | 163,540             |               | 87,989             |
| Revenue                                  | 14,165,102    | 853,506               | 76,834              | 8,161         | 97,137             |
| Profit (loss) from continuing operations | 2,872,857     | 3,521                 | 14,408              | 2,128         | (44,441)           |
| Other comprehensive income               | 6,594         | 1,906                 | 55,403              |               |                    |
| Total comprehensive income (loss)        | 2,879,451     | 5,427                 | 69,811              | 2,128         | (44,441)           |

**Table of Contents****12. Investments in Associates and Joint Ventures, Continued**

- (3) The financial information of the significant investees as of and for the years ended December 31, 2013 and 2012 is as follows, Continued

(In millions of won)

|  | As of and for the year ended December 31, 2012 |                             |                     |                          |
|--|--|-----------------------------|---------------------|--------------------------|
|  | SK hynix<br>Inc.                               | HanaSK<br>Card Co.,<br>Ltd. | Korea<br>IT<br>Fund | Packet<br>One<br>Network |
| Current assets                           | 5,313,573                                      | 7,888,008                   | 195,164             | 46,872                   |
| Non-current assets                       | 13,335,121                                     | 296,007                     | 168,182             | 210,027                  |
| Current liabilities                      | 4,441,180                                      | 259,659                     | 6                   | 143,936                  |
| Non-current liabilities                  | 4,468,071                                      | 7,240,140                   |                     | 80,896                   |
| Revenue                                  | 10,162,210                                     | 1,012,772                   | 19,444              | 110,152                  |
| Profit (loss) from continuing operations | (158,795)                                      | (29,571)                    | 5,820               | (42,830)                 |
| Other comprehensive income (loss)        | (305,601)                                      | (2,653)                     |                     | 2,259                    |
| Total comprehensive income (loss)        | (464,396)                                      | (32,224)                    | 5,820               | (40,571)                 |

- (4) The condensed financial information of joint ventures as of and for the year ended December 31, 2013 and 2012 are as follows:

|  | As of and for the year ended December 31,<br>2013 |                          |                           |                            |
|--|---|--------------------------|---------------------------|----------------------------|
|  | Television<br>Media<br>Korea Ltd.                 | Dogus<br>Planet,<br>Inc. | PT.<br>Melon<br>Indonesia | PT XL<br>Planet<br>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****12. Investments in Associates and Joint Ventures, Continued**

- (4) The condensed financial information of joint ventures as of and for the year ended December 31, 2013 and 2012 are as follows, Continued

| <i>(In millions of won)</i>                    | As of and for the year ended<br>December 31,<br>2012 |                       |                        |
|--|--|-----------------------|------------------------|
|  | Television<br>Media Korea<br>Ltd.                    | Dogus<br>Planet, Inc. | PT. Melon<br>Indonesia |
| Current assets                                 | 22,449   | 7,735                 | 7,770                  |
| Cash and cash equivalents                      | 10,562   | 6,085                 | 6,882                  |
| Non-current assets                             | 6,056  | 7,349                 | 2,265                  |
| Current liabilities                            | 5,724  | 2,970                 | 832                    |
| Account payable, other payables and provisions | 5,323  | 2,631                 | 821                    |
| Non-current liabilities                        | 199  | 104                   | 78                     |
| Account payable, other payables and provisions |  | 104                   |                        |
| Revenue  | 12,115   |                       | 1,218                  |
| Depreciation and amortization                  | (2,886)  | (864)                 | (442)                  |
| Interest income                                | 758  | 539                   | 418                    |
| Loss from continuing operations                | (6,873)  | (4,494)               | (572)                  |
| Total comprehensive loss                       | (6,873)  | (4,494)               | (572)                  |



**Table of Contents****12. Investments in Associates and Joint Ventures, Continued**

- (5) Adjustments of financial information of significant associates to carrying amounts attributable to the ownership interests in those associates as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                            | <b>December 31, 2013</b> |                               |  |                                     |                    |
|----------------------------|--------------------------|-------------------------------|--|-------------------------------------|--------------------|
|                            | Net assets               | Ownership<br>interests<br>(%) | Net assets<br>attributable<br>to the<br>ownership<br>interests | Cost-book<br>value<br>differentials | Carrying<br>amount |
| <b>Associates:</b>         |                          |                               |  |                                     |                    |
| SK hynix Inc.(*)           | 13,066,474               | 20.6                          | 2,687,806  | 1,255,426                           | 3,943,232          |
| HanaSK Card Co., Ltd.      | 689,290                  | 49.0                          | 337,752  | 40,864                              | 378,616            |
| SKY Property Mgmt. Ltd.(*) | 494,004                  | 33.0                          | 163,021  | 75,257                              | 238,278            |
| Korea IT Fund              | 365,528                  | 63.3                          | 231,402  |                                     | 231,402            |

*(In millions of won)*

|                       | <b>December 31, 2012</b> |                               |  |                                     |                    |
|-----------------------|--------------------------|-------------------------------|--|-------------------------------------|--------------------|
|                       | Net assets               | Ownership<br>interests<br>(%) | Net assets<br>attributable<br>to the<br>ownership<br>interests | Cost-book<br>value<br>differentials | Carrying<br>amount |
| <b>Associates:</b>    |                          |                               |  |                                     |                    |
| SK hynix Inc.(*)      | 9,738,729                | 21.1                          | 2,049,182  | 1,279,063                           | 3,328,245          |
| HanaSK Card Co., Ltd. | 684,216                  | 49.0                          | 335,266  | 43,191                              | 378,457            |
| Korea IT Fund         | 363,340                  | 63.3                          | 230,016  |                                     | 230,016            |

- (\*) These entities prepare consolidated financial statements and net assets of these entities represent net assets attributable to owners of the Parent Company.

**Table of Contents****12. Investments in Associates and Joint Ventures, Continued**

(6) Details of changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|   | Beginning<br>balance | Acquisition<br>and<br>disposition | Share of<br>profits<br>(losses) | 2013<br>Other<br>comprehensive<br>income<br>(loss) | Impairment<br>loss | Other<br>increase<br>(decrease) | Ending<br>balance |
|---|----------------------|-----------------------------------|---------------------------------|--|--------------------|---------------------------------|-------------------|
| <b>Investments in associates</b>                |                      |                                   |                                 |  |                    |                                 |                   |
| SK Marketing & Company Co., Ltd.(*1)            | 145,333              |                                   | (3,954)                         | 155  |                    | (141,534)                       |                   |
| SK China Company Ltd.                           | 37,628               |                                   | (7,643)                         | 7,449  |                    |                                 | 37,434            |
| Korea IT Fund                                   | 230,016              |                                   | 1,348                           | 38   |                    |                                 | 231,402           |
| <b>JYP Entertainment Corporation(*2)</b>        |                      |                                   |                                 |  |                    |                                 |                   |
| Etoos Co., Ltd.                                 | 4,232                |                                   | 1,000                           | 58   |                    | (5,290)                         |                   |
| HanaSK Card Co., Ltd.                           | 12,037               |                                   | 56                              | (64)   |                    |                                 | 12,029            |
| Candle Media Co., Ltd.                          | 378,457              |                                   | (612)                           | 771  |                    |                                 | 378,616           |
| NanoEnTek, Inc.                                 | 21,935               |                                   | (782)                           | 88   |                    |                                 | 21,241            |
| SK Industrial Development China Co., Ltd.       | 9,276                |                                   | 25                              | 11   |                    |                                 | 9,312             |
| Packet One Network                              | 77,967               |                                   | (1,037)                         | 587  |                    |                                 | 77,517            |
| SK Technology Innovation Company                | 88,389               | 25                                | (2,367)                         | (1,843)  | (23,498)           |                                 | 60,706            |
| ViKi, Inc.(*3)                                  | 63,559               |                                   | (9,108)                         | (577)  |                    |                                 | 53,874            |
| HappyNarae Co., Ltd.                            | 15,667               | (14,636)                          | (995)                           | (36)   |                    |                                 |                   |
| SK hynix Inc.                                   | 13,113               |                                   | 822                             |  |                    |                                 | 13,935            |
| SK MENA Investment B.V.                         | 3,328,245            |                                   | 610,201                         | 4,786  |                    |                                 | 3,943,232         |
| SKY Property Mgmt. Ltd.(*4)                     | 13,666               |                                   |                                 | (189)  |                    |                                 | 13,477            |
| Xinan Tianlong Science and Technology Co., Ltd. |                      | 25,731                            | 831                             |  |                    | 232,703                         | 238,278           |
| Daehan Kanggun BeN 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                            | 575,415                         | 6,986  | (29,045)           | 81,589                          | 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             |

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|                             |           |        |          |         |          |           |
|-----------------------------|-----------|--------|----------|---------|----------|-----------|
| 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 | 560,557  | 1,749   | (29,045) | 81,039    |
|                             |           |        |          |         |          | 5,325,297 |

**Table of Contents****12. Investments in Associates and Joint Ventures, Continued**

(\*1) The entity was merged into SK Planet Co., Ltd., a subsidiary of the Parent Company during the year ended December 31, 2013 (Refer to note 11).

(\*2) Investment in JYP Entertainment Corporation decreased as Loen Entertainment, Inc., which holds ownership interests in JYP Entertainment Corporation, has excluded from consolidation scope.

(\*3) De-recognized upon disposal during the year ended December 31, 2013.

(\*4) Investments 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.

(In millions of won)

|   | Beginning<br>balance | Acquisition<br>and<br>disposition | Share of<br>profits<br>(losses)<br>(*1) | 2012<br>Other<br>comprehensive<br>income<br>(loss) | Impairment<br>loss | Other<br>increase<br>(decrease) | Ending<br>balance |
|---|----------------------|-----------------------------------|---|--|--------------------|---------------------------------|-------------------|
| <b>Investments in associates</b>          |                      |                                   |   |  |                    |                                 |                   |
| SK Marketing & Company Co., Ltd.          | 128,320              |                                   | 17,585                                  | (572)  |                    |                                 | 145,333           |
| SK China Company Ltd.                     | 48,488               |                                   | 217                                     | (11,077)   |                    |                                 | 37,628            |
| Korea IT Fund                             | 230,980              |                                   | (1,141)                                 | 177  |                    |                                 | 230,016           |
| JYP Entertainment Corporation             | 4,008                |                                   | 282                                     | (58)   |                    |                                 | 4,232             |
| Etoos Co., Ltd.                           | 13,928               |                                   | (1,891)                                 |  |                    |                                 | 12,037            |
| HanaSK Card Co., Ltd.                     | 396,553              |                                   | (16,842)                                | (1,254)  |                    |                                 | 378,457           |
| Candle Media Co., Ltd.                    | 11,814               | 5,853                             | 3,619                                   | 361  |                    | 288                             | 21,935            |
| NanoEnTek, Inc.                           | 10,470               |                                   | (1,290)                                 | 96   |                    |                                 | 9,276             |
| SK Industrial Development China Co., Ltd. | 83,691               |                                   | 276                                     | (6,000)  |                    |                                 | 77,967            |
| Packet One Network                        | 103,409              | 2,387                             | (18,252)                                | 845  |                    |                                 | 88,389            |
| SK Technology Innovation Company          | 75,974               |                                   | (7,320)                                 | (5,095)  |                    |                                 | 63,559            |
| ViKi, Inc.                                | 17,799               |                                   | (2,168)                                 | 36   |                    |                                 | 15,667            |
| HappyNarae Co., Ltd.                      | 12,250               |                                   | 863                                     |  |                    |                                 | 13,113            |
| SK hynix Inc.                             |                      | 3,374,726                         | 6,865                                   | (53,346)   |                    |                                 | 3,328,245         |
| SK MENA Investment B.V.                   |                      | 14,485                            | 16                                      | (835)  |                    |                                 | 13,666            |
| Daehan Kanggun BcN Co., Ltd. and others   | 226,332              | 33,126                            | (15,293)                                | (3,914)  | (48,039)           | (21,465)                        | 170,747           |
| Sub-total                                 | 1,364,015            | 3,430,577                         | (34,472)                                | (80,637)   | (48,039)           | (21,177)                        | 4,610,267         |
| <b>Investments in joint ventures</b>      |                      |                                   |   |  |                    |                                 |                   |
| PT. Melon Indonesia                       | 5,326                |                                   | (468)                                   | (411)  |                    |                                 | 4,447             |

|                             |           |           |          |          |          |          |           |
|-----------------------------|-----------|-----------|----------|----------|----------|----------|-----------|
| Television Media Korea Ltd. | 15,262    |           | (3,505)  |          |          |          | 11,757    |
| Dogus Planet, Inc.          |           | 8,932     | (2,218)  | (709)    |          |          | 6,006     |
| Sub-total                   | 20,588    | 8,932     | (6,190)  | (1,120)  |          |          | 22,210    |
| Total                       | 1,384,603 | 3,439,509 | (40,665) | (81,757) | (48,039) | (21,176) | 4,632,477 |

(\*1) Losses relating to investments in subsidiaries, joint venture and associates on the consolidated statements of income for the year ended December 31, 2012 includes share of profits (losses), impairment loss and losses on the disposal of investments in associates of 1,581 million.

**Table of Contents****12. Investments in Associates and Joint Ventures, Continued**

- (7) As the Group discontinued the application of the equity method due to the carrying amount of the Group's share being reduced to zero, the unrecognized accumulated equity losses as of December 31, 2013 are as follows:

| <i>(In millions of won)</i>     | Unrealized loss   |             | Unrealized change in equity |             |
|---------------------------------|-------------------|-------------|-----------------------------|-------------|
|                                 | Year ended        | Accumulated | Year ended                  | Accumulated |
|                                 | December 31, 2013 |             | December 31, 2013           |             |
| ULand Company Limited           | (150)             | 1,553       | (130)                       | (3)         |
| Wave City Development Co., Ltd. | (965)             | 3,721       |                             | 334         |
|                                 | (1,115)           | 5,274       | (130)                       | 331         |

**13. Property and Equipment**

- (1) Property and equipment as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                          | December 31, 2013 |                          |                             | Carrying amount |
|--------------------------|-------------------|--------------------------|-----------------------------|-----------------|
|                          | Acquisition cost  | Accumulated depreciation | Accumulated impairment loss |                 |
| Land                     | 732,206           |                          |                             | 732,206         |
| Buildings                | 1,510,846         | (554,155)                |                             | 956,691         |
| Structures               | 716,724           | (351,773)                |                             | 364,951         |
| Machinery                | 24,994,337        | (18,145,580)             | (1,698)                     | 6,847,059       |
| Other                    | 1,428,159         | (894,217)                | (761)                       | 533,181         |
| Construction in progress | 762,519           |                          |                             | 762,519         |
|                          | 30,144,791        | (19,945,725)             | (2,459)                     | 10,196,607      |

*(In millions of won)*

**December 31, 2012**

|                          | <b>Acquisition<br/>cost</b> | <b>Accumulated<br/>depreciation</b> | <b>Accumulated<br/>impairment<br/>loss</b> | <b>Carrying<br/>amount</b> |
|--------------------------|-----------------------------|-------------------------------------|--|----------------------------|
| Land                     | 704,908                     |                                     |  | 704,908                    |
| Buildings                | 1,391,489                   | (505,118)                           |  | 886,371                    |
| Structures               | 681,905                     | (318,421)                           |  | 363,484                    |
| Machinery                | 22,997,148                  | (16,558,093)                        | (122,863)                                  | 6,316,192                  |
| Other                    | 1,609,034                   | (971,062)                           | (760)                                      | 637,212                    |
| Construction in progress | 804,552                     |                                     |  | 804,552                    |
|                          | 28,189,036                  | (18,352,694)                        | (123,623)                                  | 9,712,719                  |

**Table of Contents****13. Property and Equipment, Continued**

(2) Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

**2013**

|                             | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Disposal</b> | <b>Transfer</b> | <b>Depreciation</b> | <b>Impairment</b> | <b>Change<br/>of<br/>consolidation<br/>scope</b> | <b>Ending<br/>balance</b> |
|-----------------------------|------------------------------|--------------------|-----------------|-----------------|---------------------|-------------------|--|---------------------------|
| 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<br>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                |

(In millions of won)

**2012**

|                             | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Disposal</b> | <b>Transfer</b> | <b>Depreciation</b> | <b>Impairment(*)</b> | <b>Classified Change<br/>as held of<br/>for consolidation<br/>sale scope</b> | <b>Ending<br/>balance</b> |
|-----------------------------|------------------------------|--------------------|-----------------|-----------------|---------------------|----------------------|--|---------------------------|
| Land                        | 730,361                      | 1,499              | (41,771)        | 14,819          |                     |                      |  | 704,908                   |
| Buildings                   | 989,078                      | 1,369              | (62,699)        | 9,491           | (50,868)            |                      |  | 886,371                   |
| Structures                  | 301,115                      | 65,541             | (81)            | 30,632          | (33,723)            |                      |  | 363,484                   |
| Machinery                   | 5,493,572                    | 547,874            | (24,614)        | 2,188,882       | (1,780,899)         | (108,623)            |  | 6,316,192                 |
| Other                       | 711,461                      | 1,497,412          | (4,593)         | (1,438,042)     | (124,426)           | (748)                | (1,566) (2,286)  | 637,212                   |
| Construction<br>in progress | 805,411                      | 1,280,654          | (810)           | (1,262,578)     |                     | (18,125)             |  | 804,552                   |
|                             | 9,030,998                    | 3,394,349          | (134,568)       | (456,796)       | (1,989,916)         | (127,496)            | (1,566) (2,286)  | 9,712,719                 |

(\*) The Group recognized 109,486 million of impairment loss on property and equipment in relation to the discontinuance of the digital multimedia broadcasting service and included the amount in loss from discontinued operation.



**Table of Contents****14. Investment Property**

(1) Investment property as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|           | <b>December 31, 2013</b>    |                                     |                            |
|-----------|-----------------------------|-------------------------------------|----------------------------|
|           | <b>Acquisition<br/>cost</b> | <b>Accumulated<br/>depreciation</b> | <b>Carrying<br/>amount</b> |
| Land      | 10,821                      |                                     | 10,822                     |
| Buildings | 7,657                       | (2,668)                             | 4,989                      |
|           | 18,478                      | (2,668)                             | 15,811                     |

*(In millions of won)*

|           | <b>December 31, 2012</b>    |                                     |                            |
|-----------|-----------------------------|-------------------------------------|----------------------------|
|           | <b>Acquisition<br/>cost</b> | <b>Accumulated<br/>depreciation</b> | <b>Carrying<br/>amount</b> |
| Land      | 12,638                      |                                     | 12,638                     |
| Buildings | 20,026                      | (5,185)                             | 14,841                     |
|           | 32,664                      | (5,185)                             | 27,479                     |

(2) Changes in investment property for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|           | <b>2013</b>                  |                    |                 |                 |                     | <b>Ending<br/>balance</b> |
|-----------|------------------------------|--------------------|-----------------|-----------------|---------------------|---------------------------|
|           | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Disposal</b> | <b>Transfer</b> | <b>Depreciation</b> |                           |
| Land      | 12,638                       |                    |                 | (1,816)         |                     | 10,822                    |
| Buildings | 14,841                       |                    |                 | (8,737)         | (1,115)             | 4,989                     |
|           | 27,479                       |                    |                 | (10,553)        | (1,115)             | 15,811                    |

*(In millions of won)*

|      | <b>2012</b>                  |                    |                 |                 |                     | <b>Classified<br/>as held for<br/>sale</b> | <b>Ending<br/>balance</b> |
|------|------------------------------|--------------------|-----------------|-----------------|---------------------|--|---------------------------|
|      | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Disposal</b> | <b>Transfer</b> | <b>Depreciation</b> |  |                           |
| Land | 23,153                       |                    | (10,737)        | 222             |                     |  | 12,638                    |

|           |         |     |          |          |         |           |        |
|-----------|---------|-----|----------|----------|---------|-----------|--------|
| Buildings | 247,933 | 129 | (22,619) | (15,797) | (8,123) | (186,682) | 14,841 |
|           | 271,086 | 129 | (33,356) | (15,575) | (8,123) | (186,682) | 27,479 |

(3) Details of fair value of investment property as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|           | <b>December 31, 2013</b> |                   | <b>December 31, 2012</b> |                   |
|-----------|--------------------------|-------------------|--------------------------|-------------------|
|           | <b>Carrying amount</b>   | <b>Fair value</b> | <b>Carrying amount</b>   | <b>Fair value</b> |
| Land      | 10,822                   | 6,595             | 12,638                   | 15,228            |
| Buildings | 4,989                    | 4,737             | 14,841                   | 13,949            |
|           | 15,811                   | 11,332            | 27,479                   | 29,177            |

The fair value of investment property was appraised on the basis of market price by an independent appraisal company.

**Table of Contents****14. Investment Property, Continued**

(4) Income (expense) from investment property for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                   | <b>2013</b> | <b>2012</b> |
|-------------------|-------------|-------------|
| Rent revenue      | 1,373       | 73,755      |
| Operating expense | (476)       | (57,049)    |

**15. Goodwill**

(1) Goodwill as of December 31, 2013 and 2012 is as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</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  | 68,582                       | 79,804                       |
|   | 1,733,261                    | 1,744,483                    |

Goodwill is allocated to the following CGUs for the purpose of 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 6.5% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 2.0% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group's long-term wireless business growth. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to

estimate the recoverable amount.

(\*2) Goodwill related to acquisition of SK Broadband Co., Ltd.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.4% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 2.2% was applied for the cash flows expected to be incurred after five years. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

**Table of Contents****15. Goodwill, Continued**

(2) Details of changes in goodwill for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                       | <b>2013</b>      | <b>2012</b>      |
|---------------------------------------|------------------|------------------|
| Beginning balance                     | 1,744,483        | 1,749,933        |
| Goodwill increase due to acquisitions | 1,252            | 10,078           |
| Impairment loss                       | (9,981)          | (13,316)         |
| Other decrease                        | (2,493)          | (2,212)          |
|                                       | <b>1,733,261</b> | <b>1,744,483</b> |

(\*) Other decrease represents effects of exchange rate changes in relation to the foreign subsidiaries and reclassification of assets held for sale.

Accumulated impairment losses for the years ended December 31, 2013 and 2012 are 9,981 million and 13,316 million, respectively.

**16. Intangible Assets**

(1) Intangible assets As of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                       | <b>2013</b>                 |                                     |                                   |                            |
|-----------------------|-----------------------------|-------------------------------------|-----------------------------------|----------------------------|
|                       | <b>Acquisition<br/>cost</b> | <b>Accumulated<br/>depreciation</b> | <b>Accumulated<br/>impairment</b> | <b>Carrying<br/>amount</b> |
| Frequency use rights  | 3,033,879                   | (1,369,308)                         |                                   | 1,664,571                  |
| Land use rights       | 48,031                      | (31,441)                            |                                   | 16,590                     |
| Industrial rights     | 84,495                      | (25,732)                            |                                   | 58,763                     |
| Development costs     | 138,802                     | (117,000)                           | (11,675)                          | 10,127                     |
| Facility usage rights | 143,937                     | (85,109)                            |                                   | 58,828                     |
| Customer relations    | 14,222                      | (7,889)                             |                                   | 6,333                      |
| Memberships(*1)       | 128,452                     |                                     |                                   | 128,452                    |
| Other(*2)             | 2,438,559                   | (1,630,374)                         | (1,067)                           | 807,118                    |
|                       | <b>6,030,377</b>            | <b>(3,266,853)</b>                  | <b>(12,742)</b>                   | <b>2,750,782</b>           |

*(In millions of won)*

**2012**

|                       | <b>Acquisition<br/>cost</b> | <b>Accumulated<br/>depreciation</b> | <b>Accumulated<br/>impairment</b> | <b>Carrying<br/>amount</b> |
|-----------------------|-----------------------------|-------------------------------------|-----------------------------------|----------------------------|
| Frequency use rights  | 2,837,385                   | (1,140,610)                         | (2,907)                           | 1,693,868                  |
| Land use rights       | 42,041                      | (25,979)                            |                                   | 16,062                     |
| Industrial rights     | 84,955                      | (24,851)                            |                                   | 60,104                     |
| Development costs     | 171,256                     | (146,757)                           | (11,079)                          | 13,420                     |
| Facility usage rights | 142,283                     | (76,943)                            |                                   | 65,340                     |
| Customer relations    | 52,792                      | (3,906)                             |                                   | 48,886                     |
| Memberships(*1)       | 119,686                     |                                     | (732)                             | 118,954                    |
| Other(*2)             | 2,197,856                   | (1,518,585)                         | (6,247)                           | 673,024                    |
|                       | 5,648,254                   | (2,937,631)                         | (20,965)                          | 2,689,658                  |

**Table of Contents****16. Intangible Assets, Continued**

(1) Intangible assets As of December 31, 2013 and 2012 are as follows, Continued

(\*1) Memberships are classified as intangible assets with indefinite useful life and are not amortized.

(\*2) Other intangible assets consist of computer software and usage rights to a research facility which the Group built and donated to a university which in turn the Group is given rights-to-use for a definite number of years.

(2) Details of changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of  
won)

|                         | <b>2013</b>                  |                    |                  |                 |                     |                   |  |                           |
|-------------------------|------------------------------|--------------------|------------------|-----------------|---------------------|-------------------|--|---------------------------|
|                         | <b>Beginning<br/>balance</b> | <b>Acquisition</b> | <b>Disposal</b>  | <b>Transfer</b> | <b>Amortization</b> | <b>Impairment</b> | <b>Change<br/>of<br/>consolidation<br/>scope</b> | <b>Ending<br/>balance</b> |
| 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                   |
|                         | <b>2,689,658</b>             | <b>1,174,873</b>   | <b>(837,390)</b> | <b>328,529</b>  | <b>(623,340)</b>    | <b>(3,143)</b>    | <b>21,595</b>                                    | <b>2,750,782</b>          |

(\* ) The Group newly acquired 1.8GHz frequency use rights through auction during the year ended December 31, 2013 and returned the existing 1.8GHz frequency use rights as partial consideration in connection with the new acquisition. Accordingly, the Group recognized 199,613 million of loss on disposal of property and equipment and intangible assets.

**Table of Contents****16. Intangible Assets, Continued**

- (2) Details of changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows,  
Continued

(In millions of won)

|                       | 2012                 |             |          |          |              |                   |  |                   |
|-----------------------|----------------------|-------------|----------|----------|--------------|-------------------|--|-------------------|
|                       | Beginning<br>balance | Acquisition | Disposal | Transfer | Amortization | Impairment<br>(*) | Change<br>of<br>consolidation<br>scope | Ending<br>balance |
| Frequency use rights  | 1,889,102            | 16,659      |          |          | (208,986)    | (2,907)           |  | 1,693,868         |
| Land use rights       | 19,326               | 3,830       | (142)    |          | (6,952)      |                   |  | 16,062            |
| Industrial rights     | 59,474               | 4,313       |          | 687      | (4,316)      | (6)               | (48)                                   | 60,104            |
| Development costs     | 20,961               | 3,019       |          | 933      | (6,940)      | (4,553)           |  | 13,420            |
| Facility usage rights | 69,491               | 3,998       | (121)    | 108      | (8,136)      |                   |  | 65,340            |
| Customer relations    | 141,818              | 578         |          |          | (93,510)     |                   |  | 48,886            |
| Memberships           | 117,711              | 6,363       | (3,972)  | 396      |              | (732)             | (812)                                  | 118,954           |
| Other                 | 677,920              | 115,498     | (15,630) | 194,442  | (286,139)    | (11,200)          | (1,867)                                | 673,024           |
|                       | 2,995,803            | 154,258     | (19,865) | 196,566  | (614,979)    | (19,398)          | (2,727)                                | 2,689,658         |

- (\*) The Group recognized 12,101 million of impairment loss on intangible assets in relation to the intangible assets of the discontinuance of Digital Multimedia Broadcasting service and included the amount in loss from discontinued operations.

- (3) Research and development expenditures recognized as expense for the years ended December 31, 2013 and 2012 are as follows:

|   | 2013    | 2012    |
|---|---------|---------|
| Research and development costs expensed as incurred | 352,385 | 304,557 |

(In millions of won)

|                | Amount  | Description                             | Commencement<br>of depreciation | Completion of<br>depreciation |
|----------------|---------|---|---------------------------------|-------------------------------|
| W-CDMA license | 294,245 | Frequency use rights relating to W-CDMA | Dec. 2003                       | Dec. 2016                     |



|                |           |   |           |           |
|----------------|-----------|---|-----------|-----------|
|                |           | service   |           |           |
| W-CDMA license | 48,933    | Frequency use rights relating to W-CDMA service       | Oct. 2010 | Dec. 2016 |
| 800MHz license | 304,080   | Frequency use rights relating to CDMA and LTE service | Jul. 2011 | Jun. 2021 |
| 1.8GHz license | 1,004,960 | Frequency use rights relating to LTE service          | Sep. 2013 | Dec. 2021 |
| WiBro license  | 12,353    | WiBro service   | Mar. 2012 | Mar. 2019 |
|                | 1,664,571 |   |           |           |

**Table of Contents****17. Borrowings and Debentures**

(1) Short-term borrowings as of December 31, 2013 and 2012 are as follows:

*(In millions of won and thousands of U.S. dollars)*

|                                    | <b>Lender</b>      | <b>Annual interest rate (%)</b> | <b>December 31, 2013</b> | <b>December 31, 2012</b> |
|------------------------------------|--------------------|---------------------------------|--------------------------|--------------------------|
| Commercial paper                   | Woori Bank, etc.   | 2.98~3.10                       | 200,000                  | 130,000                  |
| Short-term borrowings (Korean won) | Kookmin Bank, etc. | 3.48~6.20                       | 60,000                   | 470,245                  |
|                                    |                    |                                 | 260,000                  | 600,245                  |

(2) Long-term borrowings as of December 31, 2013 and 2012 are as follows:

*(In millions of won, thousands of U.S. dollars and thousands of Chinese yuan)*

| <b>Lender</b>              | <b>Annual interest rate (%)</b> | <b>Maturity</b> | <b>December 31, 2013</b> | <b>December 31, 2012</b> |
|----------------------------|---------------------------------|-----------------|--------------------------|--------------------------|
| Bank of Communications     | 6M Libor + 0.29                 | Oct. 10, 2013   |                          | 32,133                   |
|                            |                                 |                 |                          | (USD 30,000)             |
| Bank of China              | 6M Libor + 0.29                 | Oct. 10, 2013   |                          | 21,422                   |
|                            |                                 |                 |                          | (USD 20,000)             |
| DBS Bank                   | 6M Libor + 0.29                 | Oct. 10, 2013   |                          | 26,778                   |
|                            |                                 |                 |                          | (USD 25,000)             |
| SMBC                       | 6M Libor + 0.29                 | Oct. 10, 2013   |                          | 26,778                   |
|                            |                                 |                 |                          | (USD 25,000)             |
| Kookmin Bank and 13 others | 4.48                            | Feb. 14, 2015   |                          | 350,000                  |
| Korea Development Bank     | 2.89                            | Jun. 17, 2013   |                          | 1,762                    |
| Korea Development Bank     | 2.84                            | Jun. 16, 2014   | 1,648                    | 4,942                    |
| Shinhan Bank               | 2.84                            | Jun. 15, 2015   | 5,136                    | 8,561                    |
| Kookmin Bank               | 2.84                            | Jun. 15, 2015   | 8,124                    | 9,749                    |
| Kookmin Bank               | 2.84                            | Mar. 15, 2017   | 5,996                    | 5,996                    |
| Kookmin Bank               | 2.84                            | Mar. 15, 2018   | 8,600                    |                          |
| Export Kreditnamnden(*)    |                                 |                 | 99,975                   |                          |
|                            | 1.7                             | Apr. 29, 2022   | (USD 94,736)             |                          |

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|   |          |           |
|---|----------|-----------|
| Sub-total   | 129,479  | 488,121   |
| Less present value discount on long-term borrowings | (3,287)  | (1,667)   |
|   | 126,192  | 486,454   |
| Less current portion of long-term borrowings        | (21,384) | (117,217) |
| Long-term borrowings                                | 104,808  | 369,237   |

(\*) For the year ended December 31, 2013, the Group obtained long-term borrowings from Export Kreditnamnden, an export credit agency. The long-term borrowings are redeemed by installment on an annual basis from 2014 to 2022.

**Table of Contents****17. Borrowings and Debentures, Continued**

(3) Debentures as of December 31, 2013 and 2012 are as follows:

*(In millions of won, thousands of U.S. dollars and thousands of other currencies)*

|                             | <b>Purpose</b>                 | <b>Maturity</b> | <b>Annual interest rate (%)</b> | <b>December 31, 2013</b> | <b>December 31, 2012</b> |
|-----------------------------|--------------------------------|-----------------|---------------------------------|--------------------------|--------------------------|
| Unsecured private bonds     | Refinancing fund               | 2016            | 5.00                            | 200,000                  | 200,000                  |
| Unsecured private bonds     |                                | 2013            | 4.00                            |                          | 200,000                  |
| Unsecured private bonds     |                                | 2014            | 5.00                            | 200,000                  | 200,000                  |
| Unsecured private bonds     | Other fund                     | 2015            | 5.00                            | 200,000                  | 200,000                  |
| Unsecured private bonds     |                                | 2018            | 5.00                            | 200,000                  | 200,000                  |
| Unsecured private bonds     |                                | 2013            | 6.92                            |                          | 250,000                  |
| Unsecured private bonds     |                                | 2016            | 5.54                            | 40,000                   | 40,000                   |
| Unsecured private bonds     |                                | 2016            | 5.92                            | 230,000                  | 230,000                  |
| Unsecured private bonds     | Operating fund                 | 2016            | 3.95                            | 110,000                  | 110,000                  |
| Unsecured private bonds     |                                | 2021            | 4.22                            | 190,000                  | 190,000                  |
| Unsecured private bonds     | Operating and refinancing fund | 2019            | 3.24                            | 170,000                  | 170,000                  |
| Unsecured private bonds     |                                | 2022            | 3.30                            | 140,000                  | 140,000                  |
| Unsecured private bonds     |                                | 2032            | 3.45                            | 90,000                   | 90,000                   |
| Unsecured private bonds     | Operating fund                 | 2023            | 3.03                            | 230,000                  |                          |
| Unsecured private bonds     |                                | 2033            | 3.22                            | 130,000                  |                          |
| Unsecured private bonds(*1) |                                | 2014            | 4.86                            | 20,000                   | 20,000                   |
| Unsecured private bonds(*1) |                                | 2015            | 4.62                            | 10,000                   | 10,000                   |
| Unsecured private bonds(*2) |                                | 2013            | 3.99                            |                          | 150,000                  |
| Unsecured private bonds(*2) |                                | 2014            | 4.53                            | 290,000                  | 290,000                  |
|                             |                                | 2014            | 4.40                            | 100,000                  | 100,000                  |

|                                   |                  |      |                 |                  |                  |
|-----------------------------------|------------------|------|-----------------|------------------|------------------|
| Unsecured private bonds(*2)       |                  |      |                 |                  |                  |
| Unsecured private bonds(*2)       |                  | 2015 | 4.09            | 110,000          | 110,000          |
| Unsecured private bonds(*2)       |                  | 2015 | 4.14            | 110,000          | 110,000          |
| Unsecured private bonds(*2)       |                  | 2017 | 4.28            | 100,000          | 100,000          |
| Unsecured private bonds(*2)       |                  | 2015 | 3.14            | 130,000          | 130,000          |
| Unsecured private bonds(*2)       |                  | 2017 | 3.27            | 120,000          | 120,000          |
| Foreign global bonds              |                  | 2027 | 6.63            | 422,120          | 428,440          |
|                                   |                  |      |                 | (USD 400,000)    | (USD 400,000)    |
| Exchangeable bonds(*5,6)          | Refinancing fund | 2014 | 1.75            | 96,147           | 405,678          |
|                                   |                  |      |                 | (USD 91,109)     | (USD 332,528)    |
| Floating rate notes(*3)           | Operating fund   | 2014 | 3M Libor + 1.60 | 263,825          | 267,775          |
|                                   |                  |      |                 | (USD 250,000)    | (USD 250,000)    |
| Floating rate notes(*4)           |                  | 2014 | SOR rate + 1.20 | 54,129           | 56,906           |
|                                   |                  |      |                 | (SGD 65,000)     | (SGD 65,000)     |
| Swiss unsecured private bonds     |                  | 2017 | 1.75            | 356,601          | 351,930          |
|                                   |                  |      |                 | (CHF 300,000)    | (CHF 300,000)    |
| Foreign global bonds              |                  | 2018 | 2.13            | 738,710          | 749,770          |
|                                   |                  |      |                 | (USD 700,000)    | (USD 700,000)    |
| Australia unsecured private bonds |                  | 2017 | 4.75            | 281,988          |                  |
|                                   |                  |      |                 | (AUD 300,000)    |                  |
| Floating rate notes(*3)           |                  | 2020 | 3M Libor + 0.88 | 316,590          |                  |
|                                   |                  |      |                 | (USD 300,000)    |                  |
| Foreign global bonds(*2)          |                  | 2018 | 2.88            | 316,590          |                  |
|                                   |                  |      |                 | (USD 300,000)    |                  |
| <b>Sub-total</b>                  |                  |      |                 | <b>5,996,700</b> | <b>5,620,499</b> |
| Less discounts on bonds           |                  |      |                 | (40,228)         | (43,500)         |
|                                   |                  |      |                 | <b>5,926,472</b> | <b>5,576,999</b> |
| Less current portion of bonds     |                  |      |                 | (1,020,893)      | (597,779)        |
|                                   |                  |      |                 | <b>4,905,579</b> | <b>4,979,220</b> |

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**Table of Contents****17. Borrowings and Debentures, Continued**

(\*1) Unsecured private bonds were issued by SK Telink Co., Ltd., a subsidiary of the Parent Company.

(\*2) Unsecured private bonds were issued by SK Broadband Co., Ltd., a subsidiary of the Parent Company.

(\*3) As of December 31, 2013, 3M Libor rate is 0.24%.

(\*4) As of December 31, 2013, SOR rate is 0.21%.

(\*5) On April 7, 2009, the Group issued exchangeable bonds with a maturity of five years in the principal amount of USD 332,528,000 for USD 326,397,463 with a coupon rate of 1.75%.

The Group may redeem the principal amount after three years from the issuance date if the market price exceeds 130% of the exchange price during a predetermined period. The exchange right may be exercised during the period from May 18, 2009 to March 24, 2014.

Exchanges of notes for common shares may be prohibited under the Telecommunications Law or other legal restrictions which restrains foreign governments, individuals and entities from owning more than 49% of the Group's voting stock. If such 49% ownership limitation is violated due to the exercise of exchange rights, the Group will pay the bond holder a cash settlement which will be determined at the average price of one day after a holder exercises its exchange right or the weighted average price for the following five or twenty business days. Unless either previously redeemed or exchanged, the notes are redeemable at 100% of the principal amount at maturity.

In accordance with a resolution of the general shareholders meeting on March 22, 2013 and a resolution of the Board of Directors meeting on July 25, 2013, the exchange price has changed from 197,760 to 189,121.

During 2013, the accumulated principal amount that was claimed for exchange is USD 268,977,000. For the year ended December 31, 2013, exchange of bonds in the principal amount of USD 170,223,000 was claimed and the Group granted 1,241,337 shares of treasury stock. The exchange of bonds in the principal amount of USD 98,754,000 was additionally claimed and cash was paid due to the limitation on foreign ownership under Article 6 of the Telecommunications Business Act. In addition, bonds in the principal amount of USD 6,505,000 were redeemed at par value due to the exercise of the Controlling Company's early redemption rights.

As of December 31, 2013, exchange for the entire bonds in the principal amount of USD 57,046,000 was claimed and will be redeemed by cash during 2014. The Group recognized 134,232 million of financial costs in relation to the exchangeable bonds for the year ended December 31, 2013.

As of December 31, 2013, fair value of the exchangeable bonds is USD 91,108,508 and the exchange price is 189,121. The exchange price could be adjusted with the exchange rate of 1,383.40 per USD 1.

**Table of Contents****18. Long-term Payables - Other**

(1) Long-term payables other as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Payables related to acquisition of W-CDMA licenses | 828,721                      | 705,605                      |
| Other(*)   | 9,864                        | 9,903                        |
|  | <b>838,585</b>               | <b>715,508</b>               |

(\*) Other consists of vested compensation claims of employees who have rendered long-term service.

(2) As of December 31, 2013 and 2012, long-term payables other consist of payables related to the acquisition of W-CDMA licenses for 2.1GHz, 800MHZ, 2.3GHz and 1.8GHz frequencies as follows:

*(In millions of won)*

|  | <b>Period of<br/>repayment</b> | <b>Coupon<br/>rate(*1)</b> | <b>Annual<br/>effective<br/>interest<br/>rate(*2)</b> | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|--------------------------------|----------------------------|---|------------------------------|------------------------------|
| 2.1GHz   | 2012~2014                      | 3.58%                      | 5.89%   | 17,533                       | 35,067                       |
| 800MHz   | 2013~2015                      | 3.51%                      | 5.69%   | 138,833                      | 208,250                      |
| 2.3GHz   | 2014~2016                      | 3.00%                      | 5.80%   | 8,650                        | 8,650                        |
| 1.8GHz   | 2012~2021                      | 2.43~3.00%                 | 4.84~5.25%  | 942,675                      | 671,625                      |
|  |                                |                            |   | <b>1,107,691</b>             | <b>923,592</b>               |
| Present value discount on long-term payables - other |                                |                            |   | (72,171)                     | (60,021)                     |
|  |                                |                            |   | <b>1,035,520</b>             | <b>863,571</b>               |
| Current portion of long-term payables other          |                                |                            |   | (206,799)                    | (157,966)                    |
| Carrying amount at December 31, 2013                 |                                |                            |   | <b>828,721</b>               | <b>705,605</b>               |

(\*1) The Group applied an annual interest rate equal to the previous year average lending rate of public funds financing account less 1%.

(\*2) The Group estimated the discount rate based on its credit ratings and corporate bond yield rate as there is no market interest rate available for long-term account payables-other.

(3) The repayment schedule of long-term payables - other as of December 31, 2013 is as follows:

*(In millions of won)*

|                     | <b>Amount</b> |
|---------------------|---------------|
| 2014                | 207,668       |
| 2015                | 190,134       |
| 2016                | 120,718       |
| 2017 and thereafter | 589,171       |
|                     | 1,107,691     |



**Table of Contents****19. Provisions**

(1) Changes in provisions for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                      | Beginning<br>balance | For the year ended December 31, 2013 |             |          |       | Ending<br>balance | As of December 31, 2013 |             |
|--------------------------------------|----------------------|--------------------------------------|-------------|----------|-------|-------------------|-------------------------|-------------|
|                                      |                      | Increase                             | Utilization | Reversal | Other |                   | Current                 | Non-current |
| Provision for handset<br>subsidy(*1) | 353,383              | 9,416                                | (308,876)   |          |       | 53,923            | 53,334                  | 589         |
| Provision for restoration<br>(*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      |

*(In millions of won)*

|                                  | Beginning<br>balance | For the year ended December 31, 2012 |             |          |       | Ending<br>balance | As of December 31, 2012 |             |
|----------------------------------|----------------------|--------------------------------------|-------------|----------|-------|-------------------|-------------------------|-------------|
|                                  |                      | Increase                             | Utilization | Reversal | Other |                   | Current                 | Non-current |
| Provision for handset<br>subsidy | 762,238              | 272,869                              | (677,416)   | (4,525)  | 217   | 353,383           | 279,977                 | 73,406      |
| Provision for<br>restoration     | 36,379               | 3,915                                | (1,348)     | (32)     | 981   | 39,895            | 7,256                   | 32,639      |
| Other provisions                 | 942                  | 43                                   | (49)        |          | (346) | 590               | 74                      | 516         |
|                                  | 799,559              | 276,827                              | (678,813)   | (4,557)  | 852   | 393,868           | 287,307                 | 106,561     |

(\*1) The Group recognizes a provision for handset subsidies given to the subscribers who purchase handsets on an installment basis.

(\*2) In the course of the Group's activities, base station and other assets are utilized on leased premises which are expected to have costs associated with restoring the location where these assets are situated upon ceasing their use on those premises. The associated cash outflows, which are long-term in nature, are generally expected to occur at the dates of exit of the assets to which they relate. These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements. The Group records these restoration costs as property and equipments and subsequently allocates them to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to finance costs.

**Table of Contents****19. Provisions, Continued**

- (2) The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period.

|                               | Key assumptions  |
|-------------------------------|--|
| Provision for handset subsidy | estimation based on historical service retention period data                             |
| Provision for restoration     | estimation based on inflation assuming demolition of the relevant assets after six years |

**20. Leases**

- (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, 2013 and 2012 are as follows:

*(In millions of won)*

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>Finance Lease Liabilities</b>                       |                      |                      |
| Current portion of long-term finance lease liabilities | 19,351               | 19,904               |
| Long-term finance lease liabilities                    | 3,867                | 22,036               |
|  | 23,218               | 41,940               |

The Group's related interest and principal as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | December 31, 2013           |                  | December 31, 2012           |                  |
|--|-----------------------------|------------------|-----------------------------|------------------|
|  | Minimum<br>lease<br>payment | Present<br>value | Minimum<br>lease<br>payment | Present<br>value |
| Less than 1 year                                       | 20,039                      | 19,351           | 21,375                      | 19,904           |
| 1 ~ 5 years  | 3,974                       | 3,867            | 22,744                      | 22,036           |
| <b>Subtotal</b>  | <b>24,013</b>               | <b>23,218</b>    | <b>44,119</b>               | <b>41,940</b>    |
| Current portion of long-term finance lease liabilities |                             | (19,351)         |                             | (19,904)         |

|                                     |       |        |
|-------------------------------------|-------|--------|
| Long-term finance lease liabilities | 3,867 | 22,036 |
|-------------------------------------|-------|--------|

**Table of Contents****20. Leases, Continued**

## (2) Operating Leases

The Group entered into operating leases and sublease agreements in relation to rented office space and the expected future lease payments and lease revenues (included in other non-operating income in the accompanying consolidated statements of income) are as follows:

*(In millions of won)*

|                   | 2013              |                   | 2012              |                   |
|-------------------|-------------------|-------------------|-------------------|-------------------|
|                   | Lease<br>payments | Lease<br>revenues | Lease<br>payments | Lease<br>revenues |
| Less than 1 year  | 32,842            | 2,422             | 36,411            | 1,636             |
| 1 ~ 5 years       | 72,236            | 1,074             | 108,747           | 1,074             |
| More than 5 years | 65,013            | 1,026             | 69,058            | 1,026             |
|                   | 170,091           | 4,522             | 214,216           | 3,736             |

## (3) Sale and Leaseback Transaction

For the year ended December 31, 2013, the Group disposed a portion of its property and equipment and investment property, and entered into lease agreements with respect to those assets. This sale and leaseback transaction is accounted for as an operating lease and the gain on disposal of property and equipment and investment property is recognized as other non-operating income. The Group recognized W 13,703 million of lease payments in relation to the operating lease agreement and W 269 million in relation to the sublease agreement. Expected future lease payments and lease revenues are explained in Note 20-(2).

**Table of Contents****21. Defined Benefit Liabilities**

(1) Details of defined benefit liabilities as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Present value of defined benefit obligations | 312,494                      | 244,866                      |
| Fair value of plan assets                    | (238,293)                    | (158,345)                    |
|  | 74,201                       | 86,521                       |

(2) Principal actuarial assumptions as of December 31, 2013 and 2012 are as follows:

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| Discount rate for defined benefit obligations | 3.06% ~ 4.34%                | 3.28% ~ 4.75%                |
| Expected rate of salary increase              | 3.05% ~ 6.27%                | 3.00% ~ 5.81%                |

Discount rate for defined benefit obligation is determined based on the Group's credit ratings and yield rate of corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of salary increase is determined based on the Group's historical promotion index, inflation rate and salary increase ratio in accordance with salary agreement.

(3) Changes in defined benefit obligations for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                  | <b>For the year ended December 31</b> |             |
|----------------------------------|---------------------------------------|-------------|
|                                  | <b>2013</b>                           | <b>2012</b> |
| Beginning balance                | 244,866                               | 188,120     |
| Current service cost             | 89,802                                | 77,060      |
| Interest cost                    | 9,370                                 | 8,119       |
| Remeasurement                    |                                       |             |
| - Demographic assumption         | (394)                                 | (905)       |
| - Financial assumption           | (12,371)                              | 7,329       |
| - Adjustment based on experience | 6,474                                 | 13,518      |
| Benefit paid                     | (42,948)                              | (46,066)    |
| Others(*)                        | 17,694                                | (2,309)     |
| Ending balance                   | 312,494                               | 244,866     |

- (\*) Others for the year ended December 31, 2013 include liabilities of W 14,703 million transferred due to business combination, W (4,141) million for changes in consolidation scope, and transfers to construction in progress. Others for the year ended December 31, 2012 include effects of changes in consolidation scope of W (4,185) million in relation to the disposal of Ntreev Soft Co., Ltd. and transfers to construction in progress.

**Table of Contents****21. Defined Benefit Liabilities, Continued**

(4) Changes in plan assets for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|
| Beginning balance                                 | 158,345        | 102,179        |
| Interest income                                   | 6,332          | 4,314          |
| Actuarial gain (loss)                             | 122            | 447            |
| Contributions by employer directly to plan assets | 85,683         | 60,533         |
| Benefits paid                                     | (23,827)       | (9,108)        |
| Others(*)   | 11,638         | (20)           |
| <b>Ending balance</b>                             | <b>238,293</b> | <b>158,345</b> |

(\*) Others include assets of 14,334 million transferred due to business combination and effects of changes in consolidation scope of (3,074) million for the year ended December 31, 2013.

The Group expects to make a contribution of 56,973 million to the defined benefit plans during the next financial year.

(5) Expenses recognized in profit and loss (included in labor cost in the accompanying consolidated statements of income) and capitalized into construction-in-progress for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                      | <b>2013</b> | <b>2012</b> |
|----------------------|-------------|-------------|
| Current service cost | 89,802      | 77,060      |
| Interest cost        | 9,370       | 8,119       |
| Interest income      | (6,332)     | (4,314)     |
|                      | 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, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
|--|------------------------------|------------------------------|

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|  |         |         |
|--|---------|---------|
| Equity instruments                     | 713     | 1,221   |
| Debt instruments                       | 48,901  | 34,269  |
| Short-term financial instruments, etc. | 188,679 | 122,855 |
|  | 238,293 | 158,345 |

Actual return on plan assets for the years ended December 31, 2013 and 2012 amounted to 6,472 million and 4,761 million, respectively.



**Table of Contents****21. Defined Benefit Liabilities, Continued**

- (7) As of December 31, 2013, effects on defined benefit obligations if each of significant actuarial assumptions changes within potential reasonable range are as follows:

*(In millions of won)*

|                                  | <b>Increase</b> | <b>Decrease</b> |
|----------------------------------|-----------------|-----------------|
| Discount rate (if changed by 1%) | (22,864)        | 25,216          |
| Expected rate of salary increase | 25,305          | (23,230)        |

The sensitivity analysis does not consider dispersion of all cashflows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

Weighted average durations of defined benefit obligations as of December 31, 2013 and 2012 are 9.12 years and 9.04 years, respectively.

**22. Derivative Instruments**

- (1) Currency swap contracts under cash flow hedge accounting as of December 31, 2013 are as follows:

*(In thousands of foreign currencies)*

| <b>Borrowing date</b> | <b>Hedged item</b>  | <b>Hedged risk</b>                               | <b>Contract type</b>        | <b>Financial institution</b>        | <b>Duration of contract</b>      |
|-----------------------|---|--|-----------------------------|-------------------------------------|----------------------------------|
| Jul. 20, 2007         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)                      | Foreign currency risk                            | Currency swap               | Morgan Stanley and five other banks | Jul. 20, 2007 ~<br>Jul. 20, 2027 |
| Dec. 15, 2011         | Floating-to-fixed cross currency interest rate swap (Singapore dollar denominated bonds face value of SGD 65,000) | Foreign currency risk and the interest rate risk | Currency interest rate swap | United Overseas Bank                | Dec. 15, 2011 ~<br>Dec. 12, 2014 |
| Dec. 15, 2011         | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 250,000)     | Foreign currency risk and the interest rate risk | Currency interest rate swap | DBS Bank and Citi Bank              | Dec. 15, 2011 ~<br>Dec. 12, 2014 |
| Jun. 12, 2012         | Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds face value of CHF 300,000)                      | Foreign currency risk                            | Currency swap               | Citibank and five other banks       | Jun. 12, 2012 ~<br>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 ~<br>May. 1, 2018   |

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|                  |   |  |                             |                                   |                               |
|------------------|---|--|-----------------------------|-----------------------------------|-------------------------------|
| Jan. 17,<br>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,<br>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,<br>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,<br>2013 | Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of USD 94,736)              | Foreign currency risk                            | Currency swap               | Deutsche bank                     | Dec. 16, 2013 ~ Apr. 29, 2022 |

**Table of Contents****22. Derivative Instruments, Continued**

- (2) As of December 31, 2013, fair values of the above derivatives recorded in assets or liabilities and details of derivative instruments are as follows:

*(In millions of won and thousands of foreign currencies)*

| Hedged item   | Accumulated<br>gain<br>(loss)<br>on<br>valuation<br>of<br>derivatives | Fair value                       |  |                | Held for<br>trading<br>purpose | Total    |
|---|---|----------------------------------|--|----------------|--------------------------------|----------|
|   |   | Cash flow hedge<br>Tax<br>effect | Accumulated<br>foreign<br>currency<br>translation<br>gain (loss) | Others<br>(*1) |                                |          |
| <b>Current assets:</b>  |   |                                  |  |                |                                |          |
| Convertible bonds (available-for-sale securities) (Korean won denominated bonds face value of 1,500 million)(*2)  |   |                                  |  |                | 10                             | 10       |
| <b>Non-current assets:</b>  |   |                                  |  |                |                                |          |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)                      | (42,772)  | (13,656)                         | (34,853)   | 129,806        |                                | 38,525   |
| Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000)     | 8,822   | 2,816                            | (8,451)  |                |                                | 3,187    |
| <b>Total assets</b>   |   |                                  |  |                |                                | 41,722   |
| <b>Current liabilities:</b>   |   |                                  |  |                |                                |          |
| Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 250,000)     | 5,871   | 1,875                            | (25,602)   |                |                                | (17,856) |
| Floating-to-fixed cross currency interest rate swap (Singapore dollar denominated bonds face value of SGD 65,000) | 7   | 2                                | (3,324)  |                |                                | (3,315)  |
| <b>Non-current liabilities:</b>   |   |                                  |  |                |                                |          |
| Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds face value of CHF 300,000)                      | (5,275)   | (1,684)                          | (6,902)  |                |                                | (13,861) |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)                      | (8,400)   | (2,682)                          | (24,435)   |                |                                | (35,517) |
| Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of AUD 300,000)                 | 4,262   | 1,361                            | (53,295)   |                |                                | (47,672) |

|  |         |       |         |           |
|--|---------|-------|---------|-----------|
| Fixed-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000) | (1,128) |       | (1,830) | (2,958)   |
| Fixed-to-fixed long-term borrowings (U.S. dollar denominated bonds face value of USD 94,736)               | (2,548) | (813) | 201     | (3,160)   |
| <b>Total liabilities</b>   |         |       |         | (124,339) |

(\*1) Cash flow hedge accounting has been applied to the relevant contract from May 12, 2010. Others represent gain on valuation of currency swap incurred prior to the application of hedge accounting and was recognized through profit or loss prior to the year ended December 31, 2012.

(\*2) Fair value of the conversion option of convertible bonds held by SK Communications Co., Ltd., a subsidiary, amounting to 10 million was accounted for as derivative financial assets.

**Table of Contents****23. Share Capital and Capital Surplus (Deficit) and Other Capital Adjustments**

The Parent Company's outstanding share capital consists entirely of common stock with a par value of ₩500. The number of authorized, issued and outstanding common shares and capital surplus (deficit) and other capital adjustments As of December 31, 2013 and 2012 are as follows:

*(In millions of won, except for share data)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Authorized shares  | 220,000,000                  | 220,000,000                  |
| Issued shares(*)   | 80,745,711                   | 80,745,711                   |
| Share capital  |                              |                              |
| Common stock   | 44,639                       | 44,639                       |
| Capital surplus (deficit) and other capital adjustments: |                              |                              |
| Paid-in surplus  | 2,915,886                    | 2,915,887                    |
| Treasury stock   | (2,139,683)                  | (2,410,451)                  |
| Loss on disposal of treasury stock                       | (18,087)                     | (18,855)                     |
| Hybrid bonds   | 398,518                      |                              |
| Others(*2)   | (839,126)                    | (775,464)                    |
|  | 317,508                      | (288,883)                    |

(\*1) For the years ended December 31, 2003, 2006 and 2009, the Parent Company retired 7,002,235 shares, 1,083,000 shares and 448,000 shares, respectively, of treasury stock which reduced its retained earnings before appropriation in accordance with the Korean Commercial Law. As a result, the Parent Company's outstanding shares have decreased without change in the share capital.

(\*2) Others primarily consist of net losses on disposals of businesses and the excess of the consideration paid by the Group over the carrying values of net assets acquired from common control transactions with entities within the control of the Controlling Entity.

Changes in number of shares outstanding for the years ended December 31, 2013 and 2012 are as follows:

| <i>(In shares)</i>         | <b>2013</b>              |                           |                               | <b>2012</b>              |                           |                               |
|----------------------------|--------------------------|---------------------------|-------------------------------|--------------------------|---------------------------|-------------------------------|
|                            | <b>Issued<br/>shares</b> | <b>Treasury<br/>stock</b> | <b>Outstanding<br/>shares</b> | <b>Issued<br/>shares</b> | <b>Treasury<br/>stock</b> | <b>Outstanding<br/>shares</b> |
| Beginning issued shares    | 80,745,711               | 11,050,712                | 69,694,999                    | 80,745,711               | 11,050,712                | 69,694,999                    |
| Disposal of treasury stock |                          | (1,241,337)               | 1,241,337                     |                          |                           |                               |
| Ending issued shares       | 80,745,711               | 9,809,375                 | 70,936,336                    | 80,745,711               | 11,050,712                | 69,694,999                    |

**Table of Contents****24. 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, 2013 and 2012 are as follows:

*(In millions of won, shares)*

|                  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|------------------|------------------------------|------------------------------|
| Number of shares | 9,809,375                    | 11,050,712                   |
| Amount           | 2,139,683                    | 2,410,451                    |

In addition, the Parent Company granted 1,241,337 shares of treasury stock for 270,768 million from May 14, 2013 to October 24, 2013 as a result of exercise of exchange rights by the holders of exchangeable bonds.

**25. Hybrid Bond**

The Parent Company issued hybrid bond at face amount on June 7, 2013 and details as of December 31, 2013 are as follows:

*(In millions of won)*

|                     | <b>Type</b>                                    | <b>Issuance date</b> | <b>Maturity</b>     | <b>Annual<br/>interest<br/>rate(%)</b> | <b>Amount</b> |
|---------------------|--|----------------------|---------------------|--|---------------|
| Private hybrid bond | Blank coupon unguaranteed<br>subordinated bond | June 7,<br>2013      | June 7,<br>2073(*1) | 4.21(*2)                               | 400,000       |
| Issuance costs      |  |                      |                     |  | (1,482)       |
|                     |  |                      |                     |  | 398,518       |

Hybrid bond issued by the Parent Company is classified as equity as there is no contractual obligation for delivery of financial assets to the bond holders.

(\*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.

**Table of Contents****26. Retained Earnings**

(1) Retained earnings As of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| Appropriated:                               |                              |                              |
| Legal reserve                               | 22,320                       | 22,320                       |
| Reserve for research & manpower development | 155,766                      | 220,000                      |
| Reserve for business expansion              | 9,376,138                    | 9,106,138                    |
| Reserve for technology development          | 2,271,300                    | 1,901,300                    |
|   | 11,825,524                   | 11,249,758                   |
| Unappropriated                              | 1,276,971                    | 874,899                      |
|   | 13,102,495                   | 12,124,657                   |

(2) Legal reserve

The Korean Commercial Code requires the Parent Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to share capital.

(3) Reserve for research & manpower development

The reserve for research and manpower development was appropriated in order to recognize certain tax deductible benefits through the early recognition of future expenditures for tax purposes. These reserves will be reversed from appropriated and retained earnings in accordance with the relevant tax laws. Such reversal will be included in taxable income in the year of reversal.

**27. Reserves**

(1) Details of reserves, net of taxes, as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
|  | 208,529                      | 207,063                      |

|   |           |           |
|---|-----------|-----------|
| Unrealized fair value of available-for-sale financial assets    |           |           |
| Other comprehensive income of investments in associates         | (172,117) | (175,044) |
| Unrealized fair value of derivatives                            | (35,429)  | (46,652)  |
| Foreign currency translation differences for foreign operations | (13,253)  | (11,003)  |
|   | (12,270)  | (25,636)  |



**Table of Contents****27. Reserves, Continued**

(2) Changes in reserves for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|                              | 2013   |   |                                      | Foreign currency translation differences for foreign operations | Total    |
|------------------------------|--|---|--------------------------------------|---|----------|
|                              | Unrealized fair value of available-for-sale financial assets | Other comprehensive income of investments in associates | Unrealized fair value of derivatives |   |          |
| Balance at January 1, 2013   | 207,063  | (175,044)   | (46,652)                             | (11,003)  | (25,636) |
| Changes                      | 2,747  | 1,254   | 14,488                               | (2,250)   | 16,239   |
| Tax effect                   | (1,281)  | 1,673   | (3,265)                              |   | (2,873)  |
| Balance at December 31, 2013 | 208,529  | (172,117)   | (35,429)                             | (13,253)  | (12,270) |

(In millions of won)

|                              | 2012   |   |                                      | Foreign currency translation differences for foreign operations | Total     |
|------------------------------|--|---|--------------------------------------|---|-----------|
|                              | Unrealized fair value of available-for-sale financial assets | Other comprehensive income of investments in associates | Unrealized fair value of derivatives |   |           |
| Balance at January 1, 2012   | 354,951  | (93,599)  | (25,100)                             | 23,812  | 260,064   |
| Changes                      | (194,929)  | (75,448)  | (26,114)                             | (34,815)  | (331,306) |
| Tax effect                   | 47,041   | (5,997)   | 4,562                                |   | 45,606    |
| Balance at December 31, 2012 | 207,063  | (175,044)   | (46,652)                             | (11,003)  | (25,636)  |

(3) Details of changes in unrealized fair value of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|   | 2013         |                   |             |
|---|--------------|-------------------|-------------|
|   | Before taxes | Income tax effect | After taxes |
| Balance at January 1, 2013                                      | 272,917      | (65,854)          | 207,063     |
| Amount recognized as other comprehensive income during the year | 3,879        | (1,529)           | 2,350       |
| Amount reclassified through profit or loss                      | (1,133)      | 249               | (884)       |

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|                              |         |          |         |
|------------------------------|---------|----------|---------|
| Balance at December 31, 2013 | 275,663 | (67,134) | 208,529 |
|------------------------------|---------|----------|---------|

*(In millions of won)*

|  | <b>Before<br/>taxes</b> | <b>2012<br/>Income tax<br/>effect</b> | <b>After taxes</b> |
|--|-------------------------|---------------------------------------|--------------------|
| Balance at January 1, 2012   | 467,846                 | (112,895)                             | 354,951            |
| Amount recognized as other comprehensive<br>income during the year | (43,135)                | 10,249                                | (32,886)           |
| Amount reclassified through profit or loss                         | (151,794)               | 36,792                                | (115,002)          |
| Balance at December 31, 2012                                       | 272,917                 | (65,854)                              | 207,063            |

**Table of Contents****27. Reserves, Continued**

- (4) Details of changes in unrealized valuation of derivatives for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   |                     | <b>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)           |

*(In millions of won)*

|   |                     | <b>2012</b>              |                    |
|---|---------------------|--------------------------|--------------------|
|   | <b>Before taxes</b> | <b>Income tax effect</b> | <b>After taxes</b> |
| Balance at January 1, 2012                                      | (36,583)            | 11,483                   | (25,100)           |
| Amount recognized as other comprehensive income during the year | (29,883)            | 4,327                    | (25,556)           |
| Amount reclassified through profit or loss                      | 3,768               | 236                      | 4,004              |
| Balance at December 31, 2012                                    | (62,698)            | 16,046                   | (46,652)           |

**Table of Contents****28. Other Operating Expenses**

Details of other operating expenses for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| <b>Other Operating Expenses:</b>            |             |             |
| Communication expenses                      | 62,193      | 69,585      |
| Utilities                                   | 227,593     | 197,559     |
| Taxes and dues(*)                           | 29,873      | 91,745      |
| Repair                                      | 252,344     | 223,247     |
| Research and development                    | 352,385     | 304,557     |
| Training                                    | 40,446      | 39,407      |
| Bad debt for accounts receivables - trade   | 53,344      | 52,393      |
| Reversal of allowance for doubtful accounts | (359)       | (5,902)     |
| Travel                                      | 31,762      | 31,380      |
| Supplies and other                          | 189,042     | 143,816     |
|   | 1,238,623   | 1,147,787   |

(\*) Penalties in taxes and dues until the year ended December 31, 2012 were included in taxes and dues until the year ended December 31, 2012 while penalties were included in others (other non-operating expense) starting from the year ended December 31, 2013.

**Table of Contents****29. Other Non-operating Income and Expenses**

Details of other non-operating income and expenses for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| <b>Other Non-operating Income:</b>                                  |             |             |
| Fees  | 7,303       | 3,982       |
| Gain on disposal of property and equipment and intangible assets    | 7,991       | 162,590     |
| Others(*1)  | 59,173      | 29,338      |
|   | 74,467      | 195,910     |
| <b>Other Non-operating Expenses:</b>                                |             |             |
| Loss on impairment of property and equipment, and intangible assets | 13,770      | 37,007      |
| Loss on disposal of property and equipment and intangible assets    | 267,468     | 15,117      |
| Donations   | 82,057      | 81,330      |
| Bad debt for accounts receivable other                              | 22,155      | 30,107      |
| Others(*2)  | 121,723     | 24,743      |
|   | 507,173     | 188,304     |

(\*1) Primarily comprised of VAT adjustments and compensation for typhoon damage.

(\*2) Primarily comprised of penalties and legal costs.

**30. Finance Income and Costs**

(1) Details of finance income and costs for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| <b>Finance Income:</b>                              |             |             |
| Interest income                                     | 65,560      | 97,318      |
| Dividends   | 10,197      | 27,732      |
| Gain on foreign currency transactions               | 11,041      | 6,735       |
| Gain on foreign currency translations               | 4,401       | 4,065       |
| Gain on disposal of long-term investment securities | 9,300       | 282,605     |
| Gain on settlement of derivatives                   | 7,716       | 26,103      |
|   | 5,177       |             |

Gain on valuation of financial asset at fair value through  
profit or loss

|  |         |         |
|--|---------|---------|
|  | 113,392 | 444,558 |
|--|---------|---------|

**Table of Contents****30. Finance Income and Costs, Continued**

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| <b>Finance Costs:</b>   |             |             |
| Interest expense  | 331,834     | 412,379     |
| Loss on foreign currency transactions   | 16,429      | 7,204       |
| Loss on foreign currency translations   | 2,635       | 4,608       |
| Loss on disposal of long-term investment securities                           | 31,909      | 10,802      |
| Loss on valuation of derivatives  | 2,106       | 286         |
| Loss on settlement of derivatives   |             | 1,232       |
| Loss on valuation of financial asset at fair value through profit or loss     |             | 1,262       |
| Loss relating to financial liability at fair value through profit or loss(*1) | 134,232     | 7,793       |
| Loss on redemption of debentures  |             | 2,099       |
| Other finance costs(*2)   | 52,058      | 190,620     |
|   | 571,203     | 638,285     |

(\*1) Loss relating to financial liabilities at fair value through profit or loss for the year ended December 31, 2013 related to exchangeable bonds (face amount of USD 326,397,463) due to the valuation loss from rising stock prices and loss on redemption of debenture upon the exchange claims.

(\*2) See note 30(5).

(2) Details of interest income included in finance income for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Interest income on cash equivalents and deposits      | 41,907      | 57,029      |
| Interest income on installment receivables and others | 23,653      | 40,289      |
|   | 65,560      | 97,318      |

(3) Details of interest expense included in finance costs for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
|--|-------------|-------------|

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|  |         |         |
|--|---------|---------|
| Interest expense on bank overdrafts and borrowings | 28,600  | 147,741 |
| Interest expense on debentures                     | 258,962 | 209,545 |
| Interest on finance lease liabilities              | 1,333   | 2,621   |
| Others   | 42,939  | 52,472  |
|  | 331,834 | 412,379 |



**Table of Contents****30. Finance Income and Costs, Continued**

- (4) Finance income and costs by categories of financial instruments for the years ended December 31, 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 and costs

(In millions of won)

|  | 2013           |               | 2012           |               |
|--|----------------|---------------|----------------|---------------|
|  | Finance income | Finance costs | Finance income | Finance costs |
| <b>Financial Assets:</b>                                   |                |               |                |               |
| Financial assets at fair value through profit or loss      | 5,177          | 276           |                | 1,262         |
| Available-for-sale financial assets                        | 23,311         | 83,967        | 317,915        | 201,423       |
| Loans and receivables                                      | 62,211         | 16,479        | 90,177         | 1,789         |
| Derivative financial instruments designated as hedged item | 7,716          | 1,830         | 26,103         | 1,516         |
|  | 98,415         | 102,552       | 434,195        | 205,990       |
| <b>Financial Liabilities:</b>                              |                |               |                |               |
| Financial liabilities at fair value through profit or loss |                | 134,232       |                | 7,793         |
| Financial liabilities measured at amortized cost           | 14,977         | 334,419       | 10,363         | 424,502       |
|  | 14,977         | 468,651       | 10,363         | 432,295       |
|  | 113,392        | 571,203       | 444,558        | 638,285       |

- (ii) Other comprehensive income

(In millions of won)

|  | 2013    | 2012      |
|--|---------|-----------|
| <b>Financial Assets:</b>                                   |         |           |
| Available-for-sale financial assets                        | 2,009   | (149,082) |
| Derivative financial instruments designated as hedged item | 12,240  | (23,527)  |
|  | 14,249  | (172,609) |
| <b>Financial Liabilities:</b>                              |         |           |
| Derivative financial instruments designated as hedged item | (1,018) | 166       |
|  | (1,018) | 166       |

13,231 (172,443)

**Table of Contents****30. Finance Income and Costs, Continued**

- (5) Details of impairment losses for financial assets for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Available-for-sale financial assets      | 52,058      | 190,620     |
| Bad debt for accounts receivable - trade | 53,344      | 52,351      |
| Bad debt for accounts receivable - other | 22,155      | 30,107      |
|  | 127,557     | 273,078     |

**31. Income Tax Expense for Continuing Operations**

- (1) Income tax expenses for continuing operations for the years ended December 31, 2013 and 2012 consist of the following:

*(In millions of won)*

|   | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|
| <b>Current tax expense</b>  |                |                |
| Current tax payable   | 145,457        | 200,836        |
| Adjustments recognized in the period for current tax of prior periods | (16,696)       | (69,634)       |
|   | 128,761        | 131,202        |
| <b>Deferred tax expense</b>   |                |                |
| Changes in net deferred tax assets                                    | 266,601        | 103,480        |
| Tax directly charged to equity  | (3,584)        | 50,053         |
| Changes in scope of consolidation                                     | 8,919          | (3,611)        |
| Others (exchange rate differences, etc.)                              | 100            | 7,083          |
|   | 272,036        | 157,005        |
| <b>Income tax for continuing operation</b>                            | <b>400,797</b> | <b>288,207</b> |

- (2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2013 and 2012 is attributable to the following:

*(In millions of won)*

|  | <b>2013</b>    | <b>2012</b>    |
|--|----------------|----------------|
| Income taxes at statutory income tax rates   | 441,697        | 367,661        |
| Non-taxable income   | (35,632)       | (5,039)        |
| Non-deductible expenses  | 74,311         | 19,410         |
| Tax credit and tax reduction   | (37,893)       | (72,947)       |
| Changes in unrealizable deferred taxes   | (13,285)       | 5,723          |
| Others (Income tax refund, tax effect from statutory tax rate change and tax rate differences, etc.) | (28,401)       | (26,601)       |
| <b>Income tax for continuing operation</b>   | <b>400,797</b> | <b>288,207</b> |

**Table of Contents****31. Income Tax Expense for Continuing Operations, Continued**

Tax rates applied for the above taxable income for the years ended December 31, 2013 and 2012 above are corporate income tax rates applied for taxable income in Republic of Korea, of which SK Telecom Co., Ltd., the Parent Company, is located.

- (3) Deferred taxes directly charged to (credited to) equity for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Net change in fair value of available-for-sale financial assets | (1,281)     | 47,041      |
| Share of other comprehensive income of associates               | 1,673       | (5,997)     |
| Gain or loss on valuation of derivatives                        | (3,265)     | 4,562       |
| Remeasurement of defined benefit obligations                    | (466)       | 4,447       |
| Loss on disposal of treasury stock                              | (245)       |             |
|   | (3,584)     | 50,053      |

- (4) Details of changes in deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>2013</b>      |  |  |   |              |               |
|--|------------------|--|--|---|--------------|---------------|
|  | <b>Beginning</b> | <b>Changes<br/>in<br/>scope of<br/>consolidation</b> | <b>Deferred tax<br/>expense<br/>(income)</b> | <b>Directly added<br/>to<br/>(deducted<br/>from)<br/>equity</b> | <b>Other</b> | <b>Ending</b> |
| 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        |

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|  |          |          |           |         |     |           |
|--|----------|----------|-----------|---------|-----|-----------|
| Gain or loss on foreign currency translation   | 19,652   |          | (80)      |         |     | 19,572    |
| Tax free reserve for research and manpower development   | (31,093) |          | (8,918)   |         |     | (40,011)  |
| Goodwill relevant to leased line   | 68,675   |          | (37,650)  |         |     | 31,025    |
| Unearned revenue (activation fees)   | 97,110   |          | (43,698)  |         |     | 53,412    |
| Others   | (23,804) | (11,654) | 80,350    | (245)   | 91  | 44,738    |
|  | 107,488  | (9,430)  | (268,137) | (3,584) | 100 | (173,563) |
| Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards |          |          |           |         |     |           |
| Tax loss carryforwards   | 16,609   | 18,350   | (3,899)   |         |     | 31,060    |
| Tax credit carryforwards   | 1        | (1)      |           |         |     |           |
|  | 16,610   | 18,349   | (3,899)   |         |     | 31,060    |
|  | 124,098  | 8,919    | (272,036) | (3,584) | 100 | (142,503) |

**Table of Contents****31. Income Tax Expense for Continuing Operations, Continued***(In millions of won)*

|  |           |               | 2012         |                |       |           |
|--|-----------|---------------|--------------|----------------|-------|-----------|
|  | Changes   | in            | Deferred tax | Directly added | Other | Ending    |
|  | scope of  | scope of      | expense      | to             |       |           |
|  | Beginning | consolidation | (income)     | (deducted      |       |           |
|  |           |               |              | from)          |       |           |
|  |           |               |              | equity         |       |           |
| Deferred tax assets (liabilities) related to temporary differences                               |           |               |              |                |       |           |
| Allowance for doubtful accounts  | 41,451    | (126)         | 10,657       |                | (10)  | 51,972    |
| Accrued interest income  | (1,400)   | 29            | (411)        |                |       | (1,782)   |
| Available-for-sale financial assets  | (79,778)  | (154)         | 46,310       | 47,041         |       | 13,419    |
| Investments in subsidiaries and associates   | 33,439    |               | 39,549       | (5,997)        | (22)  | 66,969    |
| Property and equipment (depreciation)  | (210,720) |               | (62,220)     |                |       | (272,940) |
| Provisions   | 185,266   | (31)          | (98,667)     |                | (1)   | 86,567    |
| Retirement benefit obligation  | 19,245    | (801)         | (6,042)      | 4,447          |       | 16,849    |
| Gain or loss on valuation of derivatives   | 11,216    |               | 116          | 4,562          |       | 15,894    |
| Gain or loss on foreign currency translation   | 9,210     | 6             | 10,436       |                |       | 19,652    |
| Tax free reserve for research and manpower development   | (53,460)  | 220           | 22,147       |                |       | (31,093)  |
| Goodwill relevant to leased line   | 116,287   |               | (47,612)     |                |       | 68,675    |
| Unearned revenue (activation fees)   | 116,512   |               | (19,402)     |                |       | 97,110    |
| Others   | 35,116    | (1,981)       | (64,056)     |                | 7,117 | (23,804)  |
|  | 222,384   | (2,838)       | (169,195)    | 50,053         | 7,084 | 107,488   |
| Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards |           |               |              |                |       |           |
| Tax loss carryforwards   | 4,419     |               | 12,190       |                |       | 16,609    |
| Tax credit carryforwards   | 774       | (773)         |              |                |       | 1         |
|  | 5,193     | (773)         | 12,190       |                |       | 16,610    |
|  | 227,577   | (3,611)       | (157,005)    | 50,053         | 7,084 | 124,098   |

- (5) Details of temporary differences, unused tax losses and unused tax credits which are not recognized as deferred tax assets (liabilities), 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, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Allowance for doubtful accounts            | 152,341                      | 145,053                      |
| Investments in subsidiaries and associates | 719,974                      | 869,486                      |
| Other temporary differences                | 221,264                      | 157,664                      |
| Unused tax loss carryforwards              | 669,890                      | 792,796                      |
| Unused tax credit carryforwards            |                              | 141                          |
|  | 1,763,469                    | 1,965,140                    |



**Table of Contents****31. Income Tax Expense for Continuing Operations, Continued**

- (6) The expirations of the tax loss carryforwards which are not recognized as deferred tax assets as of December 31, 2013 are as follows:

| <i>(In millions of won)</i> | <b>Tax loss carryforwards</b> |
|-----------------------------|-------------------------------|
| Less than 1 year            | 2,746                         |
| 1 ~ 2 years                 | 1,087                         |
| 2 ~ 3 years                 | 4,894                         |
| More than 3 years           | 661,163                       |
|                             | <b>669,890</b>                |

**32. Earnings per Share**

- (1) Basic earnings per share

- 1) Basic earnings per share for the years ended December 31, 2013 and 2012 are calculated as follows:

| <i>(In millions of won, shares)</i>   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| <b>Basic earnings per share attributable to owners of the Parent Company from continuing operation:</b> |             |             |
| Profit attributable to owners of the Parent Company from continuing operations                          | 1,463,097   | 1,255,526   |
| Interest on hybrid bonds  | (8,420)     |             |
| Profit attributable to owners of the Parent Company from continuing operations on common shares         | 1,454,677   | 1,255,526   |
| Weighted average number of common shares outstanding  | 70,247,592  | 69,694,999  |
| Basic earnings per share from continuing operations (In won)  | 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   | 1,638,964   | 1,151,705   |

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|   |            |            |
|---|------------|------------|
| Interest on hybrid bond   | (8,420)    |            |
| Profit attributable to owners of the Parent Company<br>on common shares | 1,630,544  | 1,151,705  |
| Weighted average number of common shares<br>outstanding                 | 70,247,592 | 69,694,999 |
| Basic earnings per share (In won)                                       | 23,211     | 16,525     |

**Table of Contents****32. Earnings per Share, Continued**

## (1) Basic earnings per share, Continued

- 2) Profit attributable to owners of the Parent Company from continuing operation for the years ended December 31, 2013 and 2012 are calculated as follows:

*(In millions of won)*

|  | <b>2013</b>      | <b>2012</b>      |
|--|------------------|------------------|
| Profit attributable to owners of the Parent Company                                  | 1,638,964        | 1,151,705        |
| Results of discontinued operation attributable to owners of the Parent Company       | 175,867          | (103,821)        |
| <b>Profit attributable to owners of the Parent Company from continuing operation</b> | <b>1,463,097</b> | <b>1,255,526</b> |

- 3) The weighted average number of common shares outstanding for the years ended December 31, 2013 and 2012 are calculated as follows:

*(In shares)*

|   | <b>2013</b>       | <b>2012</b>       |
|---|-------------------|-------------------|
| Outstanding common shares                                   | 80,745,711        | 80,745,711        |
| Weighted number of treasury stocks                          | (10,498,119)      | (11,050,712)      |
| <b>Weighted average number of common shares outstanding</b> | <b>70,247,592</b> | <b>69,694,999</b> |

## (2) Diluted earnings per share

- 1) Diluted earnings per share for the years ended December 31, 2013 and 2012 are calculated as follows:

*(In millions of won, shares)*

|  | <b>2013</b>      | <b>2012</b>      |
|--|------------------|------------------|
| <b>Diluted earnings per share attributable to owners of the Parent Company from continuing operations:</b> | <b>1,454,677</b> | <b>1,255,526</b> |

|   |            |            |
|---|------------|------------|
| Profit attributable to owners of the Parent Company from continuing operations on common shares         |            |            |
| 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  | 70,247,592 | 72,021,148 |
| Diluted earnings per share from continuing operations (In won)  | 20,708     | 17,583     |
| <b>Diluted earnings per share attributable to owners of the Parent Company:</b>                         |            |            |
| Diluted profit attributable to owners of the Parent Company   | 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                            | 1,630,544  | 1,162,504  |
| Weighted average number of common shares outstanding  | 70,247,592 | 72,021,148 |
| Diluted earnings per share (In won)   | 23,211     | 16,141     |

**Table of Contents****32. Earnings per Share, Continued**

## (2) Diluted earnings per share, Continued

(\*) The number of common shares outstanding in respect of the exchangeable common shares of exchangeable bonds is excluded from the diluted earnings per share calculation for the year ended December 31, 2013 as the effect of exchangeable bond would have been anti-dilutive (the weighted average number of diluted shares of 688,744); thus, diluted earnings per share for the year ended December 31, 2013 is the same as basic earnings per share.

- 2) Adjusted weighted average number of common shares outstanding for the years ended December 31, 2013 and 2012 are calculated as follows:

*(In shares)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Weighted average number of common shares outstanding          | 70,247,592  | 69,694,999  |
| Effect of exchangeable bonds(*)                               |             | 2,326,149   |
| Adjusted weighted average number of common shares outstanding | 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.

## (3) Basic earnings (loss) per share from discontinued operation

*(In millions of won, shares)*

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Results of discontinued operation attributable to owners of the Parent Company | 175,867     | (103,821)   |
| Weighted average number of common shares outstanding                           | 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.

**Table of Contents****33. Dividends**

## (1) Details of dividends declared

Details of dividend declared for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won, except for face value and share data)*

| <b>Year</b> | <b>Dividend type</b>      | <b>Number of shares outstanding</b> | <b>Face value (In won)</b> | <b>Dividend ratio</b> | <b>Dividends</b> |
|-------------|---------------------------|-------------------------------------|----------------------------|-----------------------|------------------|
| 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, 2013 and 2012 are as follows:

*(In millions of won)*

| <b>Year</b> | <b>Dividends calculated</b> | <b>Profit</b> | <b>Dividends payout ratio</b> |
|-------------|-----------------------------|---------------|-------------------------------|
| 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, 2013 and 2012 are as follows:

*(In won)*

| <b>Year</b> | <b>Dividend type</b> | <b>Dividend per share</b> | <b>Closing price at settlement</b> | <b>Dividend yield ratio</b> |
|-------------|----------------------|---------------------------|------------------------------------|-----------------------------|
| 2013        | Cash dividend        | 9,400                     | 230,000                            | 4.09%                       |
| 2012        | Cash dividend        | 9,400                     | 152,500                            | 6.16%                       |

**Table of Contents****34. Categories of Financial Instruments**

(1) Financial assets by categories as of December 31, 2013 and 2012 are as follows:

(In millions of won)

|                                     | <b>December 31, 2013</b>   |   |                                  |   |              |
|-------------------------------------|--|---|----------------------------------|---|--------------|
|                                     | <b>Financial<br/>assets<br/>at<br/>fair<br/>value<br/>through<br/>profit<br/>or<br/>loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivative<br/>financial<br/>instruments<br/>designated<br/>as hedged<br/>item</b> | <b>Total</b> |
| Cash and cash equivalents           |  |   | 1,398,639                        |   | 1,398,639    |
| Financial instruments               |  |   | 319,616                          |   | 319,616      |
| Short-term investment securities    |  | 106,068   |                                  |   | 106,068      |
| Long-term investment securities(*1) | 20,532   | 947,995   |                                  |   | 968,527      |
| Accounts receivable trade           |  |   | 2,270,471                        |   | 2,270,471    |
| Loans and other receivables(*2)     |  |   | 1,044,529                        |   | 1,044,529    |
| Derivative financial assets(*3)     | 10   |   |                                  | 41,712  | 41,722       |
|                                     | 20,542   | 1,054,063   | 5,033,255                        | 41,712  | 6,149,572    |

(In millions of won)

|                                     | <b>December 31, 2012</b>   |   |                                  |   |              |
|-------------------------------------|--|---|----------------------------------|---|--------------|
|                                     | <b>Financial<br/>assets<br/>at<br/>fair<br/>value<br/>through<br/>profit<br/>or<br/>loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivative<br/>financial<br/>instruments<br/>designated<br/>as hedged<br/>item</b> | <b>Total</b> |
| Cash and cash equivalents           |  |   | 920,125                          |   | 920,125      |
| Financial instruments               |  |   | 514,561                          |   | 514,561      |
| Short-term investment securities    |  | 60,127  |                                  |   | 60,127       |
| Long-term investment securities(*1) | 15,356   | 938,356   |                                  |   | 953,712      |
| Accounts receivable trade           |  |   | 1,968,297                        |   | 1,968,297    |
| Loans and other receivables(*2)     |  |   | 981,693                          |   | 981,693      |
| Derivative financial assets(*3)     | 689  |   |                                  | 61,959  | 62,648       |

|        |         |           |        |           |
|--------|---------|-----------|--------|-----------|
| 16,045 | 998,483 | 4,384,676 | 61,959 | 5,461,163 |
|--------|---------|-----------|--------|-----------|

(\*1) Long-term investment securities of which the embedded derivative (conversion right option), which should be separated from the main contract, could not be separately measured, were designated as financial assets at fair value through profit or loss.



**Table of Contents****34. Categories of Financial Instruments, Continued**

(\*2) Details of loans and other receivables as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                           | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---------------------------|------------------------------|------------------------------|
| Short-term loans          | 79,395                       | 84,908                       |
| Accounts receivable other | 643,603                      | 582,098                      |
| Accrued income            | 11,941                       | 8,715                        |
| Other current assets      | 2,548                        | 431                          |
| Long-term loans           | 57,442                       | 69,299                       |
| Guarantee deposits        | 249,600                      | 236,242                      |
|                           | <b>1,044,529</b>             | <b>981,693</b>               |

(\*3) Derivative financial assets classified as financial assets at fair value through profit or loss is the fair value of conversion right of convertible bonds held by SK Communications Co., Ltd., a subsidiary of the Parent Company.

(2) Financial liabilities by categories as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31, 2013</b>  |   |   |              |
|--|---|---|---|--------------|
|  | <b>Financial<br/>liabilities<br/>at fair<br/>value<br/>through<br/>profit<br/>or<br/>loss</b> | <b>Financial<br/>liabilities<br/>measured<br/>at<br/>amortized<br/>cost</b> | <b>Derivative<br/>financial<br/>instruments<br/>designated<br/>as hedged<br/>item</b> | <b>Total</b> |
| Accounts payable trade                   |   | 214,716   |   | 214,716      |
| Derivative financial liabilities         |   |   | 124,339   | 124,339      |
| Borrowings                               |   | 386,192   |   | 386,192      |
| Debentures(*1)                           | 96,147  | 5,830,920   |   | 5,927,067    |
| Accounts payable - other and others (*2) |   | 3,949,794   |   | 3,949,794    |
|  | 96,147  | 10,381,622  | 124,339   | 10,602,108   |

*(In millions of won)*

**December 31, 2012**

|  | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities measured at amortized cost</b> | <b>Derivative financial instruments designated as hedged item</b> | <b>Total</b> |
|--|---|---|---|--------------|
| Accounts payable trade                   |   | 253,884   |   | 253,884      |
| Derivative financial liabilities         |   |   | 63,599  | 63,599       |
| Borrowings                               |   | 1,086,699   |   | 1,086,699    |
| Debentures(*1)                           | 405,678   | 5,171,322   |   | 5,577,000    |
| Accounts payable - other and others (*2) |   | 3,646,486   |   | 3,646,486    |
|  | 405,678   | 10,158,391  | 63,599  | 10,627,668   |

**Table of Contents****34. Categories of Financial Instruments, Continued**

(\*1) Debentures of which the embedded derivative (conversion right option), which should be separated from the main contract, could not be separately measured, were designated as financial liabilities at fair value through profit or loss.

(\*2) Details of accounts payable other and other payables as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| Accounts payable other                        | 1,864,024                    | 1,811,038                    |
| Withholdings                                  | 1,549                        | 1,840                        |
| Accrued expenses                              | 988,193                      | 890,863                      |
| Current portion of long-term payables - other | 226,151                      | 177,870                      |
| Long-term payables other                      | 838,585                      | 715,508                      |
| Finance lease liabilities                     | 3,867                        | 22,036                       |
| Other non-current liabilities                 | 27,425                       | 27,331                       |
|   | <b>3,949,794</b>             | <b>3,646,486</b>             |

**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.

**Table of Contents****35. Financial Risk Management, Continued**

Monetary foreign currency assets and liabilities as of December 31, 2013 are as follows:

*(In millions of won, thousands of U.S. dollars, thousands of Euros, thousands of Japanese Yen, thousands of other currencies)*

|        | Assets             |                 | Liabilities        |                 |
|--------|--------------------|-----------------|--------------------|-----------------|
|        | Foreign currencies | Won translation | Foreign currencies | Won translation |
| USD    | 127,972            | 135,329         | 2,300,314          | 2,424,243       |
| EUR    | 44,623             | 64,981          | 223                | 323             |
| JPY    | 97,776             | 982             | 9,605              | 99              |
| AUD    | 18                 | 15              | 64,811             | 53,971          |
| CHF    |                    |                 | 298,039            | 280,145         |
| SGD    |                    |                 | 298,542            | 354,868         |
| Others | 20,053             | 11,423          | 9,027              | 1,665           |
|        |                    | 212,730         |                    | 3,115,314       |

In addition, the Group has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures. (Refer to note 22)

As of December 31, 2013, effects on income (loss) before income tax as a result of change in exchange rate by 10% are as follows:

|        | If increased by | If decreased by |
|--------|-----------------|-----------------|
|        | 10%             | 10%             |
| USD    | (5,858)         | 5,858           |
| EUR    | 6,466           | (6,466)         |
| JPY    | 88              | (88)            |
| SGD    | 2               | (2)             |
| Others | 976             | (976)           |
|        | 1,674           | (1,674)         |

## (ii) Equity price risk

The Group has equity securities which include listed and non-listed securities for its liquidity and operating purpose. As of December 31, 2013, available-for-sale equity instruments measured at fair value amount to 839,647 million.

(iii) Interest rate risk

Since the Group's interest bearing assets are mostly fixed-interest bearing assets, as such, the Group's revenue and operating cash flow are not influenced by the changes in market interest rates. However, the Group still has interest rate risk arising from borrowings and debentures.

Accordingly, 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.

**Table of Contents****35. Financial Risk Management, Continued**

The Group's interest rate risk arises from floating-rate borrowings and payables. As of December 31, 2013, floating-rate debentures amount to 634,544 million and the Group has entered into interest rate swaps to hedge interest rate risk related to floating-rate borrowings and debentures. (Refer to note 22) If interest rate only increases (decreases) by 1%, income before income taxes for the year ended December 31, 2013 would not have been changed due to the interest expense from floating-rate borrowings and debentures.

## 2) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations. The maximum credit exposure as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Cash and cash equivalents                             | 1,398,548   | 920,054     |
| Financial instruments                                 | 319,616     | 514,561     |
| Available-for-sale financial assets                   | 35,174      | 35,623      |
| Accounts receivable - trade                           | 2,270,471   | 1,968,297   |
| Loans and receivables                                 | 1,044,529   | 981,693     |
| Derivative financial assets                           | 41,712      | 61,959      |
| Financial assets at fair value through profit or loss | 20,532      | 15,356      |
|   | 5,130,582   | 4,497,543   |

To manage credit risk, 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, 2013, the Group has no trade and other receivables or loans which have indications of significant impairment loss or are overdue for a prolonged period. As a result, the Group believes that the possibility of default is remote. Also, the Group's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Group has a policy to deal with high credit worthy financial institutions. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets As of December 31, 2013.

In addition, the aging of trade and other receivables that are over due at the end of the reporting period but not impaired is stated in note 7 and the analysis of financial assets that are individually determined to be impaired at the end of the reporting period is stated in note 30.

**Table of Contents****35. Financial Risk Management, Continued**

## 3) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will always maintain sufficient cash and cash equivalents balances and have enough liquidity through various committed credit lines. The Group maintains flexibly enough liquidity under credit lines through active operating activities.

Contractual maturities of financial liabilities as of December 31, 2013 are as follows:

*(In millions of won)*

|   | <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> |
|---|------------------------|-------------------------------|-------------------------|--------------------|--------------------------|
| Accounts payable - trade                | 214,716                | 214,716                       | 214,685                 | 31                 |                          |
| Borrowings                              | 386,192                | 403,164                       | 284,110                 | 74,301             | 44,753                   |
| Debentures(*1)                          | 5,927,067              | 7,131,432                     | 1,230,996               | 3,775,142          | 2,125,294                |
| Accounts payable - other and others(*2) | 3,949,794              | 4,039,035                     | 2,973,303               | 685,944            | 379,788                  |
|   | <b>10,477,769</b>      | <b>11,788,347</b>             | <b>4,703,094</b>        | <b>4,535,418</b>   | <b>2,549,835</b>         |

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 bonds.

(\*2) Excludes discounts on accounts payable-other and others.

As of December 31, 2013, periods which cash flows from cash flow hedge derivatives is expected to be incurred are as follows:

*(In millions of won)*

|             | <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      | 41,712                 | 43,833                        | 1,778                   | 35,322             | 6,733                    |
| Liabilities | (124,339)              | (133,481)                     | (31,781)                | (100,252)          | (1,447)                  |
|             | <b>(82,627)</b>        | <b>(89,648)</b>               | <b>(30,003)</b>         | <b>(64,930)</b>    | <b>5,286</b>             |

## (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, 2012.

The Group monitors its debt-equity ratio as a capital management indicator. This ratio is calculated as total debt divided by total equity; the total debt and equity is extracted from the financial statements.



**Table of Contents****35. Financial Risk Management, Continued**

## (2) Capital management, Continued

Debt-equity ratio as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|-------------------|------------------------------|------------------------------|
| Liabilities       | 12,409,958                   | 12,740,777                   |
| Equity            | 14,166,557                   | 12,854,782                   |
| Debt-equity ratio | 87.60%                       | 99.11%                       |

## (3) Fair value

- 1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2013 are as follows:

*(In millions of won)*

|   | <b>Carrying<br/>amount</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---|----------------------------|----------------|----------------|----------------|--------------|
| <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                  |                |                |                |              |

**Financial liabilities that can be measured at fair value**

|  |         |        |         |         |
|--|---------|--------|---------|---------|
| 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 |

**Financial liabilities that cannot be measured at fair value**

|                                       |            |  |           |           |
|---------------------------------------|------------|--|-----------|-----------|
| Accounts payable trade(*1)            | 214,716    |  |           |           |
| Borrowings                            | 386,192    |  | 399,247   | 399,247   |
| Debentures                            | 5,830,920  |  | 5,946,586 | 5,946,586 |
| Accounts payable other and others(*1) | 3,949,794  |  |           |           |
|                                       | 10,381,622 |  | 6,345,833 | 6,345,833 |

**Table of Contents****35. Financial Risk Management, Continued**

## (3) Fair value, Continued

- 2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2012 are as follows:

(In millions of won)

|  | Carrying<br>amount | Level 1 | Level 2   | Level 3 | Total     |
|--|--------------------|---------|-----------|---------|-----------|
| <b>Financial assets that can be measured at fair value</b>         |                    |         |           |         |           |
| Financial assets at fair value through profit or loss              | 16,045             |         | 15,356    | 689     | 16,045    |
| Derivative financial assets  | 61,959             |         | 61,959    |         | 61,959    |
| Available-for-sale financial assets                                | 765,759            | 584,029 | 56,158    | 125,572 | 765,759   |
|  | 843,763            | 584,029 | 133,473   | 126,261 | 843,763   |
| <b>Financial assets that cannot be measured at fair value</b>      |                    |         |           |         |           |
| Cash and cash equivalents(*1)                                      | 920,125            |         |           |         |           |
| Available-for-sale financial assets(*1,2)                          | 232,724            |         |           |         |           |
| Accounts receivable trade and others(*1)                           | 2,949,990          |         |           |         |           |
| Financial instruments(*1)  | 514,561            |         |           |         |           |
|  | 4,617,400          |         |           |         |           |
| <b>Financial liabilities that can be measured at fair value</b>    |                    |         |           |         |           |
| Financial liabilities at fair value through profit or loss         | 405,678            | 405,678 |           |         | 405,678   |
| Derivative financial liabilities                                   | 63,599             |         | 63,599    |         | 63,599    |
|  | 469,277            | 405,678 | 63,599    |         | 469,277   |
| <b>Financial liabilities that cannot be measured at fair value</b> |                    |         |           |         |           |
| Accounts payable trade(*1)   | 253,884            |         |           |         |           |
| Borrowings   | 1,086,699          |         | 1,100,464 |         | 1,100,464 |
| Debentures   | 5,171,321          |         | 5,461,142 |         | 5,461,142 |
| Accounts payable other and others(*1)                              | 3,646,486          |         |           |         |           |
|  | 10,158,390         |         | 6,561,606 |         | 6,561,606 |

(\*1) Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are closed to the reasonable approximate fair values.

(\*2) Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with K-IFRS 1039 as such equity instruments cannot be reliably measured using other methods.

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.

**Table of Contents****35. Financial Risk Management, Continued**

The Group 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.

Interest rates used by the Group for the fair value measurement as of December 31, 2013 are as follows:

|                           |                      |
|---------------------------|----------------------|
|                           | <b>Interest rate</b> |
| Derivative instruments    | 2.86% ~ 4.04%        |
| Borrowings and debentures | 3.12%                |

3) There have been no transfers from Level 2 to Level 1 in 2013 and changes of financial assets classified as Level 3 for the year ended December 31, 2013 are as follows:

*(In millions of won)*

|   | <b>Balance<br/>at<br/>Jan. 1</b> | <b>Acquisition</b> | <b>Loss for comprehensive<br/>the period</b> | <b>Other<br/>income</b> | <b>Disposal</b> | <b>Others</b> | <b>Balance at<br/>Dec. 31</b> |
|---|----------------------------------|--------------------|--|-------------------------|-----------------|---------------|-------------------------------|
| Financial assets at fair value through profit or loss | 689                              |                    | (276)  |                         | (404)           |               | 9                             |
| Available-for-sale financial assets                   | 125,572                          | 54,950             | (16,548)                                     | 7,901                   | (43,540)        | 26,454        | 154,789                       |

(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2013 are as follows:

*(In millions of won)*

| <b>Gross financial<br/>instruments<br/>recognized</b> | <b>Gross<br/>offset<br/>financial<br/>instruments<br/>recognized</b> | <b>Net<br/>financial<br/>instruments<br/>presented on the<br/>statements<br/>of</b> | <b>Relevant amount<br/>not<br/>offset on the<br/>statements<br/>of financial<br/>position</b> | <b>Cash<br/>collaterals<br/>received</b> | <b>Net<br/>amount</b> |
|---|--|---|---|--|-----------------------|
|   |  |   |   |  |                       |

**financial position****Financial assets:**

|                                     |         |           |        |          |        |
|-------------------------------------|---------|-----------|--------|----------|--------|
| Derivatives(*)                      | 28,871  |           | 28,871 | (28,871) |        |
| Accounts receivable trade and other | 138,897 | (127,055) | 11,841 |          | 11,841 |
|                                     | 167,768 | (127,055) | 40,712 | (28,871) | 11,841 |

**Financial liabilities:**

|                                  |         |           |        |          |        |
|----------------------------------|---------|-----------|--------|----------|--------|
| Derivatives(*)                   | 43,536  |           | 43,536 | (28,871) | 14,666 |
| Accounts payable trade and other | 127,055 | (127,055) | 43,536 |          |        |
|                                  | 170,591 | (127,055) | 87,072 | (28,871) | 14,666 |

**Table of Contents****35. Financial Risk Management, Continued**

(\*) The Group entered into derivative contracts which include enforceable master netting arrangement in accordance with ISDA. Generally, all contracts made with the identical currencies are settled from one party to another by combining one net amount. In this case, all contracts are liquidated and paid off at net amount by evaluating liquidation value if credit events such as bankruptcy occur.

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

| <b>Relationship</b> | <b>Interest rate</b>  |
|---------------------|---|
| Controlling Entity  | SK Holding Co., Ltd.  |
| Subsidiaries        | SK Planet Co., Ltd. and 27 others (refer to note 1)   |
| Joint venture       | Dogus Planet, Inc. and three others   |
| Associates          | SK hynix Inc. and 64 others   |
| Affiliates          | The Controlling Entity's investor using the equity method, the Controlling Company, and the Controlling Company's subsidiaries and associates, etc. |

(2) Compensation for the key management

The Parent Company considers registered directors who have substantial role and responsibility in planning, operating, and controlling of the business as key management. The considerations given to such key management for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                   | <b>2013</b>  | <b>2012</b>  |
|-----------------------------------|--------------|--------------|
| Salaries                          | 2,263        | 8,893        |
| Provision for retirement benefits | 1,012        | 799          |
|                                   | <b>3,275</b> | <b>9,692</b> |

Compensation for the key management includes salaries, non-monetary salaries and contributions made in relation to the pension plan.

**Table of Contents****36. Transactions with Related Parties, Continued**

(3) Transactions with related parties for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

| Scope              | Company                                 | 2013                         |                              |                                       |       |
|--------------------|---|------------------------------|------------------------------|---------------------------------------|-------|
|                    |   | Operating revenue and others | Operating expense and others | Acquisition of property and equipment | Loans |
| Controlling Entity | SK Holding Co., Ltd.(*)                 | 1,912                        | 226,023                      |                                       |       |
| Associates         | HappyNarae Co., Ltd.                    | 281                          | 6,217                        | 10,542                                |       |
|                    | F&U Credit information Co., Ltd.        | 1,753                        | 43,931                       |                                       |       |
|                    | HanaSK Card Co., Ltd.                   | 11,128                       |                              |                                       |       |
|                    | Others                                  | 6,712                        | 6,846                        | 125                                   | 997   |
|                    |   | 19,874                       | 56,994                       | 10,667                                | 997   |
| Other              | SK Engineering & Construction Co., Ltd. | 5,564                        | 37,978                       | 484,006                               |       |
|                    | SK C&C Co., Ltd.                        | 4,041                        | 357,945                      | 206,298                               |       |
|                    | SK Networks Co., Ltd.                   | 51,996                       | 1,463,340                    | 6,241                                 |       |
|                    | Others                                  | 66,112                       | 209,692                      | 249,100                               |       |
|                    |   | 127,713                      | 2,068,956                    | 945,645                               |       |
| Total              |   | 149,499                      | 2,351,972                    | 956,312                               | 997   |

(\*) Operating expense and others include 191,416 million of dividends paid by the Group.

(In millions of won)

| Scope              | Company                          | 2012                         |                              |                                       |
|--------------------|----------------------------------|------------------------------|------------------------------|---------------------------------------|
|                    |                                  | Operating revenue and others | 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                                |
|                    |                                  | 686,335                      | 503,419                      | 20,491                                |



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|       |   |         |           |           |
|-------|---|---------|-----------|-----------|
| 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 |

**Table of Contents****36. Transactions with Related Parties, Continued**

(\*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.

(3) Account balances as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

| Scope              | Company                                 | 2013   |  |  |
|--------------------|---|--------|--|--|
|                    |   | Loans  | Accounts receivable<br>Accounts<br>receivable-trade,<br>and others | Accounts payable<br>Accounts<br>payable<br>trade, and others |
| Controlling Entity | SK Holding Co., Ltd.                    |        | 334  |  |
| Associates         | HappyNarae Co., Ltd.                    |        | 27   | 16,317   |
|                    | Wave City Development Co., Ltd.         | 1,200  | 38,412   |  |
|                    | SK hynix Inc.                           |        | 392  |  |
|                    | HanaSK Card Co., Ltd.                   |        | 3,723  | 5,443  |
|                    | SK Wyverns Baseball Club Co., Ltd.      | 1,425  |  |  |
|                    | Daehan Kanggun BcN Co., Ltd.            | 22,102 |  |  |
|                    | Others                                  |        | 268  | 492  |
|                    |   | 24,727 | 42,822   | 22,252   |
| Other              | SK Engineering & Construction Co., Ltd. |        | 988  | 92,058   |
|                    | SK Telesys Co., Ltd.                    |        | 412  | 70,467   |
|                    | SK C&C Co., Ltd.                        |        | 182  |  |
|                    | SK Networks. Co., Ltd.                  |        | 5,930  | 118,759  |
|                    | Others                                  |        | 11,633   | 20,197   |
|                    |   |        | 19,145   | 301,481  |
| Total              |   | 24,727 | 62,301   | 323,733  |

**Table of Contents****36. Transactions with Related Parties, Continued***(In millions of won)*

| Scope              | Company                                    | 2012   |  |   |
|--------------------|--|--------|--|---|
|                    |  | Loans  | Accounts receivable<br>Accounts<br>receivable-trade,<br>and others | Accounts<br>payable<br>Accounts<br>payable<br>trade, and others |
| Controlling Entity | SK Holding Co., Ltd.                       |        | 310  |   |
| Associates         | SK Wyverns Baseball Club<br>Co., Ltd.      | 1,628  |  | 4,000   |
|                    | Wave City Development Co.,<br>Ltd.         |        | 38,412   |   |
|                    | SK M&C                                     |        | 6,127  | 109,531   |
|                    | SK China Company, Ltd.                     |        |  | 39,694  |
|                    | Daehan Kanggun BcN Co.,<br>Ltd.            | 22,102 |  |   |
|                    | Others                                     |        | 498  | 11,558  |
|                    |  | 23,730 | 45,037   | 164,783   |
| Other              | SK Engineering &<br>Construction Co., Ltd. |        | 1,735  | 34,887  |
|                    | SK Telesys Co., Ltd.                       |        | 1,182  | 31,289  |
|                    | SK C&C Co., Ltd.                           |        | 369  | 144,308   |
|                    | SK Networks. Co., Ltd.                     |        | 34,055   | 285,325   |
|                    | Others                                     |        | 18,416   | 24,678  |
|                    |  |        | 55,757   | 520,487   |
| Total              |  | 23,730 | 101,104  | 685,270   |

(5) As of December 31, 2013, collateral and guarantee provided by the Group for the related parties' financing purposes are as follows. There are no collateral or guarantee provided by related parties to the Group.

(6) M&Service Co., Ltd., a subsidiary of the Parent Company, entered into performance agreement with SK Energy Co., Ltd. and provides a blank note to SK Energy Co., Ltd., with regard to this transaction.

**37. Commitments and Contingencies**

(1) Collateral assets and commitments

SK Broadband Co., Ltd. has pledged its properties as collateral for leases on buildings in the amount of 14,900 million as of December 31, 2013.

(2) Contingencies

As of December 31, 2013, the claim amount of pending litigations of SK Communications Co., Ltd., a subsidiary, amounts to 3,797 million. The ultimate outcome of such litigation is not expected to have a material effect on the Group's financial position or performance results.

**Table of Contents****38. Discontinued Operation****(1) Discontinued operation**

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.

During the year ended December 31, 2012, SK Telink Co., Ltd., a subsidiary, ceased its broadcasting business due to the rapid decrease in satellite digital multimedia broadcasting subscribers along with the effects from smart phones, and other mobile devices.

**(2) Results of discontinued operations**

Results of discontinued operations included in the consolidated statements of income for the years ended December 31, 2013 and 2012 are as follows. The consolidated statement of income presented for comparative purposes was restated in order to present discontinued operation segregated from the Group's continuing operations.

*(In millions of won)*

|  | <b>2013</b>                     |
|--|---------------------------------|
|  | <b>Loen Entertainment, Inc.</b> |
| <b>Results of discontinued operations:</b>                   |                                 |
| Revenue  | 167,033                         |
| Expense  | (140,204)                       |
| <b>Operating income generated by discontinued operations</b> | <b>26,829</b>                   |
| Non-operating income   | 3,189                           |
| Gain on disposal relating to discontinued operations         | 214,352                         |
| Income tax expense   | (61,125)                        |
| <b>Gain from discontinued operations</b>                     | <b>183,245</b>                  |
| <b>Attributable to :</b>                                     |                                 |
| Owners of the Parent Company                                 | 175,867                         |
| Non-controlling interests                                    | 7,378                           |

**Table of Contents****38. Discontinued Operation, Continued***(In millions of won)*

|  | <b>Loen<br/>Entertainment, Inc</b> | <b>2012<br/>Discontinue<br/>satellite digital<br/>multimedia<br/>broadcasting of<br/>SK Telink Co., Ltd.</b> | <b>Total</b> |
|--|------------------------------------|--|--------------|
| <b>Results of discontinued operations:</b>                       |                                    |  |              |
| Revenue  | 159,070                            | 1,163  | 160,233      |
| Expense  | (128,948)                          | (38,257)   | (167,205)    |
| <b>Operating income generated by<br/>discontinued operations</b> | 30,122                             | (37,094)   | (6,972)      |
| Non-operating income   | 1,397                              | (120,913)  | (119,516)    |
| Income tax benefit (expense)                                     | (7,680)                            | 18,670   | 10,990       |
| <b>Gain (loss) from discontinued<br/>operations</b>              | 23,839                             | (139,337)  | (115,498)    |
| Attributable to :  |                                    |  |              |
| Owners of the Parent Company                                     | 16,107                             | (119,927)  | (103,821)    |
| Non-controlling interests  | 7,732                              | (19,410)   | (11,677)     |

## (3) Cash flows from discontinued operations

Cash flows from discontinued operations for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>2013<br/>of Loen Entertainment, Inc.</b> |
|--|---|
| <b>Cash flow from discontinued<br/>operations:</b> |   |
| Net cash provided by operating activities          | 40,884                                      |
| Net cash provided by investing activities          | 179,490                                     |
| Net cash used in financing activities              | (4,780)                                     |
|  | 215,594                                     |

*(In millions of won)***2012**

|   | Loen<br>Entertainment, Inc | Discontinue<br>satellite digital<br>multimedia<br>broadcasting of<br>SK Telink Co., Ltd. | Total    |
|---|----------------------------|--|----------|
| <b>Cash flow from discontinued operations:</b>      |                            |  |          |
| Net cash provided by (used in) operating activities | 27,794                     | (4,857)  | 22,937   |
| Net cash used in investing activities               | (19,628)                   | (303)  | (19,931) |
| Net cash used in financing activities               | (4,299)                    | (9,475)  | (13,774) |
|   | 3,867                      | (14,635)   | (10,768) |

**Table of Contents****38. Discontinued Operation, Continued**

- (4) Changes in financial condition relating to discontinued operations due to the disposal of ownership interests in Loen Entertainment, Inc. as of December 31, 2013 is as follows:

*(In millions of won)*

|  | <b>December 31, 2013</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 paid for disposal                | 264,245                  |
| Cash and cash equivalents disposed             | (55,527)                 |
| <b>Net cash inflow</b>                         | <b>208,718</b>           |



**Table of Contents****39. Statements of Cash Flows**

- (1) Adjustments for income and expenses from operating activities for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b>      | <b>2012</b>      |
|---|------------------|------------------|
| Interest income   | (67,359)         | (99,967)         |
| Dividend  | (10,197)         | (27,732)         |
| Gain on foreign currency translation  | (4,401)          | (4,065)          |
| Gain on disposal of long-term investment securities                         | (9,300)          | (282,605)        |
| Gain on settlement of derivatives   | (7,716)          | (26,103)         |
| Losses related to investments in subsidiaries and associates, net           | (921,861)        | 24,279           |
| Gain on disposal of property and equipment and intangible assets            | (7,991)          | (162,590)        |
| Reversal of allowance for doubtful accounts                                 | (359)            | (5,902)          |
| Gain on valuation of financial asset at fair value through profit or loss   | (5,177)          |                  |
| Other income  | (3,951)          | (2,558)          |
| Interest expenses   | 331,834          | 412,379          |
| Loss on foreign currency translation  | 2,634            | 4,608            |
| Loss on disposal of long-term investment securities                         | 31,909           | 10,802           |
| Impairment loss on long-term investment securities                          | 52,058           | 190,621          |
| Loss on valuation of derivatives  | 2,106            | 286              |
| Loss on settlement of derivatives   |                  | 1,232            |
| Income tax expense  | 461,922          | 277,217          |
| Gain related to defined benefit plan  | 92,840           | 80,865           |
| Depreciation and amortization   | 2,829,784        | 2,613,018        |
| Bad debt expenses   | 57,163           | 52,393           |
| Loss on disposal of property and equipment and intangible assets            | 267,702          | 15,117           |
| Impairment loss on property and equipment and intangible assets             | 14,399           | 160,210          |
| Loss on valuation of financial assets at fair value through profit or loss  |                  | 1,262            |
| Loss relating to financial liabilities at fair value through profit or loss | 134,232          | 7,793            |
| Loss on redemption of debentures  |                  | 2,099            |
| Bad debt for accounts receivable - other                                    | 22,167           | 30,107           |
| Loss on disposal of other investment property                               | 1                |                  |
| Impairment loss on other investment securities                              | 6,136            | 1,307            |
| Other expenses  | 6,801            | 15,788           |
|   | <b>3,275,376</b> | <b>3,289,861</b> |

**Table of Contents****39. Statements of Cash Flows, Continued**

- (2) Changes in assets and liabilities from operating activities for the years ended December 31, 2013 and 2012 are as follows:

| <i>(In millions of won)</i>            | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Accounts receivable - trade            | (267,754)   | (183,238)   |
| Accounts receivable - other            | (41,243)    | 288,739     |
| Accrued income                         | (502)       | 9,530       |
| Advance payments                       | (26,064)    | 40,664      |
| Prepaid expenses                       | (1,583)     | 18,525      |
| Proxy paid V.A.T.                      | (5,442)     | (963)       |
| Inventories                            | (39,610)    | (108,904)   |
| Long-term accounts receivables - other |             | 5,393       |
| Guarantee deposits                     | 59,431      | 19,460      |
| Accounts payable - trade               | (4,708)     | 74,923      |
| Accounts payable - other               | (131,142)   | 260,158     |
| Advanced receipts                      | (2,916)     | (7,977)     |
| Withholdings                           | 22,025      | 234,048     |
| Deposits received                      | (1,745)     | (6,089)     |
| Accrued expenses                       | 98,081      | 153,641     |
| Advanced V.A.T.                        | (3,901)     | (3,955)     |
| Unearned revenue                       | (188,589)   | (83,436)    |
| Provisions                             | (226,644)   | (373,213)   |
| Long-term provisions                   | (72,398)    | (33,254)    |
| Plan assets                            | (61,856)    | (51,422)    |
| Retirement benefit payment             | (42,948)    | (46,066)    |
| Others                                 | (30,362)    | (2,256)     |
|  | (969,870)   | 204,308     |

- (3) Significant non-cash transactions for the years ended December 31, 2013 and 2012 are as follows:

| <i>(In millions of won)</i>   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Transfer of construction in progress to property and equipment, and intangible assets           | 2,320,528   | 2,700,054   |
| Transfer of other property and equipment and others to construction in progress                 | 1,188,826   | 1,437,476   |
| Accounts payable - other related to acquisition of property and equipment and intangible assets | 350,735     | 8,010       |
| Return of the existing 1.8GHz frequency use rights  | 614,600     |             |



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**SK TELECOM CO., LTD.**

Separate Financial Statements

**December 31, 2013 and 2012**

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the accompanying separate statement of financial position of SK Telecom Co., Ltd. (the Company), as of December 31, 2013, and 2012, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 21, 2014

This report is effective as of February 21, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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| <i>(In millions of won)</i>                | <i>Note</i>  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|--------------|------------------------------|------------------------------|
| <b>Assets</b>                              |              |                              |                              |
| <b>Current Assets:</b>                     |              |                              |                              |
| Cash and cash equivalents                  | 30,31        | 448,459                      | 256,577                      |
| Short-term financial instruments           | 5,30,31      | 166,000                      | 179,300                      |
| Short-term investment securities           | 7,30,31      | 102,042                      | 56,401                       |
| Accounts receivable - trade, net           | 6,30,31,32   | 1,513,138                    | 1,407,206                    |
| Short-term loans, net                      | 6,30,31,32   | 72,198                       | 75,449                       |
| Accounts receivable - other, net           | 6,30,31,32   | 388,475                      | 383,048                      |
| Prepaid expenses                           |              | 82,837                       | 76,016                       |
| Derivative financial assets                | 17,30,31     |                              | 9,656                        |
| Inventories, net                           |              | 24,596                       | 15,995                       |
| Non-current assets held for sale           | 8            | 3,666                        | 121,337                      |
| Advanced payments and other                | 6,30,31      | 16,371                       | 8,714                        |
| <b>Total Current Assets</b>                |              | <b>2,817,782</b>             | <b>2,589,699</b>             |
| <b>Non-Current Assets:</b>                 |              |                              |                              |
| Long-term financial instruments            | 5,30,31      | 7,569                        | 69                           |
| Long-term investment securities            | 7,30,31      | 729,703                      | 733,893                      |
| Investments in subsidiaries and associates | 9            | 8,010,121                    | 7,915,547                    |
| Property and equipment, net                | 10           | 7,459,986                    | 7,119,090                    |
| Goodwill                                   | 11           | 1,306,236                    | 1,306,236                    |
| Intangible assets, net                     | 12           | 2,239,167                    | 2,187,872                    |
| Long-term loans, net                       | 6,30,31,32   | 39,925                       | 49,672                       |
| Long-term prepaid expenses                 |              | 23,007                       | 21,582                       |
| Guarantee deposits                         | 5,6,30,31,32 | 152,057                      | 149,373                      |
| Long-term derivative financial assets      | 17,30,31     | 41,712                       | 52,303                       |
| Deferred tax assets                        | 27           |                              | 123,723                      |
| Other non-current assets                   |              | 154                          | 443                          |
| <b>Total Non-Current Assets</b>            |              | <b>20,009,637</b>            | <b>19,659,803</b>            |
| <b>Total Assets</b>                        |              | <b>22,827,419</b>            | <b>22,249,502</b>            |

*See accompanying notes to the separate financial statements.*

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| <i>(In millions of won)</i>                             | <i>Note</i>        | December 31,<br>2013 | December 31,<br>2012 |
|---|--------------------|----------------------|----------------------|
| <b>Liabilities and Equity</b>                           |                    |                      |                      |
| <b>Current Liabilities:</b>                             |                    |                      |                      |
| Short-term borrowings                                   | <i>13,30,31</i>    | 260,000              | 330,000              |
| Current portion of long-term debt, net                  | <i>12,13,30,31</i> | 829,503              | 713,072              |
| Accounts payable - other                                | <i>30,31,32</i>    | 1,556,201            | 1,509,456            |
| Withholdings  | <i>30,31</i>       | 574,166              | 552,380              |
| Accrued expenses  | <i>30,31</i>       | 653,742              | 600,101              |
| Income tax payable                                      | <i>27</i>          | 104,564              | 52,267               |
| Unearned revenue  |                    | 178,569              | 252,298              |
| Derivative financial liabilities                        | <i>17,30,31</i>    | 21,170               |                      |
| Provisions  | <i>15</i>          | 66,559               | 286,819              |
| Advanced receipts and other                             |                    | 43,599               | 46,693               |
| <b>Total Current Liabilities</b>                        |                    | <b>4,288,073</b>     | <b>4,343,086</b>     |
| <b>Non-Current Liabilities:</b>                         |                    |                      |                      |
| Debentures, net, excluding current portion              | <i>13,30,31</i>    | 4,014,777            | 3,992,111            |
| Long-term borrowings, excluding current portion         | <i>13,30,31</i>    | 85,125               | 348,333              |
| Long-term payables - other                              | <i>14,30,31</i>    | 828,721              | 705,605              |
| Long-term unearned revenue                              |                    | 50,894               | 160,820              |
| Defined benefit obligation                              | <i>3,16</i>        | 22,886               | 34,951               |
| Long-term derivative financial liabilities              | <i>17,30,31</i>    | 100,210              | 63,599               |
| Long-term provisions                                    | <i>15</i>          | 19,537               | 99,355               |
| Deferred tax liabilities                                | <i>27</i>          | 44,601               |                      |
| Other non-current liabilities                           | <i>30,31,32</i>    | 57,187               | 124,594              |
| <b>Total Non-Current Liabilities</b>                    |                    | <b>5,223,938</b>     | <b>5,529,368</b>     |
| <b>Total Liabilities</b>                                |                    | <b>9,512,011</b>     | <b>9,872,454</b>     |
| <b>Equity</b>   |                    |                      |                      |
| Share capital   | <i>1,18</i>        | 44,639               | 44,639               |
| Capital surplus (deficit) and other capital adjustments | <i>18,19,20</i>    | 433,894              | (236,160)            |
| Retained earnings                                       | <i>21,22</i>       | 12,665,699           | 12,413,981           |
| Reserves  | <i>23</i>          | 171,176              | 154,588              |
| <b>Total Equity</b>                                     |                    | <b>13,315,408</b>    | <b>12,377,048</b>    |
| <b>Total Liabilities and Equity</b>                     |                    | <b>22,827,419</b>    | <b>22,249,502</b>    |

*See accompanying notes to the separate financial statements.*





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| <i>(In millions of won except for per share data)</i>       | <i>Note</i> | <b>2013</b>      | <b>2012</b>      |
|---|-------------|------------------|------------------|
| <b>Operating revenue:</b>                                   |             |                  |                  |
| Revenue   | 4,32        | 12,860,379       | 12,332,719       |
| <b>Operating expense:</b>                                   |             |                  |                  |
|   | 32          |                  |                  |
| Labor cost  |             | 598,885          | 508,226          |
| Commissions paid  |             | 5,333,869        | 5,576,763        |
| Depreciation and amortization                               |             | 2,006,896        | 1,724,707        |
| Network interconnection                                     |             | 770,125          | 796,580          |
| Leased line   |             | 412,217          | 431,522          |
| Advertising   |             | 237,291          | 209,804          |
| Rent  |             | 362,659          | 330,611          |
| Cost of products that have been resold                      |             | 399,810          | 295,757          |
| Other operating expenses                                    | 24          | 768,943          | 783,361          |
| Sub-total   |             | 10,890,695       | 10,657,331       |
| <b>Operating income</b>                                     |             | <b>1,969,684</b> | <b>1,675,388</b> |
| Finance income  | 26          | 81,196           | 381,930          |
| Finance costs   | 26          | (422,764)        | (533,198)        |
| Other non-operating income                                  | 25          | 47,618           | 161,756          |
| Other non-operating expenses                                | 25          | (417,252)        | (133,647)        |
| Loss relating to investments in subsidiaries and associates | 9           | (37,685)         | (5,510)          |
| <b>Profit before income tax</b>                             |             | <b>1,220,797</b> | <b>1,546,719</b> |
| Income tax expense  | 27          | 310,640          | 303,952          |
| <b>Profit for the year</b>                                  |             | <b>910,157</b>   | <b>1,242,767</b> |
| <b>Earnings per share</b>                                   |             |                  |                  |
|   | 28          |                  |                  |
| Basic earnings per share (in won)                           |             | 12,837           | 17,832           |
| Diluted earnings per share (in won)                         |             | 12,837           | 17,406           |

*See accompanying notes to the separate financial statements.*

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| <i>(In millions of won)</i>  | <i>Note</i>  | <b>2013</b>    | <b>2012</b>      |
|--|--------------|----------------|------------------|
| <b>Profit for the year</b>   |              | <b>910,157</b> | <b>1,242,767</b> |
| <b>Other comprehensive loss</b>  | <i>3</i>     |                |                  |
| <b>Items that will not be reclassified to profit or loss:</b>              |              |                |                  |
| Remeasurement of defined benefit obligations                               | <i>16</i>    | 5,927          | (10,838)         |
| <b>Items that may be reclassified subsequently to profit or loss:</b>      |              |                |                  |
| Net change in unrealized fair value of available-for-sale financial assets | <i>23</i>    | 4,795          | (146,203)        |
| Net change in unrealized fair value of derivatives                         | <i>17,23</i> | 11,793         | (19,703)         |
|  |              | 22,515         | (176,744)        |
| <b>Total comprehensive income</b>  |              | <b>932,672</b> | <b>1,066,023</b> |

*See accompanying notes to the separate financial statements.*

**Table of Contents***(In millions of won)*

|                                   | Share capital | Capital surplus and other capital adjustments |                    |                                    |                  | Retained earnings | Reserves          | Total equity      |                   |
|-----------------------------------|---------------|---|--------------------|------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|
|                                   |               | Paid-in surplus                               | Treasury stock     | Loss on disposal of treasury stock | Hybrid bond      |                   |                   |                   | Other             |
| <b>Balance, January 1, 2012</b>   | <b>44,639</b> | <b>2,915,887</b>                              | <b>(2,410,451)</b> | <b>(18,855)</b>                    | <b>(722,597)</b> | <b>11,837,185</b> | <b>320,494</b>    | <b>11,966,302</b> |                   |
| Cash dividends                    |               |   |                    |                                    |                  | (655,133)         |                   | (655,133)         |                   |
| Transfer of business              |               |   |                    |                                    | (144)            |                   |                   | (144)             |                   |
| Total comprehensive income        |               |   |                    |                                    |                  | 1,242,767         |                   | 1,242,767         |                   |
| Other comprehensive loss          |               |   |                    |                                    |                  | (10,838)          | (165,906)         | (176,744)         |                   |
|                                   |               |   |                    |                                    |                  | 1,231,929         | (165,906)         | 1,066,023         |                   |
| <b>Balance, December 31, 2012</b> | <b>44,639</b> | <b>2,915,887</b>                              | <b>(2,410,451)</b> | <b>(18,855)</b>                    | <b>(722,741)</b> | <b>12,413,981</b> | <b>154,588</b>    | <b>12,377,048</b> |                   |
| <b>Balance, January 1, 2013</b>   | <b>44,639</b> | <b>2,915,887</b>                              | <b>(2,410,451)</b> | <b>(18,855)</b>                    | <b>(722,741)</b> | <b>12,413,981</b> | <b>154,588</b>    | <b>12,377,048</b> |                   |
| Cash dividends                    |               |   |                    |                                    |                  | (655,946)         |                   | (655,946)         |                   |
| Issuance of hybrid bond           |               |   |                    |                                    | 398,518          |                   |                   | 398,518           |                   |
| Interest on hybrid bond           |               |   |                    |                                    |                  | (8,420)           |                   | (8,420)           |                   |
| Treasury stock                    |               |   | 270,768            | 768                                |                  |                   |                   | 271,536           |                   |
| Total comprehensive income        |               |   |                    |                                    |                  | 910,157           |                   | 910,157           |                   |
| Other comprehensive income        |               |   |                    |                                    |                  | 5,927             | 16,588            | 22,515            |                   |
|                                   |               |   |                    |                                    |                  | 916,084           | 16,588            | 932,672           |                   |
|                                   | <b>44,639</b> | <b>2,915,887</b>                              | <b>(2,139,683)</b> | <b>(18,087)</b>                    | <b>398,518</b>   | <b>(722,741)</b>  | <b>12,665,699</b> | <b>171,176</b>    | <b>13,315,408</b> |

**Balance,  
December 31,  
2013**

*See accompanying notes to the separate financial statements.*

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| <i>(In millions of won)</i>   | <i>Note</i> | <b>2013</b>        | <b>2012</b>        |
|---|-------------|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>                          |             |                    |                    |
| Cash generated from operating activities                              |             |                    |                    |
| Profit for the year   |             | 910,157            | 1,242,767          |
| Adjustments for income and expenses                                   | 34          | 3,120,427          | 2,249,241          |
| Changes in assets and liabilities related to operating activities     | 34          | (714,862)          | 176,712            |
| Sub-total   |             | 3,315,722          | 3,668,720          |
| Interest received   |             | 29,695             | 45,748             |
| Dividends received  |             | 20,641             | 30,567             |
| Interest paid   |             | (246,632)          | (265,355)          |
| Income tax paid   |             | (96,953)           | (318,164)          |
| <b>Net cash provided by operating activities</b>                      |             | <b>3,022,473</b>   | <b>3,161,516</b>   |
| <b>Cash flows from investing activities:</b>                          |             |                    |                    |
| Cash inflows from investing activities:                               |             |                    |                    |
| Decrease in short-term investment securities, net                     |             |                    | 35,416             |
| Decrease in short-term financial instruments, net                     |             | 13,300             | 455,700            |
| Collection of short-term loans  |             | 279,815            | 273,147            |
| Proceeds from disposal of long-term investment securities             |             | 29,762             | 449,720            |
| Proceeds from disposal of investments in subsidiaries and associates  |             | 1,808              | 88,602             |
| Proceeds from disposal of investment property                         |             |                    | 61,186             |
| Proceeds from disposal of property and equipment                      |             | 3,148              | 187,560            |
| Proceeds from disposal of intangible assets                           |             | 965                | 2,811              |
| Net proceeds from the disposition of non-current assets held for sale |             | 190,393            |                    |
| Collection of long-term loans   |             | 11,727             | 10,689             |
| Proceeds from disposal of other non-current assets                    |             | 290                | 644                |
| Sub-total   |             | 531,208            | 1,565,475          |
| Cash outflows for investing activities:                               |             |                    |                    |
| Increase in short-term investment securities, net                     |             | (45,031)           |                    |
| Increase in short-term loans  |             | (275,913)          | (243,494)          |
| Increase in long-term financial instruments                           |             | (7,500)            |                    |
| Acquisition of long-term investment securities                        |             | (9,313)            | (4,425)            |
| Acquisition of investments in subsidiaries and associates             |             | (206,791)          | (3,131,483)        |
| Acquisition of property and equipment                                 |             | (2,201,354)        | (2,883,630)        |
| Acquisition of intangible assets                                      |             | (179,069)          | (72,328)           |
| Increase in long-term loans   |             |                    | (22)               |
| Cash outflows from transfer of business                               |             |                    | (3,387)            |
| Increase in other non-current assets                                  |             |                    | (328)              |
| Sub-total   |             | (2,924,971)        | (6,339,097)        |
| <b>Net cash used in investing activities</b>                          |             | <b>(2,393,763)</b> | <b>(4,773,622)</b> |

*See accompanying notes to the separate financial statements.*



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| <i>(In millions of won)</i>                                   | <b>2013</b>      | <b>2012</b>      |
|---|------------------|------------------|
| <b>Cash flows from financing activities:</b>                  |                  |                  |
| Cash inflows from financing activities:                       |                  |                  |
| Increase in short-term borrowings, net                        |                  | 330,000          |
| Proceeds from long-term borrowings                            | 96,455           | 1,986,800        |
| Issuance of hybrid bond                                       | 398,518          |                  |
| Issuance of debentures  | 1,014,859        | 1,530,714        |
| Cash inflows from derivative transactions                     | 20,026           | 86,537           |
| Sub-total   | 1,529,858        | 3,934,051        |
| Cash outflows for financing activities:                       |                  |                  |
| Decrease in short-term borrowings, net                        | (70,000)         |                  |
| Repayment of long-term borrowings                             | (457,110)        | (1,650,000)      |
| Repayment of current portion of long-term debt                | (161,575)        | (92,158)         |
| Repayment of debentures                                       | (621,976)        | (558,184)        |
| Payment of dividends  | (655,946)        | (655,133)        |
| Cash outflows from derivative transactions                    |                  | (5,415)          |
| Sub-total   | (1,966,607)      | (2,960,890)      |
| <b>Net cash provided by (used in) financing activities</b>    | <b>(436,749)</b> | <b>973,161</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>191,961</b>   | <b>(638,945)</b> |
| Cash and cash equivalents at beginning of the year            | 256,577          | 895,558          |
| Effects of exchange rate changes on cash and cash equivalents | (79)             | (36)             |
| <b>Cash and cash equivalents at end of the year</b>           | <b>448,459</b>   | <b>256,577</b>   |

*See accompanying notes to the separate financial statements.*



**Table of Contents****1. Reporting Entity**

SK Telecom Co., Ltd. ( the 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 Company mainly provides wireless telecommunications in Korea. The Company s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2013, the Company s total issued shares are held by the following:

|   | <b>Number of<br/>shares</b> | <b>Percentage of<br/>total shares<br/>issued (%)</b> |
|---|-----------------------------|--|
| SK Holdings Co., Ltd.                                   | 20,363,452                  | 25.22  |
| National Pension Service                                | 4,760,489                   | 5.90   |
| Institutional investors and other minority stockholders | 45,812,395                  | 56.73  |
| Treasury stock  | 9,809,375                   | 12.15  |
| <b>Total number of shares</b>                           | <b>80,745,711</b>           | <b>100.00</b>  |

**2. Basis of Presentation****(1) Statement of compliance**

These separate financial statements were prepared in accordance with K-IFRS, as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027, *Separate Financial Statements* presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The separate financial statements were authorized for issuance by the Board of Directors on February 6, 2014, which will be submitted for approval at the shareholders meeting to be held on March 21, 2014.

**(2) Basis of measurement**

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

derivative financial instruments are measured at fair value

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

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

liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(3) Functional and presentation currency

These separate financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

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### **2. Basis of Presentation, Continued**

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### 1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes: revenue, classification of investment property.

#### 2) Assumptions and estimation uncertainties

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

#### 3) Fair value measurement

The Company establishes fair value measurement policies and procedures as its accounting policies and disclosures require fair value measurements for the majority of financial and non-financial assets and liabilities. Such policies and procedures are executed by the valuation division, which is responsible for the review of significant fair value measurements including fair value classified as level 3 in the fair value hierarchy and the results of which are directly reported to the finance executive.

The valuation division regularly reviews unobservable significant inputs and valuation adjustments. If third party information such as prices available from an exchange, dealer, broker, industry group, pricing service or regulatory agency is used for fair value measurements, the valuation division reviews whether the valuation based on third party information includes classification by levels within the fair value hierarchy and meets the requirements for the relevant standards.

The Company 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 method, 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)

**Table of Contents**

**2. Basis of Presentation, Continued**

(4) Use of estimates and judgments, Continued

If various inputs used to measure fair value of assets or liabilities are transferred between levels of the fair value hierarchy, the Company classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value and recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

Information about assumptions used for fair value measurements are included in note 31.

(5) Common control transactions

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

**3. Changes in Accounting Policies**

The accounting policies have been applied consistently to all periods presented in these separate financial statements except for new standards, interpretations and amendments to existing standards mandatory for the Company for annual periods beginning on or after January 1, 2013 set out below.

K-IFRS No. 1113, Fair Value Measurement

K-IFRS No. 1019, Employee Benefits

Amendments to K-IFRS No. 1001, Presentation of Items of Other Comprehensive Income ( OCI )

Amendments to K-IFRS No. 1107, Disclosure of offsetting financial assets and financial liabilities

Amendments to K-IFRS No. 1036, Disclosure of recoverable amount of non-financial assets

(1) Fair value measurement

K-IFRS No. 1113 has been amended to provide a single framework for fair value and information of fair value measurements when other standards requires or permits fair value measurements. The standard defines fair value as

the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard replaces disclosures relating to fair value measurements required by other standards including K-IFRS No. 1107, and requires additional disclosures. The required disclosures are included in note 31.

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**3. Changes in Accounting Policies, Continued**

(2) Defined benefit pension plans

The Company changed its accounting policy for recognition of gains and losses relating to defined benefit pension plans in accordance with the amendments to K-IFRS No. 1019, Employee Benefits. The Company determines net interest costs for net defined benefit liabilities using the discount rates used for the measurement of defined benefit obligations at the beginning of the reporting period and considers changes in net defined benefit liabilities due to contributions and retirement benefit payments. Accordingly, net interests on net defined benefits liabilities consist of interest costs on defined benefits obligations, interest income on plan assets and, if applicable, interest on the effects of limitations on asset recognition. Prior to the amendments, the Company determined interest income on plan assets based on the long-term expected return rate.

(3) Presentation of other comprehensive income items

In accordance with the amendments, the Company classifies other comprehensive income items by nature and presents items as items that will never be reclassified to profit or loss and items that are or may be reclassified to profit or loss. Accordingly, the consolidated statement of comprehensive income for the year ended December 31, 2012 presented for comparative purposes, has been restated.

(4) Offsetting financial assets and liabilities

As described in note 31, the Company provides disclosures relating to offsetting financial assets and financial liabilities in accordance with the amendments to K-IFRS No. 1107.

(5) Disclosure of recoverable amount of non-financial assets

The Company early adopted the amendments to K-IFRS No. 1036. Accordingly, the Company makes the additional disclosures on required by the amendment when impairment losses are recognized and recoverable amounts are based on net fair value.

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**4. Significant Accounting Policies**

The significant accounting policies applied by the Company in preparation of its separate financial statements in accordance with K-IFRSs are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements except for those as described in note 3.

Presentation and classification of certain items on the separate statements of comprehensive income for the year ended December 31, 2012, presented for the comparative purposes, have been modified by applying changes to the standards and classification method of other comprehensive income items.

(1) Operating segments

The Company presents disclosures relating to operating segments on its separate financial statements in accordance with K-IFRS No. 1108, *Operating Segments* and such disclosures are not separately disclosed on these separate financial statements.

(2) Investments in subsidiaries and associates

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, *Separate Financial Statements*. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

(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 Company in the management of its short-term commitments.

(4) Inventories

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



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**4. Significant Accounting Policies, Continued**

(5) Non-derivative financial assets

The Company 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 Company recognizes financial assets in the separate statement of financial position when the Company 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 Company 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.

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**Table of Contents****4. Significant Accounting Policies, Continued****(5) Non-derivative financial assets, Continued****(v) De-recognition of financial assets**

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company 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 statement of financial position only when the Company 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 Company holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Company 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 Company 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 statement of income. The Company 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.



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**4. Significant Accounting Policies, Continued**

(6) Derivative financial instruments, including hedge accounting, Continued

*Cash flow hedge*

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

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.

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**4. Significant Accounting Policies, Continued**

(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 Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was

recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

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**4. Significant Accounting Policies, Continued**

(7) Impairment of financial assets, Continued

(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 shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

**Table of Contents****4. Significant Accounting Policies, Continued****(8) Property, plant and equipment, Continued**

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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other non-operating income (loss).

The estimated useful lives of the Company's property, plant and equipment are as follows:

|  | Useful lives (years) |
|--|----------------------|
| Buildings and structures                           | 15, 30               |
| Machinery  | 3 ~ 6                |
| 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 Company 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 Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company 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 Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company 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 Company 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 Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

**Table of Contents****4. Significant Accounting Policies, Continued****(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 Company's intangible assets are as follows:

|                       | Useful lives (years) |
|-----------------------|----------------------|
| Frequency use rights  | 6 ~ 13               |
| Land use rights       | 5                    |
| Industrial rights     | 5, 10                |
| Development costs     | 5                    |
| Facility usage rights | 10, 20               |
| Other                 | 3 ~ 20               |

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company 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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**4. Significant Accounting Policies, Continued**

(11) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company 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 Company 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 Company 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 Company 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 30 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 Company'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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**Table of Contents****4. Significant Accounting Policies, Continued****(13) Impairment of non-financial assets, Continued**

The Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company 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 Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company 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 Company recognizes as finance assets and finance liabilities in its separate 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 Company reviews to determine whether the leased asset may be impaired.

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**4. Significant Accounting Policies, Continued**

(14) Leases, Continued

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Company 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 Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company 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 Company 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 K-IFRS No. 1036, 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).

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**4. Significant Accounting Policies, Continued**

(16) Non-derivative financial liabilities

The Company 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 Company recognizes financial liabilities in the separate statement of financial position when the Company 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 Company derecognizes a financial liability from the separate 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

(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 Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.





**Table of Contents**

**4. Significant Accounting Policies, Continued**

(17) Employee benefits, Continued

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Company during a period, the Company 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 Company 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 obligation, the Company 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 Company 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 Company recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

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**4. Significant Accounting Policies, Continued**

(18) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

(19) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Company 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.

(20) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company 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 Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.



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**4. Significant Accounting Policies, Continued**

(21) Hybrid bond

The Company recognizes a financial instrument issued by the Company 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 assets is measured at the fair value of the consideration received or receivable. Returns, trade discounts and volume rebates, and 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 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.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(iii) Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programmes is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Company 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.



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**Table of Contents****4. Significant Accounting Policies, Continued****(23) Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

**(24) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to 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 Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Company 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 Company 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.





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**4. Significant Accounting Policies, Continued**

(24) Income taxes, Continued

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 Company 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.

(25) Earnings per share

The Company 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 Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(26) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning on or after January 1, 2013, and the Company has not early adopted them.

As of December 31, 2013, management is not able to evaluate the impact, if any, of applying these standards on its financial position and results of operations.

(i) K-IFRS No.1032, Financial instruments: Presentation

K-IFRS No. 1032, Financial Instruments has been amended to clarify requirements for offsetting financial assets and financial liabilities by adding application guidance. The amendment is mandatorily effective for annual periods beginning on or after January 1, 2014.

**Table of Contents****5. Restricted Deposits**

Deposits which are restricted in use as of December 31, 2013 and 2012 are summarized as follows:

*(In millions of won)*

|                                  | December 31,<br>2013 | December 31,<br>2012 |
|----------------------------------|----------------------|----------------------|
| Short-term financial instruments |                      |                      |
| Charitable fund(*)               | 76,000               | 76,000               |
| Other                            |                      | 7,500                |
| Long-term financial instruments  | 7,569                | 69                   |
| Guarantee deposits               | 40                   | 40                   |
|                                  | 83,609               | 83,609               |

(\*) The Company established a trust fund for charitable purposes. Profits from the fund are donated to charitable institutions. As of December 31, 2013, the funds cannot be withdrawn.

**6. Trade and Other Receivables**

(1) Details of trade and other receivables as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                             | December 31, 2013 |            |           |
|-----------------------------|-------------------|------------|-----------|
|                             | Gross             | Allowances | Carrying  |
|                             | amount            | for        | amount    |
|                             |                   | impairment |           |
| Current assets:             |                   |            |           |
| Accounts receivable - trade | 1,614,466         | (101,328)  | 1,513,138 |
| Short-term loans            | 72,928            | (730)      | 72,198    |
| Accounts receivable - other | 439,209           | (50,734)   | 388,475   |
| Accrued income              | 5,682             |            | 5,682     |
|                             | 2,132,285         | (152,792)  | 1,979,493 |
| Non-current assets:         |                   |            |           |
| Long-term loans             | 61,613            | (21,688)   | 39,925    |
| Guarantee deposits          | 152,057           |            | 152,057   |
|                             | 213,670           | (21,688)   | 191,982   |
|                             | 2,345,955         | (174,480)  | 2,171,475 |

*(In millions of won)*

|                             | <b>December 31, 2012</b> |                   |                 |
|-----------------------------|--------------------------|-------------------|-----------------|
|                             | <b>Gross</b>             | <b>Allowances</b> | <b>Carrying</b> |
|                             | <b>amount</b>            | <b>for</b>        | <b>amount</b>   |
|                             |                          | <b>impairment</b> |                 |
| <b>Current assets:</b>      |                          |                   |                 |
| Accounts receivable - trade | 1,497,745                | (90,539)          | 1,407,206       |
| Short-term loans            | 76,471                   | (1,022)           | 75,449          |
| Accounts receivable - other | 421,695                  | (38,647)          | 383,048         |
| Accrued income              | 4,147                    |                   | 4,147           |
|                             | 2,000,058                | (130,208)         | 1,869,850       |
| <b>Non-current assets:</b>  |                          |                   |                 |
| Long-term loans             | 72,801                   | (23,129)          | 49,672          |
| Guarantee deposits          | 149,373                  |                   | 149,373         |
|                             | 222,174                  | (23,129)          | 199,045         |
|                             | 2,222,232                | (153,337)         | 2,068,895       |

**Table of Contents****6. Trade and Other Receivables, Continued**

- (2) The movement in allowance for doubtful accounts of trade and other receivables during the years ended December 31, 2013 and 2012 were as follows:

*(In millions of won)*

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| <b>Balance at January 1</b>                      | 153,337     | 171,638     |
| Increase of bad debt allowances                  | 52,835      | 44,347      |
| Reversal of allowances for doubtful accounts     |             | (4,846)     |
| Write-offs                                       | (51,063)    | (77,608)    |
| Collection of receivables previously written-off | 19,371      | 19,806      |
| <b>Balance at December 31</b>                    | 174,480     | 153,337     |

- (3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                  | <b>December 31, 2013</b>                   |                              | <b>December 31, 2012</b>                   |                              |
|----------------------------------|--|------------------------------|--|------------------------------|
|                                  | <b>Accounts<br/>receivable<br/>- trade</b> | <b>Other<br/>receivables</b> | <b>Accounts<br/>receivable<br/>- trade</b> | <b>Other<br/>receivables</b> |
| Neither overdue or impaired      | 1,169,946                                  | 622,679                      | 1,093,481                                  | 636,292                      |
| Overdue but not impaired         | 32,705                                     |                              | 25,502                                     |                              |
| Impaired                         | 411,815                                    | 108,810                      | 378,762                                    | 88,196                       |
|                                  | 1,614,466                                  | 731,489                      | 1,497,745                                  | 724,488                      |
| Allowances for doubtful accounts | (101,328)                                  | (73,152)                     | (90,539)                                   | (62,798)                     |
|                                  | 1,513,138                                  | 658,337                      | 1,407,206                                  | 661,690                      |

The Company 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.

- (4) The aging of overdue but not impaired accounts receivable as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                    | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--------------------|------------------------------|------------------------------|
| Less than 1 month  | 9,549                        | 3,699                        |
| 1 ~ 3 months       | 6,975                        | 3,686                        |
| 3 ~ 6 months       | 2,565                        | 9,175                        |
| More than 6 months | 13,616                       | 8,942                        |
|                    | <b>32,705</b>                | <b>25,502</b>                |

**Table of Contents****7. Investment Securities**

(1) Details of short-term investment securities as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Beneficiary certificates(*)                        | 101,414                      | 56,159                       |
| Current portion of long-term investment securities | 628                          | 242                          |
|  | <b>102,042</b>               | <b>56,401</b>                |

(\*) The distributions arising from beneficiary certificates as of December 31, 2013, were accounted for as accrued income.

(2) Details of long-term available-for-sale financial assets as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| <b>Equity securities:</b>                               |                              |                              |
| Marketable equity securities                            | 574,321                      | 584,029                      |
| Unlisted equity securities(*1)                          | 22,870                       | 18,814                       |
| Equity investments(*2)                                  | 111,792                      | 115,120                      |
|   | <b>708,983</b>               | <b>717,963</b>               |
| <b>Debt securities:</b>                                 |                              |                              |
| Public bonds  | 356                          | 356                          |
| Investment bonds(*3)                                    | 20,992                       | 15,816                       |
|   | <b>21,348</b>                | <b>16,172</b>                |
| <b>Total</b>  | <b>730,331</b>               | <b>734,135</b>               |
| Less current portion of long-term investment securities | (628)                        | (242)                        |
| <b>Long-term investment securities</b>                  | <b>729,703</b>               | <b>733,893</b>               |

(\*1) Unlisted equity securities whose fair value cannot be measured reliably are recorded at cost.

(\*2) Equity investments are recorded at cost.

(\*3) The Company classified convertible bonds of NanoEnTek, Inc. (carrying amount as of December 31, 2013: 20,532 million) as financial assets at fair value through profit or loss. The difference between acquisition cost and fair value is accounted for as finance income (loss).

**Table of Contents****8. Non-current Assets Held for Sale**

A disposal contract for the Company's ownership interests in SK Fans Co., Ltd., an associate, has been entered and investment in the associate was reclassified to non-current assets held for sale.

Non-current assets held for sale as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                              | December 31,<br>2013 | December 31,<br>2012 |
|------------------------------|----------------------|----------------------|
| Investments in subsidiaries: |                      |                      |
| SKY Property Mgmt. Ltd.(*1)  |                      | 119,194              |
| Investments in associates:   |                      |                      |
| TR Entertainment(*2)         | 2,611                |                      |
| SK Fans Co., Ltd.(*3)        | 1,055                | 2,143                |
|                              | 3,666                | 121,337              |

(\*1) For the year ended December 31, 2013, the Company disposed its ownership interests of 27% in SKY Property Mgmt. Ltd., a subsidiary, to SK Innovation Co., Ltd., a related party and recognized 71,200 million of disposal gain.

(\*2) For the year ended December 31, 2013, the Company entered into a disposal contract for ownership interests in TR Entertainment, and recognized the difference between contractual disposal price and carrying amount as impairment loss and classified to non-current assets held for sale.

(\*3) For the year ended December 31, 2013, contract changes for SK Fans Co., Ltd. has been made and the Company recognized the difference between the changes and the existing contractual amount as impairment loss.

The assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

**9. Investments in Subsidiaries and Associates**

(1) Investments in subsidiaries and associates as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                             | December 31,<br>2013 | December 31,<br>2012 |
|-----------------------------|----------------------|----------------------|
| Investments in subsidiaries | 3,453,988            | 3,315,205            |
| Investments in associates   | 4,556,133            | 4,600,342            |
|                             | 8,010,121            | 7,915,547            |





**Table of Contents****9. Investments in Subsidiaries and Associates, Continued**

(2) Details of investments in subsidiaries as of December 31, 2013 and 2012 are as follows:

| <i>(In millions of won)</i>                 | December 31, 2013   |                  |                    | December 31,<br>2012 |
|---|---------------------|------------------|--------------------|----------------------|
|   | Number of<br>shares | Ownership<br>(%) | Carrying<br>amount | Carrying<br>amount   |
| SK Telink Co., Ltd.                         | 1,082,272           | 83.5             | 144,740            | 144,740              |
| SK Broadband Co., Ltd.                      | 149,638,354         | 50.6             | 1,242,247          | 1,242,247            |
| PS&Marketing Corporation                    | 46,000,000          | 100.0            | 213,934            | 213,934              |
| Service Ace Co., Ltd.                       | 4,385,400           | 100.0            | 21,927             | 21,927               |
| Service Top Co., Ltd.                       | 2,856,200           | 100.0            | 14,281             | 14,281               |
| Network O&S Co., Ltd.                       | 3,000,000           | 100.0            | 15,000             | 15,000               |
| SK Planet Co., Ltd.(*1)                     | 72,927,317          | 100.0            | 1,538,020          | 1,234,884            |
| SK Telecom China Holdings Co., Ltd.         |                     | 100.0            | 29,116             | 29,116               |
| SKY Property Mgmt. Ltd.(*2)                 |                     |                  |                    | 264,850              |
| SKT Vietnam PTE. Ltd.(*3)                   | 180,476,700         | 73.3             | 2,364              | 26,264               |
| SKT Americas, Inc.                          | 122                 | 100.0            | 76,764             | 72,786               |
| YTK Investment Ltd.                         |                     | 100.0            | 69,464             | 69,464               |
| Atlas Investment                            |                     | 100.0            | 60,347             | 59,122               |
| SK Global Healthcare Business Group<br>Ltd. |                     | 100.0            | 25,784             | 25,784               |
| <b>Sub Total</b>                            |                     |                  | <b>3,453,988</b>   | <b>3,434,399</b>     |
| Non-current assets held for sale(*2)        |                     |                  |                    | (119,194)            |
|   |                     |                  | <b>3,453,988</b>   | <b>3,315,205</b>     |

(\*1) The Company acquired additional 50% shares of SK Marketing & Company Co., Ltd., an associate, from SK Innovation Co., Ltd., a related party, and transferred its 100% shares of SK Marketing & Company Co., Ltd. to SK Planet Co., Ltd., and received 12,927,317 of new shares of SK Planet Co., Ltd. as a consideration. The additional interest in SK Planet Co., Ltd. is measured at the carrying value of the Company's investments in SK Marketing & Company Co., Ltd. at the date of transaction.

(\*2) The Company disposed its ownership interests of 27% in SKY Property Mgmt. Ltd., a subsidiary, to SK Innovation Co., Ltd., a related party and reclassified carrying value of the ownership interests of 145,656 million to investments in associates as the Company has less than 50% of the ownership interests.

(\*3) The Company recognized the difference between recoverable amount and carrying amount of 23,900 million as impairment loss in relation to the ownership interests in SKT Vietnam PTE.Ltd., a subsidiary.

**Table of Contents****9. Investments in Subsidiaries and Associates, Continued**

(3) Details of investments in associates as of December 31, 2013 and 2012 are as follows:

| <i>(In millions of won)</i>                      | <b>December 31, 2013</b>    |   |                            | <b>December 31,<br/>2012</b> |
|--|-----------------------------|---|----------------------------|------------------------------|
|  | <b>Number of<br/>shares</b> | <b>Ownership<br/>percentage<br/>(%)</b> | <b>Carrying<br/>amount</b> | <b>Carrying<br/>amount</b>   |
| SK Marketing & Company Co., Ltd.(*1)             |                             |   |                            | 112,531                      |
| SK China Company Ltd.(*2)                        | 720,000                     | 9.6                                     | 47,830                     | 47,830                       |
| HappyNarae Co., Ltd.                             | 680,000                     | 42.5                                    | 12,250                     | 12,250                       |
| Korea IT Fund(*3)                                | 190                         | 63.3                                    | 220,957                    | 220,957                      |
| Wave City Development Co., Ltd.(*2)              | 382,000                     | 19.1                                    | 1,532                      | 1,532                        |
| HanaSK Card Co., Ltd.                            | 57,647,058                  | 49.0                                    | 400,000                    | 400,000                      |
| Daehan Kanggun BcN Co., Ltd.                     | 1,675,126                   | 29.0                                    | 8,340                      | 8,340                        |
| NanoEnTek, Inc.(*2)                              | 1,807,130                   | 9.2                                     | 11,000                     | 11,000                       |
| TR Entertainment(*4,5)                           |                             |   |                            | 7,560                        |
| SK Industrial Development China Co., Ltd.        | 72,952,360                  | 21.0                                    | 83,691                     | 83,691                       |
| Packet One Network(*5)                           | 1,153,902                   | 27.0                                    | 60,706                     | 140,139                      |
| SK Technology Innovation Company                 | 9,800                       | 49.0                                    | 85,873                     | 85,873                       |
| Lightsquared Inc.(*2,5)                          | 3,387,916                   | 3.3                                     |                            |                              |
| SK hynix Inc.(*6)                                | 146,100,000                 | 20.6                                    | 3,374,725                  | 3,374,725                    |
| SK MENA Investment B.V.                          | 9,772,686                   | 32.1                                    | 14,485                     | 14,485                       |
| SK Latin America Investment S.A.                 | 9,448,937                   | 32.1                                    | 14,243                     | 14,243                       |
| SKY Property Mgmt. Ltd.                          | 12,639                      | 33.0                                    | 145,656                    |                              |
| SK Wyverns Baseball Club Co., Ltd. and<br>others |                             |   | 74,845                     | 65,186                       |
|  |                             |   | 4,556,133                  | 4,600,342                    |

(\*1) Increased by 190,606 million as the Company acquired 50% shares from SK Innovation Co., Ltd., a related party, during the year ended December 31, 2013, and the entire ownership interests has been provided to SK Planet Co., Ltd. as a consideration for the investment in kind.

(\*2) Classified as investments in associates because the Company can exercise significant influence over the associate through participation on the associate's board of directors.

(\*3) Classified as an investment in associate because the Company has less than 50% of the voting rights of the board of directors.

(\*4) Classified as non-current assets held for sale as disposal contract has been entered during the year ended December 31, 2013.

(\*5) Recognized the difference between recoverable amount and carrying amount for the year ended December 31, 2013, as impairment loss.

(\*6) The Company's ownership interests in SK hynix Inc. decreased as investors of convertible bonds issued by SK hynix Inc. exercised their conversion rights during the year ended December 31, 2013.



**Table of Contents****9. Investments in Subsidiaries and Associates, Continued**

(4) The market price of investments in listed subsidiaries as of December 31, 2013 and 2012 are as follows:

*(In millions of won, except for share data)*

|                        | December 31, 2013               |                  |              | December 31, 2012               |                  |              |
|------------------------|---------------------------------|------------------|--------------|---------------------------------|------------------|--------------|
|                        | Market value per share (In won) | Number of shares | Market price | Market value per share (In won) | Number of shares | Market price |
| SK Broadband Co., Ltd. | 4,375                           | 149,638,354      | 654,668      | 4,665                           | 149,638,354      | 698,063      |

**10. Property and Equipment**

(1) Property and equipment as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                          | December 31, 2013 |                          |                 |
|--------------------------|-------------------|--------------------------|-----------------|
|                          | Acquisition cost  | Accumulated depreciation | Carrying amount |
| Land                     | 416,991           |                          | 416,991         |
| Buildings                | 1,015,619         | (430,244)                | 585,375         |
| Structures               | 714,814           | (351,721)                | 363,093         |
| Machinery                | 18,807,106        | (13,862,018)             | 4,945,088       |
| Other                    | 1,223,845         | (751,013)                | 472,832         |
| Construction in progress | 676,607           |                          | 676,607         |
|                          | 22,854,982        | (15,394,996)             | 7,459,986       |

*(In millions of won)*

|                          | December 31, 2012 |                          |                             |                 |
|--------------------------|-------------------|--------------------------|-----------------------------|-----------------|
|                          | Acquisition cost  | Accumulated depreciation | Accumulated impairment loss | Carrying amount |
| Land                     | 395,968           |                          |                             | 395,968         |
| Buildings                | 1,004,058         | (396,085)                |                             | 607,973         |
| Structures               | 681,748           | (318,384)                |                             | 363,364         |
| Machinery                | 17,285,731        | (12,740,389)             | (12,531)                    | 4,532,811       |
| Other                    | 1,430,451         | (851,003)                |                             | 579,448         |
| Construction in progress | 639,526           |                          |                             | 639,526         |

|            |              |          |           |
|------------|--------------|----------|-----------|
| 21,437,482 | (14,305,861) | (12,531) | 7,119,090 |
|------------|--------------|----------|-----------|

**Table of Contents****10. Property and Equipment, Continued**

(2) Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|                          | 2013              |                  |          |             |              | Ending balance |
|--------------------------|-------------------|------------------|----------|-------------|--------------|----------------|
|                          | Beginning balance | Acquisition (*1) | Disposal | Transfer    | Depreciation |                |
| Land                     | 395,968           | 6,865            | (21)     | 14,179      |              | 416,991        |
| Buildings                | 607,973           | 729              | (139)    | 11,045      | (34,233)     | 585,375        |
| Structures               | 363,364           | 17,779           | (18)     | 15,315      | (33,347)     | 363,093        |
| Machinery                | 4,532,811         | 205,190          | (6,250)  | 1,735,502   | (1,522,165)  | 4,945,088      |
| Other                    | 579,448           | 1,162,131        | (3,491)  | (1,157,528) | (107,728)    | 472,832        |
| Construction in progress | 639,526           | 841,444          | (25,105) | (779,258)   |              | 676,607        |
|                          | 7,119,090         | 2,234,138        | (35,024) | (160,745)   | (1,697,473)  | 7,459,986      |

(In millions of won)

|                          | 2012              |                  |          |             |              |                     | Ending balance |
|--------------------------|-------------------|------------------|----------|-------------|--------------|---------------------|----------------|
|                          | Beginning balance | Acquisition (*1) | Disposal | Transfer    | Depreciation | Impairment loss(*2) |                |
| Land                     | 409,696           | 1,499            | (28,642) | 13,415      |              |                     | 395,968        |
| Buildings                | 676,095           | 1,369            | (37,618) | 5,926       | (37,799)     |                     | 607,973        |
| Structures               | 300,995           | 65,541           | (81)     | 30,632      | (33,723)     |                     | 363,364        |
| Machinery                | 3,581,275         | 233,841          | (13,749) | 2,047,902   | (1,303,927)  | (12,531)            | 4,532,811      |
| Other                    | 640,317           | 1,478,701        | (3,463)  | (1,439,656) | (96,451)     |                     | 579,448        |
| Construction in progress | 651,791           | 1,103,944        | (810)    | (1,115,399) |              |                     | 639,526        |
|                          | 6,260,169         | 2,884,895        | (84,363) | (457,180)   | (1,471,900)  | (12,531)            | 7,119,090      |

(\*1) Acquisition for the years ended December 31, 2012 includes assets transferred of 1,265 million in relation to the transfer of Imagine business from SK Planet Co., Ltd.

(\*2) The Company recognized impairment loss on property and equipment of 12,531 million in relation to the Digital Multimedia Broadcasting service.

**Table of Contents****11. Goodwill**

Goodwill as of December 31, 2013 and 2012 is as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| Goodwill related to acquisition of Shinsegi Telecom, Inc. | 1,306,236                    | 1,306,236                    |

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 6.5% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 2.0% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Company's long-term wireless business growth. Management of the Company does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

**12. Intangible Assets**

(1) Intangible assets as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                       | <b>2013</b>             |                                 |                        |
|-----------------------|-------------------------|---------------------------------|------------------------|
|                       | <b>Acquisition cost</b> | <b>Accumulated depreciation</b> | <b>Carrying amount</b> |
| Frequency use rights  | 3,033,879               | (1,369,308)                     | 1,664,571              |
| Land use rights       | 34,755                  | (25,003)                        | 9,752                  |
| Industrial rights     | 32,860                  | (23,747)                        | 9,113                  |
| Development costs     | 101,957                 | (101,957)                       |                        |
| Facility usage rights | 43,461                  | (27,306)                        | 16,155                 |
| Memberships(*1)       | 82,815                  |                                 | 82,815                 |
| Other(*2)             | 1,702,751               | (1,245,990)                     | 456,761                |
|                       | 5,032,478               | (2,793,311)                     | 2,239,167              |

*(In millions of won)*

|                      | <b>2012</b>             |                                 |                               |                        |
|----------------------|-------------------------|---------------------------------|-------------------------------|------------------------|
|                      | <b>Acquisition cost</b> | <b>Accumulated depreciation</b> | <b>Accumulated impairment</b> | <b>Carrying amount</b> |
| Frequency use rights | 2,837,385               | (1,140,610)                     | (2,907)                       | 1,693,868              |
| Land use rights      | 31,284                  | (21,469)                        |                               | 9,815                  |
| Industrial rights    | 31,846                  | (22,077)                        |                               | 9,769                  |



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|                       |           |             |         |           |
|-----------------------|-----------|-------------|---------|-----------|
| Development costs     | 125,477   | (124,812)   |         | 665       |
| Facility usage rights | 41,806    | (25,020)    |         | 16,786    |
| Memberships(*1)       | 81,518    |             |         | 81,518    |
| Other(*2)             | 1,522,516 | (1,147,065) |         | 375,451   |
|                       | 4,671,832 | (2,481,053) | (2,907) | 2,187,872 |

**Table of Contents****12. Intangible Assets, Continued**

(\*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 Company built and donated to a university which in turn the Company is given rights-to-use for a definite number of years.

(2) Details of changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                         | 2013                 |             |           |          |              | Ending<br>balance |
|-------------------------|----------------------|-------------|-----------|----------|--------------|-------------------|
|                         | Beginning<br>balance | Acquisition | Disposal  | Transfer | Amortization |                   |
| Frequency use rights(*) | 1,693,868            | 1,046,833   | (814,213) |          | (261,917)    | 1,664,571         |
| Land use rights         | 9,815                | 4,275       | (50)      |          | (4,287)      | 9,753             |
| Industrial rights       | 9,769                | 1,910       | (74)      |          | (2,492)      | 9,113             |
| Development costs       | 665                  |             |           |          | (665)        |                   |
| Facility usage rights   | 16,786               | 1,930       | (75)      | 9        | (2,495)      | 16,155            |
| Memberships             | 81,518               | 2,131       | (834)     |          |              | 82,815            |
| Other                   | 375,451              | 53,599      | (185)     | 174,086  | (146,191)    | 456,760           |
|                         | 2,187,872            | 1,110,678   | (815,431) | 174,095  | (418,047)    | 2,239,167         |

(\* ) The Company newly acquired 1.8GHz frequency use rights through auction during the year ended December 31, 2013 and provided the existing 1.8GHz frequency use rights as partial consideration in connection with the new acquisition. The Company recognized 199,613 million of loss on disposal of property and equipment and intangible assets with regard to this transaction.

*(In millions of won)*

|                       | 2012                 |                 |          |          |                          | Ending<br>balance |
|-----------------------|----------------------|-----------------|----------|----------|--------------------------|-------------------|
|                       | Beginning<br>balance | Acquisition(*1) | Disposal | Transfer | Amortization<br>loss(*2) |                   |
| Frequency use rights  | 1,889,102            | 16,659          |          |          | (208,986)                | 1,693,868         |
| Land use rights       | 12,739               | 2,080           | (80)     |          | (4,924)                  | 9,815             |
| Industrial rights     | 8,328                | 4,252           |          |          | (2,811)                  | 9,769             |
| Development costs     | 1,186                |                 |          | 931      | (1,452)                  | 665               |
| Facility usage rights | 15,058               | 3,997           | (121)    | 108      | (2,256)                  | 16,786            |
| Memberships           | 80,607               | 2,318           | (1,407)  |          |                          | 81,518            |
| Other                 | 357,775              | 51,230          | (1,430)  | 109,061  | (141,185)                | 375,451           |
|                       | 2,364,795            | 80,536          | (3,038)  | 110,100  | (361,614)                | 2,187,872         |

- (\*1) Acquisition for the year ended December 31, 2012 includes assets transferred of 200 million in relation to the transfer of Imagine business from SK Planet Co., Ltd.
- (\*2) The Company recognized impairment loss on intangible assets of 2,907 million in relation to the frequency use rights of the discontinued Digital Multimedia Broadcasting service.

**Table of Contents****12. Intangible Assets, Continued**

- (3) Research and development expenditure recognized as expense for the years ended December 31, 2013 and 2012 are as follows:

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Research and development costs expensed as incurred | 231,767     | 213,162     |

- (4) The carrying amount and residual useful lives of frequency usage rights as of December 31, 2013 are as follows, all of which are depreciated on a straight-line basis:

*(In millions of won)*

|                   | <b>Amount</b> | <b>Description</b>                                       | <b>Commencement<br/>of depreciation</b> | <b>Completion of<br/>depreciation</b> |
|-------------------|---------------|--|---|---------------------------------------|
| W-CDMA<br>license | 294,245       | Frequency use rights relating to W-CDMA service          | Dec. 2003                               | Dec. 2016                             |
| W-CDMA<br>license | 48,933        | Frequency use rights relating to W-CDMA service          | Oct. 2010                               | Dec. 2016                             |
| 800MHz<br>license | 304,080       | Frequency use rights relating to CDMA and LTE<br>service | Jul. 2011                               | Jun. 2021                             |
| 1.8GHz<br>license | 1,004,960     | Frequency use rights relating to LTE service             | Sep. 2013                               | Dec. 2021                             |
| WiBro<br>license  | 12,353        | WiBro service  | Mar. 2012                               | Mar. 2019                             |
|                   | 1,664,571     |  |   |                                       |

**Table of Contents****13. Borrowings and Debentures**

(1) Short-term borrowings as of December 31, 2013 and 2012 are as follows:

*(In millions of won and thousands of U.S. dollars)*

| <b>Lender</b> | <b>Annual<br/>interest rate<br/>(%)</b> | <b>Maturity</b> | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---------------|---|-----------------|------------------------------|------------------------------|
| Woori Bank    | 4.20                                    | Jan. 10, 2013   |                              | 100,000                      |
| Kookmin Bank  | 3.98                                    | Jan. 10, 2013   |                              | 100,000                      |
|               | 3.48                                    | Jan. 3, 2014    | 60,000                       |                              |
| CP            | 2.98                                    | Jan. 14, 2013   |                              | 60,000                       |
|               | 3.05                                    | Jan. 25, 2013   |                              | 20,000                       |
|               | 3.10                                    | Jan. 29, 2013   |                              | 50,000                       |
|               | 3.09                                    | Jan. 3, 2014    | 100,000                      |                              |
|               | 3.09                                    | Jan. 6, 2014    | 100,000                      |                              |
|               |   |                 | 260,000                      | 330,000                      |

(2) Long-term borrowings as of December 31, 2013 and 2012 are as follows:

*(In millions of won and thousands of U.S. dollars)*

| <b>Lender</b>              | <b>Annual<br/>interest rate<br/>(%)</b> | <b>Maturity</b> | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|----------------------------|---|-----------------|------------------------------|------------------------------|
| Bank of Communications     |   |                 |                              | 32,133                       |
|                            | 6M Libor + 0.29                         | Oct. 10, 2013   |                              | (USD 30,000)                 |
| Bank of China              |   |                 |                              | 21,422                       |
|                            | 6M Libor + 0.29                         | Oct. 10, 2013   |                              | (USD 20,000)                 |
| DBS Bank                   |   |                 |                              | 26,778                       |
|                            | 6M Libor + 0.29                         | Oct. 10, 2013   |                              | (USD 25,000)                 |
| SMBC                       |   |                 |                              | 26,778                       |
|                            | 6M Libor + 0.29                         | Oct. 10, 2013   |                              | (USD 25,000)                 |
| Kookmin Bank and 13 others | 4.48                                    | Feb. 14, 2015   |                              | 350,000                      |
| Export Kreditnamnden(*)    |   |                 | 99,975                       |                              |
|                            | 1.70                                    | Apr. 29, 2022   | (USD 94,736)                 |                              |
|                            |   |                 | 99,975                       | 457,111                      |

|   |          |           |
|---|----------|-----------|
| Less present value discount on long-term borrowings | (3,287)  | (1,668)   |
|   | 96,688   | 455,443   |
| Less current portion of bonds                       | (11,563) | (107,110) |
|   | 85,125   | 348,333   |

(\*) For the year ended December 31, 2013, the Company obtained long-term borrowings from Export Kreditnamnden, an export credit agency. The long-term borrowings are redeemed by installment on an annual basis from 2014 to 2022.

**Table of Contents****13. Borrowings and Debentures, Continued**

(3) Debentures as of December 31, 2013 and 2012 are as follows:

*(In millions of won, thousands of U.S. dollars, and thousands of other currencies)*

|                                       | <b>Purpose</b>                    | <b>Maturity</b> | <b>Annual<br/>interest rate<br/>(%)</b> | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---------------------------------------|-----------------------------------|-----------------|---|------------------------------|------------------------------|
| Unsecured private bonds               | Refinancing fund                  | 2016            | 5.00                                    | 200,000                      | 200,000                      |
| Unsecured private bonds               |                                   | 2013            | 4.00                                    |                              | 200,000                      |
| Unsecured private bonds               |                                   | 2014            | 5.00                                    | 200,000                      | 200,000                      |
| Unsecured private bonds               | Other fund                        | 2015            | 5.00                                    | 200,000                      | 200,000                      |
| Unsecured private bonds               |                                   | 2018            | 5.00                                    | 200,000                      | 200,000                      |
| Unsecured private bonds               |                                   | 2013            | 6.92                                    |                              | 250,000                      |
| Unsecured private bonds               |                                   | 2016            | 5.54                                    | 40,000                       | 40,000                       |
| Unsecured private bonds               |                                   | 2016            | 5.92                                    | 230,000                      | 230,000                      |
| Unsecured private bonds               | Operating fund                    | 2016            | 3.95                                    | 110,000                      | 110,000                      |
| Unsecured private bonds               |                                   | 2021            | 4.22                                    | 190,000                      | 190,000                      |
| Unsecured private bonds               | Operating and<br>refinancing fund | 2019            | 3.24                                    | 170,000                      | 170,000                      |
| Unsecured private bonds               |                                   | 2022            | 3.30                                    | 140,000                      | 140,000                      |
| Unsecured private bonds               |                                   | 2032            | 3.45                                    | 90,000                       | 90,000                       |
| Unsecured private bonds               | Operating fund                    | 2023            | 3.03                                    | 230,000                      |                              |
| Unsecured private bonds               |                                   | 2023            | 3.22                                    | 130,000                      |                              |
| Foreign global bonds                  |                                   | 2027            | 6.63                                    | 422,120                      | 428,440                      |
|                                       |                                   |                 |   | (USD 400,000)                | (USD 400,000)                |
| Exchangeable bonds (*3,4)             | Refinancing fund                  | 2014            | 1.75                                    | 96,147                       | 405,678                      |
|                                       |                                   |                 |   | (USD 91,109)                 | (USD 332,528)                |
| Floating rate notes (*1)              | Operating fund                    | 2014            | 3M Libor + 1.60                         | 263,825                      | 267,775                      |
|                                       |                                   |                 |   | (USD 250,000)                | (USD 250,000)                |
| Floating rate notes (*2)              |                                   | 2014            | SOR rate + 1.20                         | 54,129                       | 56,906                       |
|                                       |                                   |                 |   | (SGD 65,000)                 | (SGD 65,000)                 |
| Swiss unsecured private<br>bonds      |                                   | 2017            | 1.75                                    | 356,601                      | 351,930                      |
|                                       |                                   |                 |   | (CHF 300,000)                | (CHF 300,000)                |
| Foreign global bonds                  |                                   | 2018            | 2.13                                    | 738,710                      | 749,770                      |
|                                       |                                   |                 |   | (USD 700,000)                | (USD 700,000)                |
| Australian unsecured<br>private bonds |                                   | 2017            | 4.75                                    | 281,988                      |                              |
|                                       |                                   |                 |   | (AUD 300,000)                |                              |
| Floating rate notes (*1)              |                                   | 2020            | 3M Libor + 0.88                         | 316,590                      |                              |
|                                       |                                   |                 |   | (USD 300,000)                |                              |
|                                       |                                   |                 |   | 4,660,110                    | 4,480,499                    |
| Less discounts on bonds               |                                   |                 |   | (34,193)                     | (40,392)                     |

|                               |           |           |
|-------------------------------|-----------|-----------|
|                               | 4,625,917 | 4,440,107 |
| Less current portion of bonds | (611,140) | (447,996) |
|                               | 4,014,777 | 3,992,111 |

(\*1) As of December 31, 2013, 3M Libor rate is 0.24%.

(\*2) As of December 31, 2013, SOR rate is 0.21%.



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**13. Borrowings and Debentures, Continued**

(3) Debentures as of December 31, 2013 and 2012 are as follows: Continued

(\*3) As of December 31, 2013, exchangeable bonds are classified as financial liabilities at fair value through profit or loss.

(\*4) On April 7, 2009, the Company 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 Company 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 Company's voting stock. If such 49% ownership limitation is violated due to the exercise of exchange rights, the Company will pay the bond holder a cash settlement which will be determined at the average price of one day after a holder exercises its exchange right or the weighted average price for the following five or twenty business days. Unless either previously redeemed or exchanged, the notes are redeemable at 100% of the principal amount at maturity.

In accordance with a resolution of the general shareholder's meeting on March 22, 2013 and a resolution of the Board of Directors' meeting on July 25, 2013, the exchange price has changed from 197,760 to 189,121.

During 2013, the accumulated principal amount that was claimed for exchange is USD 268,977,000. For the year ended December 31, 2013, exchange of bonds in the principal amount of USD 170,223,000 was claimed and the Company granted 1,241,337 shares of treasury stock. The exchange of bonds in the principal amount of USD 98,754,000 was additionally claimed and cash was paid due to the limitation on foreign ownership under Article 6 of the Telecommunications Business Act. In addition, bonds in the principal amount of USD 6,505,000 were redeemed at par value due to the exercise of the Controlling Company's early redemption rights.

As of December 31, 2013, exchange for the entire bonds in the principal amount of USD 57,046,000 was claimed and will be redeemed by cash during 2014. The Company recognized 134,232 million of financial costs in relation to the exchangeable bonds for the year ended December 31, 2013.

As of December 31, 2013, fair value of the exchangeable bonds is USD 91,108,508 and the exchange price is 189,121. The exchange price could be adjusted with the exchange rate of 1,383.40 per USD 1.

**Table of Contents****14. Long-term Payables - Other**

- (1) As of December 31, 2013 and 2012, long-term payables - other consist of payables related to the acquisition of W-CDMA licenses for 2.1GHz, 800MHZ, 2.3GHz and 1.8GHz frequencies as follows (Refer to note 12):

*(In millions of won)*

|   | <b>Period of<br/>repayment</b> | <b>Coupon<br/>rate(*1)</b> | <b>Annual<br/>effective<br/>interest<br/>rate(*2)</b> | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|--------------------------------|----------------------------|---|-------------------------------|------------------------------|
| 2.1GHz  | 2012~2014                      | 3.58%                      | 5.89%   | 17,533                        | 35,067                       |
| 800MHz  | 2013~2015                      | 3.51%                      | 5.69%   | 138,833                       | 208,250                      |
| 2.3GHz  | 2014~2016                      | 3.00%                      | 5.80%   | 8,650                         | 8,650                        |
| 1.8GHz  | 2012~2021                      | 2.43~3.00%                 | 4.84~5.25%  | 942,675                       | 671,625                      |
|   |                                |                            |   | 1,107,691                     | 923,592                      |
| Present value discount on long-term payables - other                  |                                |                            |   | (72,170)                      | (60,021)                     |
|   |                                |                            |   | 1,035,521                     | 863,571                      |
| Less current portion of long-term payables other                      |                                |                            |   | (207,668)                     | (161,575)                    |
| Current portion of present value discount on long-term payables other |                                |                            |   | 868                           | 3,609                        |
| Carrying amount at December 31, 2013                                  |                                |                            |   | 828,721                       | 705,605                      |

(\*1) The Company applied an annual interest rate equal to the previous year average lending rate of public funds financing account less 1%.

(\*2) The Company 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 accounts payables-other.

- (2) The repayment schedule of long-term payables - other as of December 31, 2013 is as follows:

| <i>(In millions of won)</i> | <b>Amount</b> |
|-----------------------------|---------------|
| 2014                        | 207,668       |
| 2015                        | 190,134       |
| 2016                        | 120,718       |
| 2017 and thereafter         | 589,171       |
|                             | 1,107,691     |



**Table of Contents****15. Provisions**

Change in provisions for the years ended December 31, 2013 and 2012 are as follows:

| <i>(In millions of won)</i>       | <b>For the year ended December 31, 2013</b> |                 |                    |                 | <b>As of December 31, 2013</b> |                |                    |
|-----------------------------------|---|-----------------|--------------------|-----------------|--------------------------------|----------------|--------------------|
|                                   | <b>Beginning balance</b>                    | <b>Increase</b> | <b>Utilization</b> | <b>Reversal</b> | <b>Ending balance</b>          | <b>Current</b> | <b>Non-current</b> |
| Provision for handset subsidy(*1) | 353,383                                     | 9,416           | (308,876)          |                 | 53,923                         | 53,334         | 589                |
| Provision for restoration(*2)     | 32,791                                      | 3,761           | (406)              | (3,973)         | 32,173                         | 13,225         | 18,948             |
|                                   | 386,174                                     | 13,177          | (309,282)          | (3,973)         | 86,096                         | 66,559         | 19,537             |

| <i>(In millions of won)</i>   | <b>For the year ended December 31, 2012</b> |                 |                    |                 | <b>As of December 31, 2012</b> |                |                    |
|-------------------------------|---|-----------------|--------------------|-----------------|--------------------------------|----------------|--------------------|
|                               | <b>Beginning balance</b>                    | <b>Increase</b> | <b>Utilization</b> | <b>Reversal</b> | <b>Ending balance</b>          | <b>Current</b> | <b>Non-current</b> |
| Provision for handset subsidy | 762,238                                     | 272,869         | (677,286)          | (4,438)         | 353,383                        | 279,977        | 73,406             |
| Provision for restoration     | 28,623                                      | 4,508           | (282)              | (58)            | 32,791                         | 6,842          | 25,949             |
|                               | 790,861                                     | 277,377         | (677,568)          | (4,496)         | 386,174                        | 286,819        | 99,355             |

(\*1) The Company recognizes a provision for handset subsidies given to the subscribers who purchase handsets on an installment basis.

(\*2) In the course of the Company'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 Company records these restoration costs as property and equipments and subsequently allocates them to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to finance costs.

(2) The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period.

Key assumptions

|                               |  |
|-------------------------------|--|
| Provision for handset subsidy | estimation based on historical service retention period data |
| Provision for restoration     |  |

estimation based on inflation assuming demolition of the relevant assets after six years

**Table of Contents****16. Defined Benefit Liabilities**

(1) Details of defined benefit liabilities as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Present value of defined benefit obligations | 154,460                      | 133,098                      |
| Fair value of plan assets                    | (131,574)                    | (98,147)                     |
|  | <b>22,886</b>                | <b>34,951</b>                |

(2) Principal actuarial assumptions as of December 31, 2013 and 2012 are as follows:

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| Discount rate for defined benefit obligations | 3.96%                        | 3.56%                        |
| Expected rate of salary increase              | 4.32%                        | 5.20%                        |

Discount rate for defined benefit obligation is determined based on the Company's credit ratings and yield rate of corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of salary increase is determined based on the Company's historical promotion index, inflation rate and salary increase ratio in accordance with salary agreement.

(3) Changes in defined benefit obligations for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                  | <b>For the year ended December 31</b> |             |
|----------------------------------|---------------------------------------|-------------|
|                                  | <b>2013</b>                           | <b>2012</b> |
| Beginning balance                | 133,098                               | 95,359      |
| Current service cost             | 33,920                                | 29,605      |
| Interest cost                    | 4,977                                 | 4,663       |
| Remeasurement                    |                                       |             |
| - Demographic assumption         | (981)                                 |             |
| - Financial assumption           | (9,099)                               | 4,403       |
| - Adjustment based on experience | 3,837                                 | 10,572      |
| Benefit paid                     | (15,566)                              | (12,965)    |
| Others(*)                        | 4,274                                 | 1,461       |
| Ending balance                   | 154,460                               | 133,098     |

- (\*) Others for the year ended December 31, 2013 include transfer to construction in progress and succession of liabilities in relation to employees transferred from affiliates. Others for the year ended December 31, 2012 include transfer to construction in progress and transfer from SK Planet Co., Ltd. in relation to the transfer of Imagine Business.

**Table of Contents****16. Defined Benefit Liabilities, Continued**

(4) Changes in plan assets for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                           | <b>2013</b>    | <b>2012</b>   |
|---------------------------|----------------|---------------|
| Beginning balance         | 98,147         | 68,619        |
| Interest income           | 3,535          | 2,464         |
| Actuarial gain            | 1,578          | 677           |
| Contributions to the plan | 34,000         | 29,000        |
| Benefit paid              | (5,748)        | (2,802)       |
| Others(*)                 | 62             | 189           |
| <b>Ending balance</b>     | <b>131,574</b> | <b>98,147</b> |

(\*) Others for the year ended December 31, 2013 include changes from transfer from affiliates. Others for the year ended December 31, 2012 include transfer from SK Planet Co., Ltd. in relation to the transfer of Imaging business.

The Company expects to make a contribution of 24,672 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, 2013 and 2012 are as follows:

*(In millions of won)*

|                      | <b>2013</b> | <b>2012</b> |
|----------------------|-------------|-------------|
| Current service cost | 33,920      | 29,605      |
| Interest cost        | 4,977       | 4,663       |
| Interest income      | (3,535)     | (2,464)     |
|                      | 35,362      | 31,804      |

The above costs are recognized in labor cost, research and development, or capitalized into construction-in-progress.

(6) Details of plan assets as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*



|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Equity instruments                     | 405                          | 55                           |
| Debt instruments                       | 33,320                       | 24,199                       |
| Short-term financial instruments, etc. | 97,849                       | 73,893                       |
|  | 131,574                      | 98,147                       |

Actual return on plan assets for the years ended December 31, 2013 and 2012 amounted to 5,113 million and 3,141 million, respectively.

**Table of Contents****16. Defined Benefit Liabilities, Continued**

- (7) As of December 31, 2013, 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 1%) | (11,119)        | 11,923          |
| Expected salary increase rate    | 12,061          | (11,342)        |

The sensitivity analysis does not consider dispersion of all cashflows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

Weighted average durations of defined benefit obligations as of December 31, 2013 and 2012 are 8.49 years and 8.44 years, respectively.

**17. Derivative Instruments**

- (1) Currency swap contracts under cash flow hedge accounting as of December 31, 2013 are as follows:

*(In thousands of foreign currencies)*

| <b>Borrowing date</b> | <b>Hedged item</b>  | <b>Hedged risk</b>                               | <b>Contract type</b>        | <b>Financial institution</b>        | <b>Duration of contract</b>   |
|-----------------------|---|--|-----------------------------|-------------------------------------|-------------------------------|
| Jul. 20, 2007         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)                      | Foreign currency risk                            | Currency swap               | Morgan Stanley and five other banks | Jul. 20, 2007 ~ Jul. 20, 2027 |
| Dec. 15, 2011         | Floating-to-fixed cross currency interest rate swap (Singapore dollar denominated bonds face value of SGD 65,000) | Foreign currency risk and the interest rate risk | Currency interest rate swap | United Overseas Bank                | Dec. 15, 2011 ~ Dec. 12, 2014 |
| Dec. 15, 2011         | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of                  | Foreign currency risk and the interest rate risk | Currency interest rate swap | DBS Bank and Citi Bank              | Dec. 15, 2011 ~ Dec. 12, 2014 |

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|               |   |  |                                |                                      |                                  |
|---------------|---|--|--------------------------------|--------------------------------------|----------------------------------|
| Jun. 12, 2012 | USD 250,000)<br>Fixed-to-fixed cross<br>currency swap<br>(Swiss Franc<br>denominated bonds<br>face value of<br>CHF 300,000)     | Foreign currency<br>risk                               | Currency swap                  | Citibank and five<br>other banks     | Jun. 12, 2012 ~<br>Jun. 12, 2017 |
| Nov. 1, 2012  | Fixed-to-fixed cross<br>currency swap<br>(U.S. dollar<br>denominated bonds<br>face value of<br>USD 700,000)                     | Foreign currency<br>risk                               | Currency swap                  | Barclays and nine<br>other banks     | Nov. 1, 2012 ~<br>May. 1, 2018   |
| Jan. 17, 2013 | Fixed-to-fixed cross<br>currency swap<br>(Australia dollar<br>denominated bonds<br>face value of<br>AUD 300,000)                | Foreign currency<br>risk                               | Currency swap                  | BNP Paribas and<br>three other banks | Jan. 17, 2013 ~<br>Nov. 17, 2017 |
| Mar. 7, 2013  | Floating-to-fixed cross<br>currency interest rate<br>swap<br>(U.S. dollar<br>denominated bonds<br>face value of<br>USD 300,000) | Foreign currency<br>risk and the<br>interest rate risk | Currency interest<br>rate swap | DBS Bank                             | Mar. 7, 2013 ~<br>Mar. 7, 2020   |
| Dec. 16, 2013 | Fixed-to-fixed cross<br>currency swap<br>(Australia dollar<br>denominated bonds<br>face value of<br>USD 94,736)                 | Foreign currency<br>risk                               | Currency swap                  | Deutsche bank                        | Dec. 16, 2013 ~<br>Apr. 29, 2022 |

**Table of Contents****17. Derivative Instruments, Continued**

- (2) As of December 31, 2013, fair values of the above derivatives recorded in assets or liabilities and details of derivative instruments are as follows:

*(In millions of won, thousands of foreign currencies)*

| <b>Hedged item</b>   | <b>Accumulated</b>                             |                   | <b>Fair value</b>   |                  | <b>Fair value</b> |
|--|--|-------------------|---|------------------|-------------------|
|  | <b>gain (loss) on valuation of derivatives</b> | <b>Tax effect</b> | <b>Accumulated foreign currency translation gain (loss)</b> | <b>Others(*)</b> |                   |
| <b>Non-current assets:</b>   |  |                   |   |                  |                   |
| Fixed-to-fixed cross currency swap<br>(U.S. dollar denominated bonds face value of USD 400,000)                  | (42,772)                                       | (13,656)          | (34,853)  | 129,806          | 38,525            |
| Floating-to-fixed cross currency interest rate swap<br>(U.S. dollar denominated bonds face value of USD 300,000) | 8,822  | 2,816             | (8,451)   |                  | 3,187             |
| <b>Total assets</b>  |  |                   |   |                  | 41,712            |
| <b>Current liabilities:</b>  |  |                   |   |                  |                   |
| Floating-to-fixed cross currency interest rate swap<br>(U.S. dollar denominated bonds face value of USD 250,000) | 5,871  | 1,875             | (25,602)  |                  | (17,856)          |
| Floating-to-fixed cross currency interest rate swap<br>(U.S. dollar denominated bonds face value of SGD 65,000)  | 7  | 2                 | (3,323)   |                  | (3,314)           |
|  |  |                   |   |                  | (21,170)          |
| <b>Non-current liabilities:</b>  |  |                   |   |                  |                   |
| Fixed-to-fixed cross currency swap<br>(Swiss Franc denominated bonds face value of CHF 300,000)                  | (5,275)  | (1,684)           | (6,902)   |                  | (13,861)          |
| Fixed-to-fixed cross currency swap<br>(U.S. dollar denominated bonds face value of USD 700,000)                  | (8,400)  | (2,682)           | (24,435)  |                  | (35,517)          |
|  | 4,262  | 1,361             | (53,295)  |                  | (47,672)          |

|   |         |       |     |           |
|---|---------|-------|-----|-----------|
| Fixed-to-fixed cross currency swap<br>(Australia dollar denominated bonds face<br>value of AUD 300,000) |         |       |     |           |
| Fixed-to-fixed cross currency swap<br>(U.S. dollar denominated bonds face value of<br>USD 94,736)       | (2,548) | (813) | 201 | (3,160)   |
| <b>Total liabilities</b>  |         |       |     | (100,210) |

(\*) Cash flow hedge accounting has been applied to the relevant contract from May 12, 2010. Others represent gain on valuation of currency swap incurred prior to the application of hedge accounting and was recognized through profit or loss prior to the year ended December 31, 2012.

**Table of Contents****18. Share Capital and Capital Surplus (Deficit) and Other Capital Adjustments**

The Company's outstanding share capital consists entirely of common stock with a par value of ₩500. The number of authorized, issued and outstanding common shares and capital surplus (deficit) and other capital adjustments as of December 31, 2013 and 2012 are as follows:

*(In millions of won, except for share data)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Authorized shares  | 220,000,000                  | 220,000,000                  |
| Issued shares(*)   | 80,745,711                   | 80,745,711                   |
| Share capital  |                              |                              |
| Common stock   | 44,639                       | 44,639                       |
| Capital surplus (deficit) and other capital adjustments: |                              |                              |
| Paid-in surplus  | 2,915,887                    | 2,915,887                    |
| Treasury stock   | (2,139,683)                  | (2,410,451)                  |
| Loss on disposal of treasury stock                       | (18,087)                     | (18,855)                     |
| Hybrid bond (note 20)                                    | 398,518                      |                              |
| Others   | (722,741)                    | (722,741)                    |
|  | 433,894                      | (236,160)                    |

(\*) During the years ended December 31, 2003, 2006 and 2009, the 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 Company's outstanding shares have decreased without change in the share capital.

Changes in number of shares outstanding for the years ended December 31, 2013 and 2012 are as follows:

| <i>(In shares)</i>         | <b>2013</b>              |                           |                               | <b>2012</b>              |                           |                               |
|----------------------------|--------------------------|---------------------------|-------------------------------|--------------------------|---------------------------|-------------------------------|
|                            | <b>Issued<br/>shares</b> | <b>Treasury<br/>stock</b> | <b>Outstanding<br/>shares</b> | <b>Issued<br/>shares</b> | <b>Treasury<br/>stock</b> | <b>Outstanding<br/>shares</b> |
| Beginning issued shares    | 80,745,711               | 11,050,712                | 69,694,999                    | 80,745,711               | 11,050,712                | 69,694,999                    |
| Disposal of treasury stock |                          | (1,241,337)               | 1,241,337                     |                          |                           |                               |
| Ending issued shares       | 80,745,711               | 9,809,375                 | 70,936,336                    | 80,745,711               | 11,050,712                | 69,694,999                    |

**Table of Contents****19. Treasury Stock**

The Company acquired treasury stock to provide stock dividends, issue new stocks, merge with Shinsegi Telecom, Inc. and SK IMT Co, Ltd., increase shareholder value and to stabilize its stock prices when needed. Treasury stock as of December 31, 2013 and 2012 are as follows:

*(In millions of won, shares)*

|                  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|------------------|------------------------------|------------------------------|
| Number of shares | 9,809,375                    | 11,050,712                   |
| Amount           | 2,139,683                    | 2,410,451                    |

The Company granted 1,241,337 shares of treasury stock (acquisition cost: 270,768 million) due to the exchange claim by the holders of exchangeable bonds from May 14, 2013 to October 24, 2013.

**20. Hybrid Bond**

Hybrid bond classified as equity as of December 31, 2013 is as follows:

*(In millions of won)*

|                     | <b>Type</b>                                    | <b>Issuance date</b> | <b>Maturity</b>  | <b>Annual<br/>interest<br/>rate (%)</b> | <b>Amount</b> |
|---------------------|--|----------------------|------------------|---|---------------|
| Private hybrid bond | Blank coupon unguaranteed<br>subordinated bond | June 7, 2013         | June 7, 2073(*1) | 4.21(*2)                                | 400,000       |
| Issuance costs      |  |                      |                  |   | (1,482)       |
|                     |  |                      |                  |   | 398,518       |

Hybrid bond issued by the Company is classified as equity as there is no contractual obligation for delivery of financial assets to the underwriter.

(\*1) The Company is able to extend the maturity under the same issuance terms without any notice or announcement.

(\*2) Annual interest rate is adjusted after five years from the issuance date.

**Table of Contents****21. Retained Earnings**

(1) Retained earnings as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| <b>Appropriated:</b>                        |                              |                              |
| Legal reserve                               | 22,320                       | 22,320                       |
| Reserve for research & manpower development | 155,767                      | 220,000                      |
| Reserve for business expansion              | 9,376,138                    | 9,106,138                    |
| Reserve for technology development          | 2,271,300                    | 1,901,300                    |
|   | 11,825,525                   | 11,249,758                   |
| <b>Unappropriated</b>                       | <b>840,174</b>               | <b>1,164,223</b>             |
|   | 12,665,699                   | 12,413,981                   |

(2) Legal reserve

The Korean Commercial Code requires the 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****22. Statements of Appropriation of Retained Earnings**

Details of appropriations of retained earnings for the years ended December 31, 2013 and 2012 are as follows:

Date of appropriation for 2013: March 21, 2014

Date of appropriation for 2012: March 22, 2013

*(In millions of won)*

|   | <b>2013</b>  | <b>2012</b>  |
|---|--------------|--------------|
| <b>Unappropriated retained earnings:</b>                                      |              |              |
| Unappropriated retained earnings  | 3,018        | 1,989        |
| Remeasurement of defined benefit obligations                                  | 5,927        | (10,838)     |
| Interim dividends - 1,000 per share, 200% on par value                        | (70,508)     | (69,695)     |
| Interest on hybrid bond   | (8,420)      |              |
| Profit  | 910,157      | 1,242,767    |
|   | 840,174      | 1,164,223    |
| <b>Transfer from voluntary reserves:</b>                                      |              |              |
| Reserve for research and manpower development                                 | 64,233       | 64,233       |
| <b>Appropriation of retained earnings:</b>                                    |              |              |
| Reserve for research and manpower development                                 | 60,000       |              |
| Reserve for business expansion  | 100,000      | 270,000      |
| Reserve for technology development  | 145,000      | 370,000      |
| Cash dividends 8,400 per share, 1,680% on par value                           | 595,865      | 585,438      |
|   | 900,865      | 1,225,438    |
| <b>Unappropriated retained earnings to be carried over to subsequent year</b> | <b>3,542</b> | <b>3,018</b> |

**Table of Contents****23. Reserves**

(1) Details of reserves, net of taxes, as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|------------------------------|------------------------------|
| Unrealized fair value of available-for-sale financial assets | 211,209                      | 206,414                      |
| Unrealized fair value of derivatives                         | (40,033)                     | (51,826)                     |
|  | 171,176                      | 154,588                      |

(2) Changes in reserves for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                              | <b>2013</b>   |   |              |
|------------------------------|---|---|--------------|
|                              | <b>Net change in<br/>unrealized fair<br/>value of<br/>available-for-sale<br/>financial<br/>assets</b> | <b>Net change<br/>in unrealized<br/>fair value<br/>of<br/>derivatives</b> | <b>Total</b> |
| Balance at January 1, 2013   | 206,414   | (51,826)  | 154,588      |
| Changes                      | 6,326   | 15,058  | 21,384       |
| Tax effect                   | (1,531)   | (3,265)   | (4,796)      |
| Balance at December 31, 2013 | 211,209   | (40,033)  | 171,176      |

*(In millions of won)*

|                              | <b>2012</b>   |   |              |
|------------------------------|---|---|--------------|
|                              | <b>Net change in<br/>unrealized fair<br/>value of<br/>available-for-sale<br/>financial<br/>assets</b> | <b>Net change<br/>in unrealized<br/>fair value<br/>of<br/>derivatives</b> | <b>Total</b> |
| Balance at January 1, 2012   | 352,617   | (32,123)  | 320,494      |
| Changes                      | (192,879)   | (24,266)  | (217,145)    |
| Tax effect                   | 46,676  | 4,563   | 51,239       |
| Balance at December 31, 2012 | 206,414   | (51,826)  | 154,588      |



**Table of Contents****23. Reserves, Continued**

- (3) Details of change in fair value of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows

*(In millions of won)*

|   | <b>Before<br/>taxes</b> | <b>2013<br/>Income tax<br/>effect</b> | <b>After taxes</b> |
|---|-------------------------|---------------------------------------|--------------------|
| Balance at January 1, 2013                                      | 272,314                 | (65,900)                              | 206,414            |
| Amount recognized as other comprehensive income during the year | 6,326                   | (1,531)                               | 4,795              |
| Amount reclassified through profit or loss                      |                         |                                       |                    |
| Balance at December 31, 2013                                    | 278,640                 | (67,431)                              | 211,209            |

*(In millions of won)*

|   | <b>Before<br/>taxes</b> | <b>2012<br/>Income tax<br/>effect</b> | <b>After taxes</b> |
|---|-------------------------|---------------------------------------|--------------------|
| Balance at January 1, 2012                                      | 465,193                 | (112,576)                             | 352,617            |
| Amount recognized as other comprehensive income during the year | (37,609)                | 9,101                                 | (28,508)           |
| Amount reclassified through profit or loss                      | (155,270)               | 37,575                                | (117,695)          |
| Balance at December 31, 2012                                    | 272,314                 | (65,900)                              | 206,414            |

- (4) Details of change in valuation of derivatives for the years ended December 31, 2013 and 2012 are as follows.

*(In millions of won)*

|   | <b>Before taxes</b> | <b>2013<br/>Income tax<br/>effect</b> | <b>After taxes</b> |
|---|---------------------|---------------------------------------|--------------------|
| Balance at January 1, 2013                                      | (67,871)            | 16,045                                | (51,826)           |
| Amount recognized as other comprehensive income during the year | 12,404              | (3,002)                               | 9,402              |
| Amount reclassified through profit or loss                      | 2,654               | (263)                                 | 2,391              |
| Balance at December 31, 2013                                    | (52,813)            | 12,780                                | (40,033)           |

*(In millions of won)*

|  | <b>Before taxes</b> | <b>2012</b> | <b>After taxes</b> |
|--|---------------------|-------------|--------------------|
|--|---------------------|-------------|--------------------|

|  |          | <b>Income tax<br/>effect</b> |          |
|--|----------|------------------------------|----------|
| Balance at January 1, 2012   | (43,606) | 11,483                       | (32,123) |
| Amount recognized as other comprehensive income<br>during the year | (19,827) | 4,798                        | (15,029) |
| Amount reclassified through profit or loss                         | (4,438)  | (236)                        | (4,674)  |
| Balance at December 31, 2012                                       | (67,871) | 16,045                       | (51,826) |

**Table of Contents****24. Other Operating Expenses**

Details of other operating expenses for the years ended December 31, 2013 and 2012 are as follows:

| <i>(In millions of won)</i>                 | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|
| <b>Other Operating Expenses:</b>            |                |                |
| Communication expenses                      | 49,789         | 59,398         |
| Utilities                                   | 168,073        | 147,442        |
| Taxes and dues(*)                           | 19,184         | 81,145         |
| Repair                                      | 191,489        | 185,588        |
| Research and development                    | 231,767        | 213,162        |
| Training                                    | 27,847         | 29,295         |
| Bad debt for accounts receivables - trade   | 32,051         | 22,502         |
| Reversal of allowance for doubtful accounts |                | (4,846)        |
| Other                                       | 48,743         | 49,675         |
|   | <b>768,943</b> | <b>783,361</b> |

(\*) Penalties in taxes and dues until the year ended December 31, 2012 were included in taxes and dues until the year ended December 31, 2012 while penalties were included in others (other non-operating expense) starting from the year ended December 31, 2013.

**Table of Contents****25. Other Non-operating Income and Expenses**

Details of other non-operating income and expenses for the years ended December 31, 2013 and 2012 are as follows:

| <i>(In millions of won)</i>                                      | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| <b>Other Non-operating Income:</b>                               |             |             |
| Gain on disposal of property and equipment and intangible assets | 1,869       | 142,988     |
| Others(*1)   | 45,749      | 18,768      |
|  | 47,618      | 161,756     |
| <b>Other Non-operating Expenses:</b>                             |             |             |
| Loss on disposal of property and equipment and intangible assets | 233,611     | 9,628       |
| Impairment loss on property and equipment, and intangible assets |             | 15,438      |
| Donations  | 59,820      | 77,357      |
| Bad debt for accounts receivable other                           | 20,784      | 21,845      |
| Others(*2)   | 103,037     | 9,379       |
|  | 417,252     | 133,647     |

(\*1) Primarily comprised of VAT adjustments and compensation for typhoon damage.

(\*2) Primarily comprised of penalties and legal costs.

**Table of Contents****26. Finance Income and Costs**

(1) Details of finance income and costs for the years ended December 31, 2013 and 2012 are as follows:

| <i>(In millions of won)</i>  | <b>2013</b>   | <b>2012</b>    |
|--|---------------|----------------|
| <b>Finance Income:</b>   |               |                |
| Interest income  | 32,265        | 52,408         |
| Dividends  | 20,640        | 30,568         |
| Gain on foreign currency transactions                                      | 9,260         | 3,341          |
| Gain on foreign currency translations                                      | 699           | 158            |
| Gain on valuation of financial assets at fair value through profit or loss | 5,177         |                |
| Gain on disposal of long-term investment securities                        | 5,439         | 269,352        |
| Gain on settlement of derivatives  | 7,716         | 26,103         |
|  | <b>81,196</b> | <b>381,930</b> |

| <i>(In millions of won)</i>   | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|
| <b>Finance Costs:</b>   |                |                |
| Interest expense  | 274,190        | 318,183        |
| Loss on foreign currency transactions   | 13,607         | 4,895          |
| Loss on foreign currency translations   | 662            | 746            |
| Loss on disposal of long-term investment securities                             | 73             | 9,136          |
| Loss on settlement of derivatives   |                | 1,232          |
| Loss on valuation of financial assets at fair value through profit or loss(*2)  |                | 1,262          |
| Loss relating to financial liabilities at fair value through profit or loss(*1) | 134,232        | 7,793          |
| Other finance costs   |                | 189,951        |
|   | <b>422,764</b> | <b>533,198</b> |

(\*1) Loss relating to financial liabilities at fair value through profit or loss for the year ended December 31, 2013 related to exchangeable bonds (face amount of USD 326,397,463) due to the valuation loss from rising stock prices and loss on redemption of debenture upon the exchange claims.

(\*2) See note 26(5).



**Table of Contents****26. Finance Income and Costs, Continued**

- (2) Details of interest income included in finance income for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b>   | <b>2012</b>   |
|---|---------------|---------------|
| Interest income on cash equivalents and deposits      | 18,677        | 29,361        |
| Interest income on installment receivables and others | 13,588        | 23,047        |
|   | <b>32,265</b> | <b>52,408</b> |

- (3) Details of interest expense included in finance costs for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>2013</b>    | <b>2012</b>    |
|--|----------------|----------------|
| Interest expense on bank overdrafts and borrowings | 22,786         | 107,211        |
| Interest expense on debentures                     | 211,124        | 167,770        |
| Others   | 40,280         | 43,202         |
|  | <b>274,190</b> | <b>318,183</b> |

**Table of Contents****26. Finance Income and Costs, Continued**

- (4) Finance income and costs by categories of financial instruments for the years ended December 31, 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 6.

- (i) Finance income and costs

*(In millions of won)*

|  | 2013           |               | 2012           |               |
|--|----------------|---------------|----------------|---------------|
|  | Finance income | Finance costs | Finance income | Finance costs |
| <b>Financial Assets:</b>                                 |                |               |                |               |
| Financial asset at fair value through profit or loss     | 5,177          |               |                | 1,262         |
| Available-for-sale financial assets                      | 27,061         | 73            | 301,925        | 199,088       |
| Loans and receivables                                    | 40,502         | 14,219        | 53,791         | 5,637         |
| Derivative designated as hedging instrument              | 7,716          |               | 26,103         | 1,231         |
| Subtotal   | 80,456         | 14,292        | 381,819        | 207,218       |
| <b>Financial Liabilities:</b>                            |                |               |                |               |
| Financial liability at fair value through profit or loss |                | 134,232       |                | 7,793         |
| Financial liability valuate as amortised cost            | 740            | 274,240       | 111            | 318,187       |
| Subtotal   | 740            | 408,472       | 111            | 325,980       |
| Total  | 81,196         | 422,764       | 381,930        | 533,198       |

- (ii) Other comprehensive income

*(In millions of won)*

|   | 2013    | 2012      |
|---|---------|-----------|
| <b>Financial Assets:</b>                    |         |           |
| Available-for-sale financial assets         | 4,795   | (146,203) |
| Derivative designated as hedging instrument | 12,810  | (19,869)  |
| Subtotal                                    | 17,605  | (166,072) |
| <b>Financial Liabilities:</b>               |         |           |
| Derivative designated as hedging instrument | (1,017) | 166       |
| Subtotal                                    | (1,017) | 166       |

|       |        |           |
|-------|--------|-----------|
| Total | 16,588 | (165,906) |
|-------|--------|-----------|

- (5) Details of impairment losses for financial assets for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Available-for-sale financial assets      |             | 189,951     |
| Bad debt for accounts receivable - trade | 32,051      | 22,502      |
| Bad debt for accounts receivable - other | 20,784      | 21,845      |
|  | 52,835      | 234,298     |

**Table of Contents****27. Income Tax Expense**

- (1) Income tax expenses for the years ended December 31, 2013 and 2012 consist of the following:

*(In millions of won)*

|   | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|
| <b>Current tax expense</b>  |                |                |
| Current tax payable   | 173,915        | 161,010        |
| Adjustments recognized in the period for current tax of prior periods | (24,665)       | (68,414)       |
|   | 149,250        | 92,596         |
| <b>Deferred tax expense</b>   |                |                |
| Changes in net deferred tax assets                                    | 168,324        | 156,657        |
| Tax directly charged to equity  | (6,934)        | 54,699         |
|   | 161,390        | 211,356        |
| <b>Income tax for continuing operation</b>                            | <b>310,640</b> | <b>303,952</b> |

- (2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2013 and 2012 is attributable to the following:

*(In millions of won)*

|   | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|
| Income taxes at statutory income tax rate                                   | 294,971        | 373,844        |
| Non-taxable income  | (34,067)       | (4,716)        |
| Non-deductible expenses   | 65,717         | 16,811         |
| Tax credit and tax reduction  | (36,290)       | (69,515)       |
| Changes in unrealizable deferred taxes                                      | 52,346         | 20,798         |
| Others (Income tax refund, tax effect from statutory tax rate change, etc.) | (32,037)       | (33,270)       |
| <b>Income tax for continuing operation</b>                                  | <b>310,640</b> | <b>303,952</b> |

- (3) Deferred taxes directly charged to (credited from) equity for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b>    | <b>2012</b>   |
|---|----------------|---------------|
| Net change in fair value of available-for-sale financial assets | (1,531)        | 46,676        |
| Gain or loss on valuation of derivatives                        | (3,265)        | 4,563         |
| Remeasurement of defined benefit obligations                    | (1,893)        | 3,460         |
| Loss on disposal of treasury stock                              | (245)          |               |
|   | <b>(6,934)</b> | <b>54,699</b> |

**Table of Contents****27. Income Tax Expense, Continued**

- (4) Details of changes in deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|  |           | 2013                                |  |           |
|--|-----------|-------------------------------------|--|-----------|
|  | Beginning | Deferred tax<br>expense<br>(income) | Directly added<br>to<br>(deducted<br>from)<br>equity | Ending    |
| Deferred tax assets (liabilities) related to temporary differences |           |                                     |  |           |
| Allowance for doubtful accounts                                    | 36,945    | 6,407                               |  | 43,352    |
| Accrued interest income  | (1,004)   | (371)                               |  | (1,375)   |
| Available-for-sale financial assets                                | 12,156    | (20,350)                            | (1,531)  | (9,725)   |
| Investments in subsidiaries and associates                         | 81,416    | 3,882                               |  | 85,298    |
| Property and equipment (depreciation)                              | (235,440) | (73,217)                            |  | (308,657) |
| Provisions   | 85,519    | (72,470)                            |  | 13,049    |
| Retirement benefit obligation                                      | 9,573     | 226                                 | (1,893)  | 7,906     |
| Gain or loss on valuation of derivatives                           | 16,046    |                                     | (3,265)  | 12,781    |
| Gain or loss on foreign currency translation                       | 19,706    | (126)                               |  | 19,580    |
| Tax free reserve for research and manpower development             | (31,089)  | 1,025                               |  | (30,064)  |
| Goodwill relevant to leased line                                   | 68,675    | (37,650)                            |  | 31,025    |
| Unearned revenue (activation fees)                                 | 97,110    | (43,698)                            |  | 53,412    |
| Others   | (35,890)  | 74,952                              | (245)  | 38,817    |
|  | 123,723   | (161,390)                           | (6,934)  | (44,601)  |

**Table of Contents****27. Income Tax Expense, Continued***(In millions of won)*

|  |           | 2012                                |  |           |
|--|-----------|-------------------------------------|--|-----------|
|  | Beginning | Deferred tax<br>expense<br>(income) | Directly added<br>to<br>(deducted<br>from)<br>equity | Ending    |
| Deferred tax assets (liabilities) related to temporary differences |           |                                     |  |           |
| Allowance for doubtful accounts                                    | 25,065    | 11,880                              |  | 36,945    |
| Accrued interest income  | (1,277)   | 273                                 |  | (1,004)   |
| Available-for-sale financial assets                                | (82,304)  | 47,784                              | 46,676   | 12,156    |
| Investments in subsidiaries and associates                         | 61,468    | 19,948                              |  | 81,416    |
| Property and equipment (depreciation)                              | (142,651) | (92,789)                            |  | (235,440) |
| Provisions   | 184,462   | (98,943)                            |  | 85,519    |
| Retirement benefit obligation                                      | 10,729    | (4,616)                             | 3,460  | 9,573     |
| Gain or loss on valuation of derivatives                           | 11,483    |                                     | 4,563  | 16,046    |
| Gain or loss on foreign currency translation                       | 9,268     | 10,438                              |  | 19,706    |
| Tax free reserve for research and manpower development             | (53,240)  | 22,151                              |  | (31,089)  |
| Goodwill relevant to leased line                                   | 116,287   | (47,612)                            |  | 68,675    |
| Unearned revenue (activation fees)                                 | 116,512   | (19,402)                            |  | 97,110    |
| Others   | 24,578    | (60,468)                            |  | (35,890)  |
|  | 280,380   | (211,356)                           | 54,699   | 123,723   |

- (5) Details of temporary differences not recognized as deferred tax assets in the statements of financial position as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| Allowance for doubtful accounts            | 77,405               | 77,405               |
| Investments in subsidiaries and associates | 626,620              | 410,313              |
| Other temporary differences                | 51,150               | 51,150               |
|  | 755,175              | 538,868              |

**Table of Contents****28. Earnings per Share**

## (1) Basic earnings per share

- 1) Basic earnings per share for the years ended December 31, 2013 and 2012 are calculated as follows:

*(In millions of won, shares)*

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Profit for the period                                | 910,157     | 1,242,767   |
| Interest on hybrid bond                              | (8,420)     |             |
| Profit for the period on common shares               | 901,737     | 1,242,767   |
| Weighted average number of common shares outstanding | 70,247,592  | 69,694,999  |
| Basic earnings per share (In won)                    | 12,837      | 17,832      |

- 2) The weighted average number of common shares outstanding for the years ended December 31, 2013 and 2012 are calculated as follows:

*(In millions of won, shares)*

|  | <b>2013</b>  | <b>2012</b>  |
|--|--------------|--------------|
| Outstanding common shares at January 1               | 80,745,711   | 80,745,711   |
| Effect of treasury stock                             | (10,498,119) | (11,050,712) |
| Weighted average number of common shares outstanding | 70,247,592   | 69,694,999   |

## (2) Diluted earnings per share

- 1) Diluted earnings per share for the years ended December 31, 2013 and 2012 are calculated as follows:

|  | <b>2013(*)</b> | <b>2012</b> |
|--|----------------|-------------|
| Profit for the period                  | 901,737        | 1,242,767   |
| Effect of exchangeable bonds           |                | 10,800      |
| Profit for the period on common shares | 901,737        | 1,253,567   |
|  | 70,247,592     | 72,021,148  |



Diluted weighted average number of common shares  
outstanding

|                                     |        |        |
|-------------------------------------|--------|--------|
| Diluted earnings per share (In won) | 12,837 | 17,406 |
|-------------------------------------|--------|--------|

- (\*) The number of common shares outstanding in respect of the exchangeable common shares of exchangeable bonds is excluded from the diluted earnings per share calculation for the year ended December 31, 2013 as the effect of exchangeable bond would have been anti-dilutive (the weighted average number of diluted shares of 688,744); thus, diluted earnings per share for the year ended December 31, 2013 is the same as basic earnings per share.

**Table of Contents****28. Earnings per Share, Continued**

- 2) The weighted average number of common shares outstanding for the years ended December 31, 2013 and 2012 are calculated as follows:

*(In millions of won, shares)*

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Weighted average number of common shares outstanding         | 70,247,592  | 69,694,999  |
| Effect of exchangeable bonds(*)                              |             | 2,326,149   |
| Diluted weighted average number of common shares outstanding | 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.

**29. Dividends**

- (1) Details of dividends declared

Details of dividend declared for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won, except for face value and share data)*

| <b>Year</b> | <b>Dividend type</b>      | <b>Number of shares outstanding</b> | <b>Face value (In won)</b> | <b>Dividend ratio</b> | <b>Dividends</b> |
|-------------|---------------------------|-------------------------------------|----------------------------|-----------------------|------------------|
| 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, 2013 and 2012 are as follows:

*(In millions of won)*

| <b>Year</b> | <b>Dividends<br/>calculated</b> | <b>Profit</b> | <b>Dividends payout<br/>ratio</b> |
|-------------|---------------------------------|---------------|-----------------------------------|
| 2013        | 666,373                         | 910,157       | 73.22%                            |
| 2012        | 655,133                         | 1,242,767     | 52.72%                            |

## (3) Dividends yield ratio

Dividends yield ratios for the years ended December 31, 2013 and 2012 are as follows:

*(In won)*

| <b>Year</b> | <b>Dividend type</b> | <b>Dividend per<br/>share</b> | <b>Closing price<br/>at<br/>settlement</b> | <b>Dividend<br/>yield ratio</b> |
|-------------|----------------------|-------------------------------|--|---------------------------------|
| 2013        | Cash dividends       | 9,400                         | 230,000                                    | 4.09%                           |
| 2012        | Cash dividends       | 9,400                         | 152,500                                    | 6.16%                           |

**Table of Contents****30. Categories of Financial Instruments**

(1) Financial assets by categories as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                                     | <b>December 31, 2013</b>   |   |                                  |   |              |
|-------------------------------------|--|---|----------------------------------|---|--------------|
|                                     | <b>Financial<br/>assets<br/>at<br/>fair<br/>value<br/>through<br/>profit<br/>or<br/>loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivative<br/>financial<br/>instruments<br/>designated<br/>as hedged<br/>item</b> | <b>Total</b> |
| Cash and cash equivalents           |  |   | 448,459                          |   | 448,459      |
| Financial instruments               |  |   | 173,569                          |   | 173,569      |
| Short-term investment securities    |  | 102,042   |                                  |   | 102,042      |
| Long-term investment securities(*1) | 20,532   | 709,171   |                                  |   | 729,703      |
| Accounts receivable - trade         |  |   | 1,513,138                        |   | 1,513,138    |
| Loans and other receivables(*2)     |  |   | 658,337                          |   | 658,337      |
| Derivative financial assets         |  |   |                                  | 41,712  | 41,712       |
|                                     | 20,532   | 811,213   | 2,793,503                        | 41,712  | 3,666,960    |

*(In millions of won)*

|                                     | <b>December 31, 2012</b>   |   |                                  |   |              |
|-------------------------------------|--|---|----------------------------------|---|--------------|
|                                     | <b>Financial<br/>assets<br/>at<br/>fair<br/>value<br/>through<br/>profit<br/>or<br/>loss</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Loans and<br/>receivables</b> | <b>Derivative<br/>financial<br/>instruments<br/>designated<br/>as hedged<br/>item</b> | <b>Total</b> |
| Cash and cash equivalents           |  |   | 256,577                          |   | 256,577      |
| Financial instruments               |  |   | 179,369                          |   | 179,369      |
| Short-term investment securities    |  | 56,401  |                                  |   | 56,401       |
| Long-term investment securities(*1) | 15,356   | 718,537   |                                  |   | 733,893      |
| Accounts receivable - trade         |  |   | 1,407,206                        |   | 1,407,206    |
| Loans and other receivables(*2)     |  |   | 661,689                          |   | 661,689      |
| Derivative financial assets         |  |   |                                  | 61,959  | 61,959       |

|        |         |           |        |           |
|--------|---------|-----------|--------|-----------|
| 15,356 | 774,938 | 2,504,841 | 61,959 | 3,357,094 |
|--------|---------|-----------|--------|-----------|

(\*1) Long-term investment securities of which the embedded derivative (conversion right option), which should be separated from the main contract, could not be separately measured, were designated as financial assets at fair value through profit or loss.

**Table of Contents****30. Categories of Financial Instruments, Continued**

(1) Financial assets by categories as of December 31, 2013 and 2012 are as follows, Continued:

(\*2) Details of loans and other receivables as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                             | <b>2013</b> | <b>2012</b> |
|-----------------------------|-------------|-------------|
| Short-term loans            | 72,198      | 75,449      |
| Accounts receivable - other | 388,475     | 383,048     |
| Accrued income              | 5,682       | 4,147       |
| Long-term loans             | 39,925      | 49,672      |
| Guarantee deposits          | 152,057     | 149,373     |
|                             | 658,337     | 661,689     |

(2) Financial liabilities by categories as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>December 31, 2013</b>  |   |   | <b>Total</b> |
|--|---|---|---|--------------|
|  | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities measured at amortized cost</b> | <b>Derivative financial instruments designated as hedged item</b> |              |
| Derivative financial liabilities       |   |   | 121,380   | 121,380      |
| Borrowings                             |   | 356,688   |   | 356,688      |
| Debentures (*1)                        | 96,147  | 4,529,770   |   | 4,625,917    |
| Accounts payable other and others (*2) |   | 3,279,604   |   | 3,279,604    |
|  | 96,147  | 8,166,062   | 121,380   | 8,383,589    |

*(In millions of won)*

|  | <b>December 31, 2012</b>             |  |  | <b>Total</b> |
|--|--------------------------------------|--|--|--------------|
|  | <b>Financial liabilities at fair</b> | <b>Financial liabilities measured at</b> | <b>Derivative financial instruments designated</b> |              |

|  | <b>value<br/>through<br/>profit or<br/>loss</b> | <b>amortized<br/>cost</b> | <b>as hedged<br/>item</b> |           |
|--|---|---------------------------|---------------------------|-----------|
| Derivative financial liabilities       |   |                           | 63,599                    | 63,599    |
| Borrowings                             |   | 785,443                   |                           | 785,443   |
| Debentures (*1)                        | 405,678   | 4,034,429                 |                           | 4,440,107 |
| Accounts payable other and others (*2) |   | 3,073,290                 |                           | 3,073,290 |
|  | 405,678   | 7,893,162                 | 63,599                    | 8,362,439 |

(\*1) Debentures of which the embedded derivative (conversion right option), which should be separated from the main contract, could not be separately measured, were designated as financial liabilities at fair value through profit or loss.

**Table of Contents****30. Categories of Financial Instruments, Continued**

(2) Financial liabilities by categories as of December 31, 2013 and 2012 are as follows, Continued:

(\*2) Details of accounts payable and other payables as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| Accounts payable - other                      | 1,556,201                    | 1,509,456                    |
| Withholdings                                  | 3                            | 18                           |
| Accrued expenses                              | 653,742                      | 600,101                      |
| Current portion of long-term payables - other | 206,800                      | 157,966                      |
| Long-term payables - other                    | 828,721                      | 705,605                      |
| Other non-current liabilities                 | 34,137                       | 100,144                      |
|   | <b>3,279,604</b>             | <b>3,073,290</b>             |

**31. Financial Risk Management**

(1) Financial risk management

The Company 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 Company implements a risk management system to monitor and manage these specific risks.

The Company'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 Company is exposed to currency risk mainly on exchange fluctuations on recognized assets and liabilities. The Company 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 Company.



**Table of Contents****31. Financial Risk Management, Continued**

## (1) Financial risk management, Continued

Monetary foreign currency assets and liabilities as of December 31, 2013 are as follows:

*(In millions of won, thousands of U.S. dollars, thousands of Euros, thousands of Japanese Yen, thousands of other currencies)*

|       | Assets             |                       | Liabilities        |                       |
|-------|--------------------|-----------------------|--------------------|-----------------------|
|       | Foreign currencies | Korean won equivalent | Foreign currencies | Korean won equivalent |
| USD   | 28,831             | 30,440                | 1,917,801          | 2,020,567             |
| EUR   | 44,403             | 64,662                | 33                 | 48                    |
| JPY   | 95,459             | 959                   | 4,852              | 49                    |
| SGD   | 18                 | 15                    | 64,811             | 53,971                |
| AUD   |                    |                       | 298,039            | 280,145               |
| CHF   |                    |                       | 298,542            | 354,868               |
| Other | 1,181              | 1,812                 | 69                 | 87                    |
|       |                    | 97,888                |                    | 2,709,735             |

In addition, the Company has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures. (Refer to note 17)

As of December 31, 2013, effects on income (loss) before income tax as a result of change in exchange rate by 10% are as follows:

| <i>(In millions of won)</i> | If increased by | If decreased by |
|-----------------------------|-----------------|-----------------|
|                             | 10%             | 10%             |
| USD                         | (7,224)         | 7,224           |
| EUR                         | 6,461           | (6,461)         |
| JPY                         | 91              | (91)            |
| SGD                         | 2               | (2)             |
| Others                      | 172             | (172)           |
|                             | (498)           | 498             |

## (ii) Equity price risk

The Company has equity securities which include listed and non-listed securities for its liquidity and operating purpose. As of December 31, 2013, available-for-sale equity instruments measured at fair value amounts to 715,053 million.

(iii) Interest rate risk

Since the Company's interest bearing assets are mostly fixed-interest bearing assets, as such, the Company's revenue and operating cash flow are not influenced by the changes in market interest rates. However, the Company still has interest rate risk arising from borrowings and debentures.

Accordingly, the Company 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.

**Table of Contents****31. Financial Risk Management, Continued**

## (1) Financial risk management, Continued

The Company's interest rate risk arises from floating-rate borrowings and payables. As of December 31, 2013, floating-rate debentures amount to 634,544 million and the Company has entered into interest rate swaps to hedge interest rate risk related to floating-rate borrowings and debentures (Refer to note 17). If interest rate only increases (decreases) by 1%, income before income taxes for the year ended December 31, 2013 would not have been changed due to the interest expense from floating-rate borrowings and debentures.

## 2) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations. The maximum credit exposure as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b>      | <b>2012</b>      |
|---|------------------|------------------|
| Cash and cash equivalents                             | 448,429          | 256,547          |
| Financial instruments                                 | 173,569          | 179,369          |
| Available-for-sale financial assets                   | 816              | 816              |
| Accounts receivable - trade                           | 1,513,138        | 1,407,206        |
| Loans and receivables                                 | 658,337          | 661,689          |
| Derivative financial assets                           | 41,712           | 61,959           |
| Financial assets at fair value through profit or loss | 20,532           | 15,356           |
|   | <b>2,856,533</b> | <b>2,582,942</b> |

To manage credit risk, the Company 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 Company establishes credit limits for each customer or counterparty.

For the year ended December 31, 2013, the Company 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 Company believes that the possibility of default is remote. Also, the Company'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 Company has a policy to deal with high credit worthy financial institutions. The amount of maximum exposure to credit risk of the Company is the carrying amount of financial assets as of December 31, 2013.

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 6 and the analysis of financial assets that are individually determined to be impaired at the end of the reporting period is stated in note 25.



**Table of Contents****31. Financial Risk Management, Continued**

## (1) Financial risk management, Continued

## 3) Liquidity risk

The Company's approach to managing liquidity is to ensure that it will always maintain sufficient cash equivalents balance and have enough liquidity through various committed credit lines. The Company maintains flexibly enough liquidity under credit lines through active operating activities.

Contractual maturities of financial liabilities as of December 31, 2013 are as follows:

(In millions of won)

|  | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Less<br/>than 1<br/>year</b> | <b>1 - 5<br/>years</b> | <b>More<br/>than<br/>5 years</b> |
|--|----------------------------|-----------------------------------|---------------------------------|------------------------|----------------------------------|
| Borrowings                               | 356,688                    | 371,898                           | 273,412                         | 53,733                 | 44,753                           |
| Debentures (*1)                          | 4,625,917                  | 5,708,146                         | 780,851                         | 2,802,001              | 2,125,294                        |
| Accounts payable - other and others (*2) | 3,279,604                  | 3,389,862                         | 2,361,032                       | 655,619                | 373,211                          |
|  | 8,262,209                  | 9,469,906                         | 3,415,295                       | 3,511,353              | 2,543,258                        |

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at different amounts.

(\*1) Includes estimated interest to be paid and excludes discounts on bonds.

(\*2) Excludes discounts on accounts payable-other and others.

As of December 31, 2013, periods which cash flows from cash flow hedge derivatives is expected to be incurred are as follows:

(In millions of won)

|             | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Less<br/>than 1<br/>year</b> | <b>1 - 5<br/>years</b> | <b>More than<br/>5 years</b> |
|-------------|----------------------------|-----------------------------------|---------------------------------|------------------------|------------------------------|
| Assets      | 41,712                     | 43,833                            | 1,778                           | 35,322                 | 6,733                        |
| Liabilities | (121,380)                  | (131,245)                         | (32,503)                        | (97,294)               | (1,448)                      |
|             | (79,668)                   | (87,412)                          | (30,725)                        | (61,972)               | 5,285                        |

(2) Capital management

The Company 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 Company is the same as that of the Company as of and for the year ended December 31, 2012.

The Company monitors its debt-equity ratio as a capital management indicator. This ratio is calculated as total debt divided by total equity; the total debt and equity is extracted from the financial statements.

**Table of Contents****31. Financial Risk Management, Continued**

## (2) Capital management, Continued

Debt-equity ratio as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|                   | <b>2013</b> | <b>2012</b> |
|-------------------|-------------|-------------|
| Liability         | 9,512,011   | 9,872,454   |
| Equity            | 13,315,408  | 12,377,048  |
| Debt-equity ratio | 71.44%      | 79.76%      |

## (3) Fair value

- 1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2013 are as follows:

*(In millions of won)*

|   | <b>Carrying<br/>amount</b> | <b>2013</b>    |                |                | <b>Total</b> |
|---|----------------------------|----------------|----------------|----------------|--------------|
|   |                            | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |              |
| <b>Financial assets that can be measured at fair value</b>    |                            |                |                |                |              |
| Financial assets at fair value through profit or loss         | 20,532                     |                | 20,532         |                | 20,532       |
| Derivative financial assets                                   | 41,712                     |                | 41,712         |                | 41,712       |
| Available-for-sale financial assets                           | 715,053                    | 574,321        | 46,414         | 94,318         | 715,053      |
|   | 777,297                    | 574,321        | 108,658        | 94,318         | 777,297      |
| <b>Financial assets that cannot be measured at fair value</b> |                            |                |                |                |              |
| Cash and cash equivalents(*1)                                 | 448,459                    |                |                |                |              |
| Available-for-sale financial assets(*1,2)                     | 96,160                     |                |                |                |              |
| Accounts receivable trade and others(*1)                      | 2,171,475                  |                |                |                |              |
| Financial instruments(*1)                                     | 173,569                    |                |                |                |              |
|   | 2,889,663                  |                |                |                |              |

**Financial liabilities that can be measured at fair value**

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|  |         |         |         |
|--|---------|---------|---------|
| Financial liabilities at fair value through profit or loss | 96,147  | 96,147  | 96,147  |
| Derivative financial liabilities                           | 121,380 | 121,380 | 121,380 |
|  | 217,527 | 96,147  | 217,527 |

**Financial liabilities that cannot be measured at fair value**

|   |           |           |           |
|---|-----------|-----------|-----------|
| Borrowings                              | 356,688   | 369,810   | 369,810   |
| Debentures                              | 4,529,770 | 4,621,010 | 4,621,010 |
| Accounts payable - other and others(*1) | 3,279,604 |           |           |
|   | 8,166,062 | 4,990,820 | 4,990,820 |



**Table of Contents****31. Financial Risk Management, Continued**

## (3) Fair value, Continued

- 2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2012 are as follows:

*(In millions of won)*

|  | Carrying<br>amount | 2012    |           |         | Total     |
|--|--------------------|---------|-----------|---------|-----------|
|  |                    | Level 1 | Level 2   | Level 3 |           |
| <b>Financial assets that can be measured at fair value</b>         |                    |         |           |         |           |
| Financial assets at fair value through profit or loss              | 15,356             |         | 15,356    |         | 15,356    |
| Derivative financial assets  | 61,959             |         | 61,959    |         | 61,959    |
| Available-for-sale financial assets                                | 730,754            | 584,029 | 46,159    | 100,566 | 730,754   |
|  | 808,069            | 584,029 | 123,474   | 100,566 | 808,069   |
| <b>Financial assets that cannot be measured at fair value</b>      |                    |         |           |         |           |
| Cash and cash equivalents(*1)                                      | 256,577            |         |           |         |           |
| Available-for-sale financial assets(*1,2)                          | 44,184             |         |           |         |           |
| Accounts receivable trade and others(*1)                           | 2,068,895          |         |           |         |           |
| Financial instruments(*1)  | 179,369            |         |           |         |           |
|  | 2,549,025          |         |           |         |           |
| <b>Financial liabilities that can be measured at fair value</b>    |                    |         |           |         |           |
| Financial liabilities at fair value through profit or loss         | 405,678            | 405,678 |           |         | 405,678   |
| Derivative financial liabilities                                   | 63,599             |         | 63,599    |         | 63,599    |
|  | 469,277            | 405,678 | 63,599    |         | 469,277   |
| <b>Financial liabilities that cannot be measured at fair value</b> |                    |         |           |         |           |
| Borrowings   | 785,443            |         | 798,908   |         | 798,908   |
| Debentures   | 4,034,429          |         | 4,224,907 |         | 4,224,907 |
| Accounts payable - other and others(*1)                            | 3,073,290          |         |           |         |           |
|  | 7,893,162          |         | 5,023,815 |         | 5,023,815 |

- (\*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 K-IFRS 1039 as such equity instruments cannot be reliably measured using other methods.

**Table of Contents****31. Financial Risk Management, Continued**

## (3) Fair value, Continued

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 Company 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 Company performs valuation using the inputs which are consistent with natures of assets, liabilities being evaluated.

Interest rates used by the Company for the fair value measurement as of December 31, 2013 are as follows:

|                           | <b>Interest rate</b> |
|---------------------------|----------------------|
| Derivative instruments    | 2.86% ~ 4.04%        |
| Borrowings and Debentures | 3.12%                |

3) There have been no transfers from Level 2 to Level 1 in 2013 and changes of financial assets classified as Level 3 for the year ended December 31, 2013 are as follows:

*(In millions of won)*

|                                     | <b>Beginning</b> | <b>Valuation</b> | <b>Disposal</b> | <b>Ending</b> |
|-------------------------------------|------------------|------------------|-----------------|---------------|
| Available-for-sale financial assets | 100,566          | 15,779           | (22,027)        | 94,318        |

**Table of Contents****31. Financial Risk Management, Continued**

(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2013 are as follows:

(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 | Cash collaterals received | Net amount |
|-------------------------------------|--|---|---|--|---------------------------|------------|
| <b>Financial assets:</b>            |  |   |   |  |                           |            |
| Derivatives(*)                      | 28,870                                 |   | 28,870  | (28,870)   |                           |            |
| Accounts receivable trade and other | 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 other              | 127,055                                | (127,055)                                     |   |  |                           |            |
|                                     | 170,591                                | (127,055)                                     | 43,536  | (28,870)   |                           | 14,666     |

(\*) The Company entered into derivative contracts which include enforceable master netting arrangement in accordance with ISDA. Generally, all contracts made with the identical currencies are settled from one party to another by combining one net amount. In this case, all contracts are liquidated and paid off at net amount by evaluating liquidation value if credit events such as bankruptcy occur.

ISDA agreements do not allow the Company 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 Company does not have enforceable rights of set-off.

**Table of Contents****32. Transactions with Related Parties**

(1) List of related parties

| <b>Relationship</b> | <b>Interest rate</b>  |
|---------------------|---|
| Controlling Entity  | SK Holding Co., Ltd.  |
| Subsidiaries        | SK Planet Co., Ltd. and 27 others(*1)   |
| Joint venture       | Dogus Planet, Inc. and three others   |
| Associates          | SK hynix Inc. and 64 others   |
| Affiliates          | The Controlling Entity's investor using the equity method, the Controlling Company, and the Controlling Company's subsidiaries and associates, etc. |

(\*1) As of December 31, 2013, subsidiaries of the Company are as follows:

| <b>Type</b>  | <b>Company</b>                             | <b>Ownership percentage (%)</b> | <b>Types of business</b>               |
|--------------|--|---------------------------------|--|
| Subsidiaries |  |                                 | Telecommunication and MVNO service     |
|              | SK Telink Co., Ltd.                        | 83.5                            |  |
|              | M&Service Co., Ltd.                        | 100.0                           | Data base and internet website service |
|              | SK Communications Co., Ltd.                | 64.6                            | Internet website services              |
|              | Stonebridge Cinema Fund                    | 57.0                            | Investment association                 |
|              | Commerce Planet Co., Ltd.                  | 100.0                           | Online shopping mall operation agency  |
|              | SK Broadband Co., Ltd.                     | 50.6                            | Telecommunication services             |
|              | K-net Culture and Contents Venture Fund    | 59.0                            | Investment association                 |
|              | Fitech Focus Limited Partnership II        | 66.7                            | Investment association                 |
|              | Open Innovation Fund                       | 98.9                            | Investment association                 |
|              | PS&Marketing Corporation                   | 100.0                           | Communications device retail business  |
|              | Service Ace Co., Ltd.                      | 100.0                           | Customer center management service     |
|              | Service Top Co., Ltd.                      | 100.0                           | Customer center management service     |
|              | Network O&S Co., Ltd.                      | 100.0                           | Base station maintenance service       |
|              | BNCP Co., Ltd.                             | 100.0                           | Internet website services              |
|              | SK Planet Co., Ltd.                        | 100.0                           | Telecommunication service              |
|              | SK Telecom China Holdings Co., Ltd.        | 100.0                           | Investment association                 |
|              | Shenzhen E-eye High Tech Co., Ltd.         | 65.5                            | Manufacturing                          |
|              | SK Global Healthcare Business Group., Ltd. | 100.0                           | Investment association                 |
|              | SK Planet Japan                            | 100.0                           | Digital contents sourcing service      |
|              | SKT Vietnam PTE. Ltd.                      | 73.3                            | Telecommunication service              |
|              | SK Planet Global PTE. Ltd.                 | 100.0                           | Digital contents sourcing service      |
|              | SKP GLOBAL HOLDINGS PTE. LTD.              | 100.0                           | Investment association                 |
|              | SKT Americas, Inc.                         | 100.0                           | Information gathering and consulting   |
|              | SKP America LLC.                           | 100.0                           | Digital contents sourcing service      |
|              | YTK Investment Ltd.                        | 100.0                           | Investment association                 |

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|                                      |       |                        |
|--------------------------------------|-------|------------------------|
| Atlas Investment                     | 100.0 | Investment association |
| Technology Innovation Partners, L.P. | 100.0 | Investment association |
| SK Telecom China Fund I L.P.         | 100.0 | Investment association |

**Table of Contents****32. Transactions with Related Parties, Continued**

## (2) Compensation for the key management

The Company considers registered directors who have substantial role and responsibility in planning, operating, and controlling of the business as key management. The considerations given to such key management for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

|                                   | <b>2013</b>  | <b>2012</b>  |
|-----------------------------------|--------------|--------------|
| Salaries                          | 2,263        | 8,893        |
| Provision for retirement benefits | 1,012        | 799          |
|                                   | <b>3,275</b> | <b>9,692</b> |

Compensation for the key management includes salaries, non-monetary salaries and contributions made in relation to the pension plan.

(3) Transactions with related parties for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

| Scope              | Company                                 | <b>2013</b>                                     |   |  |              |
|--------------------|---|---|---|--|--------------|
|                    |   | <b>Operating<br/>revenue<br/>and<br/>others</b> | <b>Operating<br/>expense and<br/>others</b> | <b>Acquisition of<br/>property and<br/>equipment</b> | <b>Loans</b> |
| Controlling Entity | SK Holding Co., Ltd.(*)                 | 934   | 217,707                                     |  |              |
| Subsidiaries       | SK Broadband Co., Ltd.                  | 105,166   | 524,278                                     | 46,148   |              |
|                    | PS&Marketing Corporation                | 7,404   | 441,309                                     |  |              |
|                    | Network O&S Co., Ltd.                   | 9,005   | 156,123                                     |  |              |
|                    | SK Planet Co., Ltd.                     | 48,840  | 580,910                                     | 3,039  |              |
|                    | Others                                  | 70,366  | 357,535                                     | 1,029  |              |
|                    |   | <b>240,781</b>                                  | <b>2,060,155</b>                            | <b>50,216</b>  |              |
| Associates         | F&U Credit information Co., Ltd.        | 1,536   | 40,867                                      |  |              |
|                    | HappyNarae Co., Ltd.                    | 15  | 3,304                                       | 9,167  |              |
|                    | SK hynix Inc.                           | 3,113   | 1,120                                       |  |              |
|                    | Others                                  | 2,323   | 3,300                                       |  | 997          |
|                    |   | <b>6,987</b>                                    | <b>48,591</b>                               | <b>9,167</b>   | <b>997</b>   |
| Other              | SK Engineering & Construction Co., Ltd. | 4,908   | 36,758                                      | 315,609  |              |

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|       |                       |         |           |         |     |
|-------|-----------------------|---------|-----------|---------|-----|
|       | SK C&C Co., Ltd.      | 3,185   | 269,829   | 126,539 |     |
|       | SK Networks Co., Ltd. | 46,387  | 552,394   | 4,507   |     |
|       | Others                | 20,193  | 57,387    | 109,151 |     |
|       |                       | 74,673  | 916,368   | 555,806 |     |
| Total |                       | 323,375 | 3,242,821 | 615,189 | 997 |

(\*) Operating expense and others include 191,416 million of dividends paid by the Company.



**Table of Contents****32. Transactions with Related Parties, Continued***(In millions of won)*

| Scope                       | Company                                 | 2012                         |                              |                                       |
|-----------------------------|---|------------------------------|------------------------------|---------------------------------------|
|                             |   | Operating revenue and others | Operating expense and others | Acquisition of property and equipment |
| Ultimate Controlling Entity | SK Holding Co., Ltd.(*)                 | 870                          | 217,728                      |                                       |
| Subsidiaries                | SK Broadband Co., Ltd.                  | 114,068                      | 419,429                      | 140,497                               |
|                             | PS&Marketing Corporation                | 4,673                        | 463,067                      |                                       |
|                             | Network O&S Co., Ltd.                   | 3,470                        | 168,648                      | 197,683                               |
|                             | SK Planet Co., Ltd.                     | 44,705                       | 554,286                      | 2,817                                 |
|                             | Others                                  | 78,164                       | 365,239                      | 1,071                                 |
|                             |   | 245,080                      | 1,970,669                    | 342,068                               |
| Associates                  | SK M&C                                  | 6,938                        | 98,899                       | 803                                   |
|                             | F&U Credit information Co., Ltd.        | 1,512                        | 47,489                       |                                       |
|                             | Hana SK Card, Co., Ltd.                 | 63,716                       | 196,936                      | 44                                    |
|                             | Others                                  | 562                          | 87,733                       | 9,911                                 |
|                             |   | 72,728                       | 431,057                      | 10,758                                |
| Other                       | SK C&C Co., Ltd.                        | 4,431                        | 266,918                      | 219,077                               |
|                             | SK Engineering & Construction Co., Ltd. | 5,230                        | 39,622                       | 569,215                               |
|                             | SK Networks Co., Ltd.                   | 19,170                       | 513,846                      | 6,206                                 |
|                             | Others                                  | 27,352                       | 70,372                       | 236,360                               |
|                             |   | 56,183                       | 890,758                      | 1,030,858                             |
| Total                       |   | 374,861                      | 3,510,212                    | 1,383,684                             |

(\* ) Operating expense and others include W 171,053 million of dividends paid by the Company.

**Table of Contents****32. Transactions with Related Parties, Continued**

(4) Account balances as of December 31, 2013 and 2012 are as follows:

*(In millions of won)*

| Scope              | Company                                   | 2013   |   |  |
|--------------------|---|--------|---|--|
|                    |   | Loans  | Accounts receivable<br>Accounts<br>receivable- trade,<br>and others | Accounts payable<br>Accounts<br>payable<br>trade, and others |
| Controlling Entity | SK Holding Co., Ltd.                      |        | 193   |  |
| Subsidiaries       | SK Broadband Co., Ltd.                    |        | 4,779   | 81,243   |
|                    | SK Planet Co., Ltd.                       |        | 10,882  | 116,927  |
|                    | Service Ace Co., Ltd.                     |        | 269   | 18,019   |
|                    | Service Top Co., Ltd.                     |        | 1,258   | 15,375   |
|                    | Others                                    |        | 5,942   | 72,082   |
|                    |   |        |   | 23,130   |
| Associates         | HappyNarae Co., Ltd.                      |        |   | 2,238  |
|                    | SK hynix Inc.                             |        | 392   |  |
|                    | SK USA, Inc.                              |        |   | 436  |
|                    | Wave City Development Co., Ltd.           | 1,200  | 38,412  |  |
|                    | SK Wyverns Baseball Club., Ltd.           | 1,425  |   |  |
|                    | Daehan Kanggun BcN Co., Ltd.              | 22,102 |   |  |
|                    | Others                                    |        | 550   |  |
|                    |   | 24,727 | 39,354  | 2,674  |
| Other              | SK Engineering and Construction Co., Ltd. |        | 767   | 11,374   |
|                    | SK Networks Co., Ltd.                     |        | 5,920   | 53,807   |
|                    | SK C&C Co., Ltd.                          |        | 140   | 64,071   |
|                    | SK Telesys Co., Ltd.                      |        | 372   | 6,438  |
|                    | Others                                    |        | 3,735   | 10,479   |
|                    |   |        |   | 10,934   |
| Total              |   | 24,727 | 73,611  | 452,489  |

**Table of Contents****32. Transactions with Related Parties, Continued***(In millions of won)*

| Scope              | Company                                      | 2012          |   |   |
|--------------------|--|---------------|---|---|
|                    |  | Loans         | Accounts receivable<br>Accounts<br>receivable- trade,<br>and others | Accounts payable<br>Accounts payable<br>trade, and others |
| Controlling Entity | SK Holding Co., Ltd.                         |               | 222   |   |
| Subsidiaries       | SK Broadband Co., Ltd.                       |               | 2,493   | 73,483  |
|                    | PS&Marketing Corporation                     |               | 576   | 59,017  |
|                    | Network O&S Co., Ltd.                        |               | 607   | 124,481   |
|                    | SK Planet Co., Ltd.                          |               | 6,323   | 85,511  |
|                    | Others                                       |               | 7,329   | 43,326  |
|                    |  |               | 17,328  | 385,818   |
| Associates         | SK Marketing & Company<br>Co., Ltd           |               | 972   | 56,125  |
|                    | HappyNarae Co., Ltd.                         |               |   | 1,763   |
|                    | SK hynix Inc.                                |               | 249   | 887   |
|                    | Wave City Development Co.,<br>Ltd.           |               | 38,412  |   |
|                    | SK Wyverns Baseball Club.,<br>Ltd.           | 1,628         |   | 4,000   |
|                    | Daehan Kanggun BcN Co.,<br>Ltd.              | 22,102        |   |   |
|                    | Others                                       |               | 242   | 10,862  |
|                    |  | 23,730        | 39,875  | 73,637  |
| Other              | SK C&C Co., Ltd.                             |               | 369   | 82,327  |
|                    | SK Engineering and<br>Construction Co., Ltd. |               | 1,735   | 20,304  |
|                    | SK Networks Co., Ltd.                        |               | 9,174   | 65,206  |
|                    | Others                                       |               | 3,844   | 21,822  |
|                    |  |               | 15,122  | 189,659   |
| <b>Total</b>       |  | <b>23,730</b> | <b>72,547</b>   | <b>649,114</b>  |

(5) As of December 31, 2013, there are no collateral or guarantee provided by related parties to the Company.

**Table of Contents****33. Sale and Leaseback**

For the year ended December 31, 2012, the Company 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 considered as an operating lease.

In addition, the Company subleased portion of the leased assets. This lease and sublease transactions are expired in 2018 and 2023, respectively. The Company recognized lease payment of W 13,703 million relating to the above operating lease agreement and lease revenue of W 8,462 million through a sublease agreement. Future lease payments and lease revenue from the above operating lease agreement and sublease agreement are as follows:

*(In millions of won)*

|                   | <b>2013</b>           |                      |
|-------------------|-----------------------|----------------------|
|                   | <b>Lease payments</b> | <b>Lease revenue</b> |
| Less than 1 year  | 14,116                | 8,462                |
| 1~5 years         | 57,361                | 31,237               |
| More than 5 years | 53,527                | 23,403               |
|                   | 125,004               | 63,102               |

**Table of Contents****34. Statements of Cash Flows**

- (1) Adjustments for income and expenses from operating activities for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b>      | <b>2012</b>      |
|---|------------------|------------------|
| Interest income   | (32,265)         | (52,408)         |
| Dividends   | (20,640)         | (30,568)         |
| Gain on foreign currency translation  | (699)            | (158)            |
| Gain on valuation of financial assets at fair value through profit or loss  | (5,177)          |                  |
| Gain on disposal of long-term investments securities                        | (5,439)          | (269,352)        |
| Gain on settlement of derivatives   | (7,716)          | (26,103)         |
| Gain on disposal of property and equipment and intangible assets            | (1,869)          | (142,988)        |
| Reversal of allowance for doubtful accounts                                 |                  | (4,846)          |
| Other income  | (3,626)          |                  |
| Interest expenses   | 274,190          | 318,183          |
| Loss on foreign currency translation  | 662              | 746              |
| Loss on valuation of financial asset at fair value through profit or loss   |                  | 1,262            |
| Loss on disposal of long-term investments securities                        | 73               | 9,136            |
| Loss on settlement of derivatives   |                  | 1,232            |
| Loss relating to financial liabilities at fair value through profit or loss | 134,232          | 7,793            |
| Other finance costs   |                  | 189,951          |
| Loss relating to investments in subsidiaries and associates                 | 37,685           | 5,510            |
| Income tax expense  | 310,640          | 303,952          |
| Provision for retirement benefits   | 35,362           | 31,804           |
| Depreciation and amortization   | 2,115,520        | 1,835,104        |
| Bad debt for accounts receivable - trade                                    | 32,051           | 22,502           |
| Impairment loss on property and equipment and intangible assets             |                  | 15,438           |
| Loss on disposal of property and equipment and intangible assets            | 233,611          | 9,628            |
| Bad debt for accounts receivable - other                                    | 20,784           | 21,845           |
| Other expenses  | 3,048            | 1,578            |
|   | <b>3,120,427</b> | <b>2,249,241</b> |

**Table of Contents****34. Statements of Cash Flows, Continued**

- (2) Changes in assets and liabilities from operating activities for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Accounts receivable - trade            | (138,033)   | (143,431)   |
| Accounts receivable - other            | (27,722)    | 369,045     |
| Advance payments                       | (20,073)    | 47,108      |
| Prepaid expenses                       | (6,821)     | 3,304       |
| Inventories                            | (8,601)     | (6,635)     |
| Long-term accounts receivables - other |             | 5,393       |
| Long-term prepaid expenses             | (1,425)     |             |
| Guarantee deposits                     | (2,653)     | 14,331      |
| Accounts payable - other               | 5,584       | 111,813     |
| Advanced receipts                      | (3,095)     | 6,634       |
| Withholdings                           | 21,786      | 221,706     |
| Deposits received                      | (66,828)    | (44,165)    |
| Accrued expenses                       | 57,014      | 119,764     |
| Unearned revenue                       | (183,655)   | (81,944)    |
| Provisions                             | (226,644)   | (373,195)   |
| Long-term provisions                   | (72,228)    | (32,776)    |
| Plan assets                            | (28,314)    | (26,198)    |
| Retirement benefit payment             | (15,566)    | (12,965)    |
| Others                                 | 2,412       | (1,077)     |
|  | (714,862)   | 176,712     |

- (3) Significant non-cash transactions for the years ended December 31, 2013 and 2012 are as follows:

*(In millions of won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Transfer of other property and equipment and others to construction in progress                 | 1,187,295   | 1,454,209   |
| Transfer of construction in progress to property and equipment, and intangible assets           | 1,966,553   | 2,211,285   |
| Accounts payable - other related to acquisition of property and equipment and intangible assets | 349,793     | 8,009       |
| Return of the existing 1.8GHz frequency use rights  | 614,600     |             |
| Transfer of available-for-sale financial assets to investments in associates                    |             | 8,130       |



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**Independent Accountant's Review Report on Internal Accounting Control System ( IACS )**

**Based on a report originally issued in Korean**

To the Representative Director of

SK Telecom Co., Ltd.

We have reviewed the accompanying Report on the Management's Assessment of IACS (the Management's Report) of SK Telecom Co., Ltd. (the Company) As of December 31, 2013. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that based on the assessment of the IACS As of December 31, 2013, the Company's IACS has been appropriately designed and is operating effectively As of December 31, 2013, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with Korean International Financial Reporting Standards, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS 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.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2013, and we did not review its IACS subsequent to December 31, 2013. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

February 21, 2014



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**Report on the Assessment of Internal Accounting Control System ( IACS )**

To the Board of Directors and Audit Committee of

SK Telecom Co., Ltd.

I, as the Internal Accounting Control Officer ( IACO ) of SK Telecom Co., Ltd. ( the Company ), assessed the status of the design and operation of the Company s IACS for the year ended December 31, 2013.

The Company s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements reporting. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company s IACS has been appropriately designed and is operating effectively As of December 31, 2013, in all material respects, in accordance with the IACS Framework.

February 5, 2014

/s/ Internal Accounting Control Officer

/s/ Chief Executive Officer

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**2. Approval of Amendments to the Articles of Incorporation**

*The proposed amendments are as follows:*

| <b>Current</b>   | <b>Proposed Amendment</b>  | <b>Remarks</b>  |
|--|--|---|
| <p><b>Article 4. Method of Public Notice</b></p> <p>Public notices by the Company shall be given by publication in Hankuk Kyungje Shinmoon , a daily newspaper published in Seoul (amended on July 7, 1994).</p> | <p><b>Article 4. Method of Public Notice</b></p> <p style="text-align: right;"><u>on the</u></p> <p><u>Company s Internet homepage (http://www.sktelecom.com).</u></p> <p><u>However, if public notices cannot be given on such homepage due to network failure or other inevitable reasons, they shall be given by publication in Hankuk Kyungje Shinmoon , a daily newspaper published in Seoul (amended on March 21, 2014).</u></p> | <p>Making the Articles consistent with the laws and regulations in force; and general references to the relevant laws and regulations</p> |

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**3. Approval of the Appointment of Directors**

(1) Executive Director

| Name            | Term    | Profile  | Remarks          |
|-----------------|---------|--|------------------|
| Ha,<br>Sung Min | 3 Years | <b>Education</b><br><br>B.A., Sung Kyun Kwan University (Business Administration)  | Current Director |
|                 |         | <b>Career</b><br><br>Chairman of the SK SUPEX Council Strategy Committee (current)<br><br>President & CEO of SK Telecom (current)<br><br>Chairman of SK Hynix Co., Ltd. Board of Directors |                  |

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## (2) Independent Non-Executive Director

| <b>Name</b>                 | <b>Term</b> | <b>Profile</b>  | <b>Remarks</b>   |
|-----------------------------|-------------|---|------------------|
| <b>Chung,<br/>Jay Young</b> | 3 Years     | <b>Education</b><br><br>Ph.D. in Commerce, School of Commerce, Waseda University<br><br>Master in Commerce, School of Commerce, Waseda University<br><br>B.A., Sung Kyun Kwan University (Business Administration)  | Current Director |
|                             |             | <b>Career</b><br><br>Honorary Professor, Sung Kyun Kwan University (current)<br><br>Chairman, Asia-Pacific Economics Association (current)<br><br>Vice President, Sung Kyun Kwan University<br><br>Independent Non-Executive Director, POSCO<br><br>Professor of Business Administration, Sung Kyun Kwan University |                  |

## (3) Independent Non-Executive Director

| <b>Name</b> | <b>Term</b> | <b>Profile</b> | <b>Remarks</b> |
|-------------|-------------|----------------|----------------|
|-------------|-------------|----------------|----------------|

**Lee,  
Jae Hoon**

3 Years

“ **Education**

New  
Appointment

Ph.D. in Public Administration, Sung Kyun Kwan University

Master in Applied Economics, University of Michigan at Ann Arbor

Bachelor in Economics, Seoul National University

“ **Career**

President, Association of Future Strategy Forum on Energy &  
Resources Development (current)

Independent Non-Executive Director, Mirae Asset Global Investments  
Co., Ltd. (current, to resign before March 21, 2014)

Vice Minister for Energy and Trade, Ministry of Knowledge Economy

Vice Minister, Ministry of Commerce, Industry and Energy

Assistant Minister, Ministry of Commerce, Industry and Energy

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## (4) Independent Non-Executive Director

| <b>Name</b>           | <b>Term</b> | <b>Profile</b>   | <b>Remarks</b>  |
|-----------------------|-------------|--|-----------------|
| <b>Ahn, Jae Hyeon</b> | 3 Years     | <b>Education</b><br><br>Ph.D. in Decision Analysis, Stanford University<br><br>Master of Science in Industrial Engineering, Seoul National University<br><br>Bachelor of Science in Industrial Engineering, Seoul National University                | New Appointment |
|                       |             | <b>Career</b><br><br>Professor & Vice President, College of Business, KAIST (current)<br><br>President, Korea Media Management Association<br><br>Senior Technical Staff Member, AT&T Bell Labs<br><br>Consultant, Electric Power Research Institute |                 |

**4. Approval of the Appointment of a Member of the Audit Committee**

## (1) Audit Committee Member

| <b>Name</b> | <b>Term</b> | <b>Profile</b> | <b>Remarks</b> |
|-------------|-------------|----------------|----------------|
|-------------|-------------|----------------|----------------|

**Ahn,**  
**Jae Hyeon**

3 Years

**Education**

New  
Appointment

Ph.D. in Decision Analysis, Stanford University

Master of Science in Industrial Engineering, Seoul National University

Bachelor of Science in Industrial Engineering, Seoul National  
University

**Career**

Professor and Associate Dean of External Affairs, College of Business,  
KAIST (current)

President, Society for Media Management

Senior Technical Staff Member, AT&T Bell Labs

Consultant, Electric Power Research Institute

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**Table of Contents****5. Approval of Ceiling Amount of the Remuneration of Directors**

The number of directors and total amount and maximum authorized amount of compensation of directors are as follows:

| <b>Classification</b>   | <b>Fiscal year 2013</b> | <b>Fiscal year 2014</b> |
|---|-------------------------|-------------------------|
| Number of directors (Number of independent non-executive directors)     | 8 persons (5 persons)   | 8 persons (5 persons)   |
| Total amount and maximum authorized amount of compensation of directors | Won 12 billion          | Won 12 billion          |



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SK TELECOM CO., LTD.**  
*(Registrant)*

By: /s/ Soo Cheol Hwang  
*(Signature)*  
Name: Soo Cheol Hwang  
Title: Senior Vice President

Date: March 24, 2014