

SK TELECOM CO LTD  
Form 20-F  
April 29, 2016  
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As filed with the Securities and Exchange Commission on April 29, 2016

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

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

**For the fiscal year ended December 31, 2015**

**OR**

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

**OR**

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

**Date of event requiring this shell company report**

**For the transition period from            to**

**Commission file number 1-14418**

**SK Telecom Co., Ltd.**

*(Exact name of Registrant as specified in its charter)*

**SK Telecom Co., Ltd.**

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

**The Republic of Korea**

*(Jurisdiction of incorporation or organization)*

**SK T-Tower**

**65, Eulji-ro, Jung-gu, Seoul, Korea**

*(Address of principal executive offices)*

**Ms. Tae Hee Kim**

**65, Eulji-ro, Jung-gu, Seoul, Korea**

**Telephone No.: 82-2-6100-2114**

**Facsimile No.: 82-2-6100-7830**

*(Name, telephone, email and/or facsimile number and address of company contact person)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

| <b>Title of Each Class</b>   | <b>Name of Each Exchange on Which Registered</b> |
|--|--|
| American Depositary Shares, each representing one-ninth of one share of Common Stock | New York Stock Exchange                          |
| Common Stock, par value 500 per share  | New York Stock Exchange*                         |

\* Not for trading, but only in connection with the registration of the American Depositary Shares.

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

None

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**70,609,160 shares of common stock, par value 500 per share (not including 10,136,551 shares of common stock held by the company as treasury shares)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes**  **No**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. **Yes**  **No**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes**  **No**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes**  **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

**Large accelerated filer**  **Accelerated filer**  **Non-accelerated filer**

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

**U.S. GAAP**  **International Financial Reporting Standards as issued by the International Accounting Standards Board**  **Other**

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes**  **No**

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**CERTAIN DEFINED TERMS AND CONVENTIONS USED IN THIS ANNUAL REPORT**

All references to Korea contained in this annual report shall mean The Republic of Korea. All references to the Government shall mean the government of The Republic of Korea. All references to we, us, or our shall mean SK Telecom Co., Ltd. and, unless the context otherwise requires, its consolidated subsidiaries. References to SK Telecom shall mean SK Telecom Co., Ltd., but shall not include its consolidated subsidiaries. All references to U.S. shall mean the United States of America.

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

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

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

Subscriber information for the wireless and fixed-line telecommunications industry set forth in this annual report are derived from information published by the MSIP unless expressly stated otherwise.

The consolidated financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (the IASB). As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014, and 2013 included in this annual report.

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

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

**FORWARD-LOOKING STATEMENTS**

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

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these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, considering, depends, estimate, expect, intend, plan, planning, planned, project and similar expressions, or that certain events, actions or results may, might or could occur, be taken or be achieved.

Forward-looking statements in this annual report include, but are not limited to, statements about the following:

our ability to anticipate and respond to various competitive factors affecting the telecommunications industry, including new services that may be introduced, changes in consumer preferences, economic conditions and discount pricing strategies by competitors;

our implementation of long-term evolution ( LTE ) technology, long-term evolution advanced ( LTE-A ) technology and the next-generation wireless technology, which we call 5G technology;

our plans for capital expenditures in 2016 for a range of projects, including investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our platform business portfolio and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth engines, as well as initiatives related to our ongoing businesses in the ordinary course;

our efforts to make significant investments to build, develop and broaden our businesses, including developing our three next-generation growth platforms, Internet of Things ( IoT ) solutions, lifestyle enhancement and advanced media;

our ability to comply with governmental rules and regulations, including the regulations of the Government related to telecommunications providers, the Mobile Device Distribution Improvement Act ( MDDIA ), rules related to our status as a market-dominating business entity under the Korean Monopoly Regulation and Fair Trade Act (the Fair Trade Act ) and the effectiveness of steps we have taken to comply with such regulations;

our ability to effectively manage our bandwidth and to timely and efficiently implement new bandwidth-efficient technologies and our intention to participate in, and acquire additional bandwidth pursuant to, frequency bandwidth auctions held by the MSIP;

our expectations and estimates related to interconnection fees, rates charged by our competitors, regulatory fees, operating costs and expenditures, working capital requirements, principal repayment obligations with respect to long-term borrowings, bonds and obligations under capital leases, and research and development expenditures and other financial estimates;

the success of our various joint ventures and investments;

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

our ability to successfully complete the acquisition of a stake in CJ HelloVision Co., Ltd. ( CJ HelloVision ), a fixed-line cable TV broadcast service provider, and integrate CJ HelloVision's business with that of SK Broadband Co., Ltd. ( SK Broadband );

our ability to successfully attract and retain subscribers; and

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

We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. Risks and uncertainties associated with our business include, but are not limited to, risks related to changes in the regulatory environment, technology changes, potential litigation



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

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**PART I**

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

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

Not applicable.

**Item 1.B. Advisers**

Not applicable.

**Item 1.C. Auditors**

Not applicable.

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

Not applicable.

**Item 3. KEY INFORMATION**

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

You should read the selected consolidated financial and operating data below in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report. The selected consolidated financial data set forth below as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements and related notes thereto, which have been prepared in accordance with IFRS as issued by the IASB.

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

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



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|  | Year Ended December 31,  |            |                         |            |            |
|--|--|------------|-------------------------|------------|------------|
|  | 2015   | 2014       | 2013                    | 2012       | 2011       |
|  | (In billions of Won, except per share and number of shares data) |            |                         |            |            |
| <b>STATEMENT OF INCOME DATA</b>                                |  |            |                         |            |            |
| Operating Revenue and Other Income                             | 17,167.6   | 17,220.3   | 16,677.0                | 16,343.3   | 15,852.8   |
| Revenue  | 17,136.7   | 17,163.8   | 16,602.1                | 16,141.4   | 15,803.2   |
| Other income   | 30.9   | 56.5       | 74.9                    | 201.9      | 49.6       |
| Operating Expense  | 15,672.2   | 15,612.4   | 15,098.6                | 14,605.6   | 13,690.1   |
| Operating Income   | 1,495.4  | 1,607.8    | 1,578.4                 | 1,737.6    | 2,162.7    |
| Profit before Income Tax                                       | 2,035.4  | 2,253.8    | 1,827.1                 | 1,519.4    | 2,212.3    |
| Profit from Continuing Operations                              | 1,515.9  | 1,799.3    | 1,426.3                 | 1,231.2    | 1,610.3    |
| Profit (Loss) from Discontinued Operation, net of income taxes |  |            | 183.2                   | (115.5)    | (28.3)     |
| Profit for the Year  | 1,515.9  | 1,799.3    | 1,609.5                 | 1,115.7    | 1,582.1    |
| Basic Earnings per Share(1)                                    | 20,988   | 25,154     | 23,211                  | 16,525     | 22,848     |
| Diluted Earnings per Share(2)                                  | 20,988   | 25,154     | 23,211                  | 16,141     | 22,223     |
| Basic Earnings per Share from Continuing Operations(1)         | 20,988   | 25,154     | 20,708                  | 18,015     | 23,339     |
| Diluted Earnings per Share from Continuing Operations(2)       | 20,988   | 25,154     | 20,708                  | 17,583     | 22,699     |
| Dividends Declared per Share (Won)                             | 10,000   | 9,400      | 9,400                   | 9,400      | 9,400      |
| Dividends Declared per Share (US\$)(3)                         | 8.6  | 8.6        | 8.9                     | 8.8        | 8.1        |
| Weighted Average Number of Shares                              | 71,551,966   | 70,936,336 | 70,247,592              | 69,694,999 | 70,591,937 |
|  |  |            | As of December 31,      |            |            |
|  | 2015   | 2014       | 2013                    | 2012       | 2011       |
|  | (In billions of Won)   |            |                         |            |            |
| <b>STATEMENT OF FINANCIAL POSITION DATA</b>                    |  |            |                         |            |            |
| Working Capital (Deficit)(4)                                   | (96.3)   | (337.2)    | (945.8)                 | (880.5)    | (556.1)    |
| Property and Equipment, Net                                    | 10,371.3   | 10,567.7   | 10,196.6                | 9,712.7    | 9,031.0    |
| Total Assets   | 28,581.4   | 27,941.2   | 26,576.5                | 25,595.6   | 24,366.0   |
| Non-current Liabilities(5)                                     | 7,950.8  | 7,272.7    | 6,340.7                 | 6,565.9    | 4,959.7    |
| Share Capital  | 44.6   | 44.6       | 44.6                    | 44.6       | 44.6       |
| Total Equity   | 15,374.1   | 15,248.3   | 14,166.6                | 12,854.8   | 12,732.7   |
|  |  |            | Year Ended December 31, |            |            |
|  | 2015   | 2014       | 2013                    | 2012       | 2011       |
|  | (In billions of Won, except percentage data)                     |            |                         |            |            |
| <b>OTHER FINANCIAL DATA</b>                                    |  |            |                         |            |            |
| Capital Expenditures(6)  | 2,478.8  | 3,008.0    | 2,879.1                 | 3,394.3    | 2,960.6    |
| R&D Expense(7)   | 322.7  | 397.8      | 363.7                   | 346.3      | 295.9      |
| Depreciation and Amortization Expense                          | 2,845.3  | 2,714.7    | 2,661.6                 | 2,421.1    | 2,286.6    |
| Net Cash Provided by Operating Activities                      | 3,778.1  | 3,677.4    | 3,558.6                 | 3,999.7    | 6,306.4    |
| Net Cash Used in Investing Activities                          | (2,880.5)  | (3,683.2)  | (2,506.5)               | (5,309.6)  | (4,239.1)  |
| Net Cash Provided by (Used in) Financing Activities            | (964.6)  | (559.4)    | (573.2)                 | 585.3      | (1,079.3)  |
| Margins (% of total sales):                                    |  |            |                         |            |            |
| Operating Margin(8)  | 8.7%   | 9.3%       | 9.5%                    | 10.6%      | 13.6%      |
| Net Margin(8)  | 8.8%   | 10.4%      | 9.7%                    | 6.8%       | 9.9%       |

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|   | As of or for the Year Ended December 31, |        |        |        |        |
|---|--|--------|--------|--------|--------|
|   | 2015                                     | 2014   | 2013   | 2012   | 2011   |
| <b>SELECTED OPERATING DATA</b>                |  |        |        |        |        |
| Population of Korea (in millions)(9)          | 51.5                                     | 51.3   | 51.1   | 50.9   | 50.7   |
| Our Wireless Penetration(10)                  | 55.6%                                    | 55.7%  | 53.5%  | 52.9%  | 52.3%  |
| Number of Employees(11)                       | 25,992                                   | 25,689 | 23,789 | 22,148 | 20,955 |
| Wireless Subscribers (in thousands) (12)      | 28,626                                   | 28,279 | 27,352 | 26,961 | 26,553 |
| Our LTE Subscribers (in thousands) (13)       | 18,980                                   | 16,737 | 13,487 | 7,530  | 634    |
| Our LTE Penetration(14)                       | 66.3%                                    | 59.2%  | 49.3%  | 27.9%  | 2.4%   |
| Average Monthly Data Usage per Subscriber(15) | 3.9 GB                                   | 3.0 GB | 2.0 GB | 1.8 GB |        |
| Average Monthly Churn Rate(16)                | 1.5%                                     | 2.0%   | 2.3%   | 2.6%   | 2.7%   |
| Cell Sites                                    | 55,085                                   | 50,158 | 44,764 | 35,584 | 21,999 |

- (1) Basic earnings per share is calculated by dividing profit attributable to owners of SK Telecom by the weighted average number of common shares outstanding during the period. Basic earnings per share from continuing operations is calculated by dividing profit from continuing operations attributable to owners of SK Telecom by the weighted average number of common shares outstanding during the period.
- (2) Diluted earnings per share is calculated by dividing profit attributable to owners of SK Telecom adjusted for dilution by the potential dilutive weighted average number of common shares outstanding during the period, taking into account the conversion of outstanding convertible bonds. Diluted earnings per share from continuing operations is calculated by dividing profit from continuing operations attributable to owners of SK Telecom adjusted for dilution by the potential dilutive weighted average number of common shares outstanding during the period, taking into account the conversion of outstanding convertible bonds.
- (3) The Dollar amounts shown for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 were translated at the rate of Won 1,169.3 to US\$1.00, Won 1,090.9 to US\$1.00, Won 1,055.3 to US\$1.00, Won 1,063.2 to US\$1.00 and Won 1,158.5 to US\$1.00, respectively, the noon buying rates in effect at the end of the respective years.
- (4) Working capital means current assets minus current liabilities.
- (5) Our monetary assets and liabilities denominated in foreign currencies are valued at the exchange rates prevailing at the end of each reporting period. See note 4(19) of the notes to our consolidated financial statements.
- (6) Consists of cash outflows for the acquisition of property and equipment.
- (7) Consists of research and development costs that are expensed and costs that are amortized during the respective period as well as donations to Korean research institutions and educational organizations in 2012 and 2011 of Won 4.0 billion and Won 20.0 billion, respectively.
- (8) Operating revenue and other income and operating income used in the calculation of these ratios exclude the operating revenue and other income and operating income from discontinued operations.
- (9) Population numbers reflect the number of registered residents as published by the Ministry of the Interior of Korea.

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- (10) Our wireless penetration is determined by dividing our wireless subscribers by total estimated population, as of the end of the period.
  
- (11) Includes regular employees and temporary employees. See Item 6.D. Employees.
  
- (12) Wireless subscribers include those subscribers who are temporarily deactivated, including (i) subscribers who voluntarily deactivate temporarily for a period of up to three months no more than twice a year and (ii) subscribers with delinquent accounts who may be involuntarily deactivated up to two months before permanent deactivation, which we determine based on various factors, including prior payment history. The number of subscribers as of December 31, 2015, 2014, 2013 and 2012 include 2.7 million subscribers, 2.1 million subscribers, 1.1 million subscribers and 0.4 million subscribers, respectively, of mobile virtual network operators ( MVNO ) that lease our wireless networks.
  
- (13) The number of LTE subscribers as of December 31, 2015 and 2014 include 0.1 million subscribers and approximately 29,000 subscribers, respectively, of MVNOs that lease our LTE network.

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- (14) Our LTE wireless penetration is determined by dividing our LTE subscribers by our total wireless subscribers, as of the end of the period.
- (15) Average monthly data usage per LTE subscriber is determined by dividing the total GBs of data usage for the last month of the period by the average number of LTE subscribers for such month.
- (16) The average monthly churn rate for a period is the number calculated by dividing the sum of voluntary and involuntary deactivations during the period by the simple average of the number of subscribers at the beginning and end of the period, then dividing that number by the number of months in the period. Churn includes subscribers who upgrade to a next-generation service, such as LTE, by terminating their service and opening a new subscriber account.

**Exchange Rates**

The following table sets forth, for the periods and dates indicated, certain information concerning the noon buying rate for translations of Won amounts into Dollars. We make no representation that the Won or Dollar amounts we refer to in this annual report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

| Year Ended December 31, | At End of Period | Average Rate(1)<br>(Won per US\$1.00) | High    | Low     |
|-------------------------|------------------|---------------------------------------|---------|---------|
| 2011                    | 1,158.5          | 1,106.9                               | 1,197.5 | 1,049.2 |
| 2012                    | 1,063.2          | 1,126.2                               | 1,185.0 | 1,063.2 |
| 2013                    | 1,055.3          | 1,094.7                               | 1,161.3 | 1,050.1 |
| 2014                    | 1,090.9          | 1,052.3                               | 1,117.7 | 1,008.9 |
| 2015                    | 1,169.3          | 1,131.0                               | 1,196.4 | 1,063.0 |

|                               | Past Six Months<br>High Low<br>(Won per US\$1.00) |         |
|-------------------------------|---|---------|
| October 2015                  | 1,180.0   | 1,120.9 |
| November 2015                 | 1,172.7   | 1,136.5 |
| December 2015                 | 1,188.0   | 1,140.7 |
| January 2016                  | 1,217.0   | 1,190.4 |
| February 2016                 | 1,242.6   | 1,186.1 |
| March 2016                    | 1,229.6   | 1,138.9 |
| April 2016 (through April 22) | 1,158.4   | 1,126.0 |

Source: Federal Reserve Bank of New York.

- (1) The average rates for the annual periods were calculated based on daily noon buying rates for cable transfers in New York City certified for customs purposes by the Federal Reserve Bank of New York. On April 22, 2016, the noon buying rate was Won 1,147.9 to US\$1.00.

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

Not applicable.

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



**Table of Contents****Item 3.D. Risk Factors  
Risks Relating to Our Business*****Competition may reduce our market share and harm our results of operations and financial condition.***

We face substantial competition across all our businesses, including our wireless telecommunications business. We expect competition to intensify as a result of the development of new technologies, products and services. We expect that such trends will continue to put downward pressure on the prevailing rates we can charge our subscribers.

Historically, there has been considerable consolidation in the telecommunications industry, resulting in the current competitive landscape comprising three mobile and fixed network operators in the Korean market, us, KT Corporation ( *KT* ) and LG Uplus Corp. ( *LG U+* ). Our competitors have substantial financial, technical, marketing and other resources to respond to our business offerings.

The collective market share of our competitors amounts to approximately 50.6%, in terms of number of wireless subscribers, as of December 31, 2015. We also compete for subscriber activations with MVNOs, including MVNOs that lease our networks. MVNOs generally provide rate plans that are relatively cheaper than similar rate plans of the wireless network providers from which they lease their networks, including us. In addition, other companies may enter the telecommunications service market by acquiring the required licenses from the MSIP. For example, in October 2015, Sejong Telecom, K Mobile and Quantum Mobile applied for licenses to become Korea's fourth mobile network operator. Although the MSIP rejected the applications of all three companies in January 2016, the MSIP may continue its efforts to find an eligible applicant to be Korea's fourth mobile network operator in the future.

We believe the increase in market share of MVNOs and the entrance of a new mobile network operator in the wireless telecommunications market may further increase competition in the telecommunications sector, as well as cause downward price pressure on the fees we charge for our services, which, in turn, may have a material adverse effect on our results of operations, financial position and cash flows.

Our fixed-line telephone service competes with KT and LG U+, as well as other providers of voice over Internet protocol ( *VoIP* ) services. As of December 31, 2015, our market share of the fixed-line telephone and VoIP service market was 16.2% (including the services provided by SK Broadband and SK Telink Co., Ltd. ( *SK Telink* )) in terms of number of subscribers compared to KT with 57.5% and LG U+ with 17.5%. In addition, our broadband Internet access and Internet protocol TV ( *IPTV* ) services provided through SK Broadband competes with other providers of such services, including KT, LG U+ and cable companies. As of December 31, 2015, our market share of the broadband Internet market was 25.1% in terms of number of subscribers compared to KT with 41.6% and LG U+ with 17.4%. As of December 31, 2015, our market share of the pay TV market (which includes IPTV, cable TV and satellite TV) was 12.1% compared to KT with 22.7% and LG U+ with 7.9% and the collective market share of other pay TV providers with 57.3%.

Continued competition from other wireless and fixed-line service providers has also resulted in, and may continue to result in, a substantial level of deactivations among our subscribers. Subscriber deactivations, or churn, may significantly harm our business and results of operations. In 2015, the monthly churn rate in our wireless telecommunications business ranged from 1.3% to 2.1%, with an average monthly churn rate of 1.5%, which was a decrease from 2.0% in 2014. Intensification of competition in the future may cause our churn rates to increase, which in turn may cause us to increase our marketing expenses as a percentage of sales to attract and retain subscribers.

With respect to the commerce business operated by SK Planet Co., Ltd. ( *SK Planet* ), 11st, our marketplace business, faces intense competition from various e-commerce providers, including online open marketplaces such as Gmarket, Auction and Interpark and online social commerce operators such as Coupang, Ticket Monster and Wemakeprice. We also face competition from traditional retailers with online and mobile shopping portals such as SSG.com and Lotte.com, home shopping providers with online and mobile shopping portals such as CJ Mall by CJ O Shopping, GS Shop by GS Homeshopping and Hyundai Hmall by Hyundai Homeshopping, and various

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online marketplaces for specific consumer segments or product groups. The industry in which 11st competes is evolving rapidly and is intensely competitive, and we face a broad array of competitors domestically and increasingly, internationally.

Our ability to compete successfully in all of the businesses that we operate will depend on our ability to anticipate and respond to various competitive factors affecting the respective industries, including new services that may be introduced, changes in consumer preferences, economic conditions and discount pricing strategies by competitors.

***Inability to successfully implement or adapt our network and technology to meet the continuing technological advancements affecting the wireless telecommunications industry will likely have a material adverse effect on our financial condition, results of operation, cash flows and business.***

The telecommunications industry has been characterized by continual improvement and advances in technology, and this trend is expected to continue. We and our competitors have continually implemented technology upgrades from our basic code division multiple access ( CDMA ) network to our wideband code division multiple access ( WCDMA ) network, and subsequently to LTE technology. We commenced commercial LTE services in July 2011 at the same time with LG U+, while KT commenced its commercial LTE services in January 2012. In June 2013, we commenced providing commercial LTE-A services using carrier aggregation technology which combines spectrum frequencies to improve data transmission speeds, and in June 2014, we launched wideband LTE-A services of up to 225 Mbps and expanded coverage nationwide in 2014.

In December 2014, we commenced tri-band LTE-A services, which bundles three different bandwidths to allow faster network service at speeds of up to 300 Mbps in Seoul and other metropolitan areas. Since then, we have expanded coverage nationwide and as of December 31, 2015, the nationwide geographic coverage percentage of our tri-band LTE-A service was approximately 51.9% according to the MSIP. KT and LG U+ have also launched similar LTE-A services around the same time as us. The more successful operation of an LTE network or development of improved LTE technology by a competitor, including better market acceptance of a competitor's LTE services, could materially and adversely affect our existing wireless telecommunications businesses as well as the returns on future investments we may make in our LTE network or our other businesses. For a more detailed description of our backbone networks, see Item 4.B. Business Overview Cellular Services Digital Wireless Network.

Our business could also be harmed if we fail to implement, or adapt to, future technological advancements in the telecommunications sector in a timely manner, such as the implementation of 5G technology. In addition to introducing new technologies and offerings, we must phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, our results of operations could be adversely affected.

***Implementation of LTE technology has required, and may continue to require, significant capital and other expenditures, which we may not recoup.***

We have made, and intend to continue to make, capital investments to develop, launch and enhance our LTE service, including launching LTE-A services. In 2015, 2014 and 2013, we spent Won 1,022.7 billion, Won 1,357.2 billion and Won 1,439.4 billion, respectively, in capital expenditures to build and enhance our LTE network. We plan to make further capital investments related to our LTE and LTE-A services in the future. Our wireless technology-related investment plans are subject to change, and will depend, in part, on market demand for LTE and LTE-A services, the competitive landscape for provision of such services and the development of competing technologies. There may not be sufficient demand for services based on our latest wireless technologies, as a result of competition or otherwise, to permit us to recoup or profit from our wireless technology-related capital investments.

***Our growth strategy calls for significant investments in new businesses and regions, including businesses and regions in which we have limited experience.***

We seek growth through investments in new businesses. While we believe that entering into new businesses enables us to diversify our business portfolio, we may be exposed to additional risks. For example, in February 2012, we acquired a 21.1% equity stake in SK Hynix, one of the world's largest memory-chip makers by revenue,

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for an aggregate purchase price of approximately Won 3.4 trillion, and became its largest shareholder. From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged downturns, which often occur in connection with a deterioration of global economic conditions, and is subject to intense competition. For example, SK Hynix and its subsidiaries, on a consolidated basis, incurred net losses of Won 158.8 billion and Won 56.0 billion in 2012 and 2011, respectively, primarily due to increased supply and weak demand for semiconductor products. Although the memory semiconductor industry has recovered since then and SK Hynix has been recording net profits since 2013, the industry is subject to cyclical fluctuations and we expect that there may be future downturns in the industry. Accordingly, SK Hynix's operating results would be adversely affected if it fails to compete successfully or decrease manufacturing costs at an adequate level. Since our share of any net losses incurred by SK Hynix would be reflected in our income statement as share of losses related to investments in associates, any significant loss of SK Hynix could have a material adverse effect on our results of operations.

We believe that we must continue to make significant investments to build, develop and broaden our existing businesses. Entering into new businesses and regions in which we have limited experience may require us to make substantial investments, and despite such investments, we may still be unsuccessful in these efforts to expand and diversify. We might not be able to recoup or profit from our investments in new businesses and regions. In addition, when we enter into these businesses and regions with partners through joint ventures or other strategic alliances, we and those partners may have disagreements with respect to strategic directions or other aspects of business, or may otherwise be unable to coordinate or cooperate with each other, any of which could materially and adversely affect our operations in such businesses and regions.

***We may fail to successfully complete or integrate our new acquisitions and joint ventures and may fail to realize the anticipated benefits.***

We continue to seek opportunities to develop new businesses that we believe are complementary to our existing product and service portfolio and expand our global business through selective acquisitions.

On November 2, 2015, we entered into a share purchase agreement with CJ O Shopping Co., Ltd. ( CJ O Shopping ) to acquire a 30.0% interest in CJ HelloVision, a fixed-line cable TV broadcast service provider, for an aggregate purchase price of Won 500.0 billion. Upon the acquisition of CJ HelloVision, SK Broadband will be merged with and into CJ HelloVision, after which we will have a 78.3% equity stake in the merged company. The acquisition and subsequent merger are subject to certain closing conditions, including obtaining regulatory approval from the relevant authorities. We may be delayed in, or fail to, obtain the necessary regulatory approvals and in such case, we may not be able to complete the acquisition and subsequent merger as planned.

In 2014 and 2015, we acquired an 83.9% interest in Neosnetworks Co., Ltd. ( Neosnetworks ), a provider of residential and small business electronic security and other related alarm monitoring services, for an aggregate purchase price of approximately Won 64.0 billion and a 49.0% equity stake in Iriver Ltd. ( Iriver ), a manufacturer of digital audio players and other portable media devices, for an aggregate purchase price of approximately Won 54.5 billion. In 2014, a 95.2%-owned subsidiary of SK Planet acquired a 100.0% ownership interest in Shopkick Inc. ( Shopkick ), the developer of shopkick, a mobile shopping application that checks in and rewards customers that arrive at a participating retail store in order to penetrate the mobile commerce market in the United States. For a more detailed description of our recent investments in new businesses, see Item 5.B. Liquidity and Capital Resources Capital Requirements Investments in New Businesses and Global Expansion and Other Needs.

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

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

According to data published by the MSIP and the historical population data published by the Ministry of the Interior, the penetration rate for the Korean wireless telecommunications industry as of December 31, 2015 was approximately 114.4%, which is relatively high compared to many industrialized countries. Therefore, we expect that the penetration rate for wireless telecommunications service in Korea will remain relatively stable. As a result

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of the already high penetration rate in Korea for wireless telecommunications services coupled with our leading market share, we expect our subscriber growth rate to decrease. Slowed growth in the penetration rate without a commensurate increase in revenues through the introduction of new services and increased use of our services by existing subscribers would likely have a material adverse effect on our financial condition, results of operations and cash flows.

***Our business and results of operations may be adversely affected if we fail to acquire adequate additional spectrum or use our bandwidth efficiently to accommodate subscriber growth and subscriber usage.***

One of the principal limitations on a wireless network's subscriber capacity is the amount of spectrum available for use by the network. We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our CDMA services, 20 MHz of bandwidth in the 2.1 GHz spectrum for our WCDMA services, 40 MHz of bandwidth in the 2.1 GHz spectrum, 20 MHz of bandwidth in the 800 MHz spectrum and 35 MHz of bandwidth in the 1.8 GHz spectrum for our LTE services, as well as 27 MHz of spectrum in the 2.3 GHz band for our wireless broadband Internet ( WiBro ) services.

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

We intend to participate in the frequency bandwidth auctions to be held by the MSIP in 2016 and aim to acquire bandwidths that are complementary to our existing network. We may be required to pay a substantial amount to acquire bandwidth capacity in order to meet increasing bandwidth demand and we may not be successful in acquiring the necessary bandwidth to meet such demand, which may adversely affect our financial condition and results of operations.

***We rely on key researchers and engineers and senior management, and the loss of the services of any such personnel or the inability to attract and retain them may negatively affect our business.***

Our success depends to a significant extent upon the continued service of our research and development and engineering personnel, and on our ability to continue to attract, retain and motivate qualified researchers and engineers. In particular, our focus on leading the market in introducing new services has meant that we must aggressively recruit engineers with expertise in cutting-edge technologies. We also depend on the services of experienced key senior management, and if we lose their services, it would be difficult to find and integrate replacement personnel in a timely manner, or at all.

The loss of the services of any of our key research and development and engineering personnel or senior management without adequate replacement, or the inability to attract new qualified personnel, would have a material adverse effect on our operations.

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***We need to observe certain financial and other covenants under the terms of our debt instruments, the failure to comply with which would put us in default under those instruments.***

Certain of our debt instruments contain financial and other covenants with which we are required to comply on an annual and semi-annual basis. The financial covenants with respect to SK Telecom's debt instruments include, but are not limited to, a maximum net debt-to-EBITDA ratio of 2.75 and a minimum interest coverage ratio of 4.00, each as determined on a separate basis. The debt arrangements also contain negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.

If we breach our financial or other covenants, our financial condition will be adversely affected to the extent we are not able to cure such breaches or repay the relevant debt.

***We may have to make further financing arrangements to meet our capital expenditure requirements and debt payment obligations.***

As a network-based wireless telecommunications provider, we have had, and expect to continue to have, significant capital expenditure requirements as we continue to build out, maintain and upgrade our networks. We spent Won 2,478.8 billion for capital expenditures in 2015. We expect to spend a similar amount for capital expenditures in 2016 compared to 2015 for a range of projects, including investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our platform business portfolio and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth engines, as well as initiatives related to our ongoing businesses in the ordinary course. If we acquire new bandwidths in the frequency bandwidth auctions to be held by the MSIP in 2016, we may be required to spend additional amounts on capital expenditures in connection with building out our networks on such new bandwidths.

In particular, we continue to make significant capital investments to expand and upgrade our wireless networks in response to growing bandwidth demand by our subscribers. Bandwidth usage by our subscribers has rapidly increased in recent years primarily due to the increasing popularity of smartphones and data intensive applications among smartphone users. If heavy usage of bandwidth-intensive services grows beyond our current expectations, we may need to invest more capital than currently anticipated to expand the bandwidth capacity of our networks or our customers may have a suboptimal experience when using our services. Any of these events could adversely affect our competitive position and have a material adverse effect on our business, financial condition, results of operation and cash flow. For a more detailed discussion of our capital expenditure plans and a discussion of other factors that may affect our future capital expenditures, see Item 5.B. Liquidity and Capital Resources.

As of December 31, 2015, we had approximately Won 1,601.8 billion in contractual payment obligations due in 2016, almost all of which involve repayment of debt obligations. See Item 5.B. Liquidity and Capital Resources Contractual Obligations and Commitments.

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

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***Termination or impairment of our relationship with a small number of key suppliers for network equipment and for leased lines could adversely affect our results of operations, financial position and cash flows.***

We purchase wireless network equipment from a small number of suppliers. To date, we have purchased substantially all of the equipment for our networks from Samsung Electronics Co., Ltd. ( Samsung Electronics ), Ericsson-LG Co., Ltd. ( Ericsson-LG ) and Nokia Siemens Networks B.V. We believe Samsung Electronics currently manufactures approximately half of the wireless handsets sold to our subscribers. Although other manufacturers sell the equipment we require, sourcing such equipment from other manufacturers could result in unanticipated costs in the maintenance and enhancement of our wireless networks. Inability to obtain the equipment needed for our networks in a timely manner may have an adverse effect on our business, financial condition, results of operations and cash flows.

We cannot assure you that we will be able to continue to obtain the necessary equipment from one or more of our suppliers. Any discontinuation or interruption in the availability of equipment from our suppliers for any reason could have an adverse effect on our results of operations. Inability to lease adequate lines at commercially reasonable rates may impact the quality of the services we offer and may also damage our reputation and our business.

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

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

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

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

Our wireless and fixed-line subscribers increasingly utilize our network to access the Internet and, as a consequence, we or they may become victim to common malicious and abusive Internet activities, such as unsolicited mass advertising (i.e., spam ), hacking of personal information and dissemination of viruses, worms and other destructive or disruptive software. These activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers and damage to our or our customers equipment and data. Significant incidents could lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to us to service our customers and protect our network. For example, in July 2011, there was a leak of personal information of subscribers of websites operated by SK Communications Co., Ltd. ( SK Communications ), our consolidated subsidiary. Various lawsuits have been filed against SK Communications alleging that the leak was caused by its poor management of subscribers personal information. With respect to three of the lawsuits for which final judgments have been rendered, the relevant courts have rendered judgments in favor of SK Communications. As of December 31, 2015, twelve of the lawsuits, seeking damages of approximately Won 0.8 billion in aggregate, were pending at various district courts, various high courts and the Supreme Court of Korea. Any significant loss of our subscribers or revenue due to incidents of malicious and abusive Internet practices or significant increase in costs of serving those subscribers could adversely affect our business, financial condition and results of operations.

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

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

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Every two years, the union and management negotiate and enter into a new collective bargaining agreement that has a two-year duration, which is focused on employee benefits and welfare. Employee wages are separately negotiated on an annual basis. Although we consider our relations with our employees to be good, there can be no assurance that we will be able to maintain such a working relationship with our employees and will not experience labor disputes resulting from disagreements with the labor union in the future.

***Our businesses are subject to extensive Government regulation and any change in Government policy relating to the telecommunications industry could have a material adverse effect on our results of operations, financial condition and cash flows.***

Most of our businesses are subject to extensive governmental supervision and regulation. When the current president Park Geun-hye took office in February 2013, she announced that the Government will work toward reducing telecommunications service charges and promoting transparency in the decision making of telecommunications service providers. Accordingly, the Government has set detailed policy objectives to (1) gradually reduce and abolish initial subscription fees by 2015, (2) expand MVNO and mobile VoIP service, (3) intensify regulations on handset subsidies and (4) construct a data-based rate system.

Pursuant to the above policy objectives, the MSIP discussed with us, KT and LG U+ gradually reducing and abolishing initial subscription fees by 2015. Accordingly, we gradually reduced our initial subscription fees by 40% in August 2013 and again by an additional 50% in August 2014. Starting in November 2014, we ceased charging initial subscription fees to new subscribers. KT and LG U+ also gradually reduced the initial subscription fees that they charge and have ceased charging initial subscription fees to new subscribers as of March 31, 2015. Similarly, the Government has periodically reviewed the rates charged by wireless telecommunications service providers and has, from time to time, suggested rate reductions. Although these suggestions were not binding, we have implemented some rate reductions in response to such recommendations. The MSIP may suggest other rate reductions in the future and any further rate reductions we make in response to such suggestion may adversely affect our results of operations.

In furtherance of the above policy objectives, the Government also enacted the MDDIA, which became effective on October 1, 2014. The MDDIA was enacted for the purpose of establishing a transparent and fair distribution practice for mobile devices, and it limits the amount of subsidies a wireless telecommunications service provider can provide to subscribers in order to prevent excessive competition among wireless telecommunications service providers. Pursuant to the MDDIA, wireless telecommunications service providers are prohibited from (i) unfairly providing discriminatory subsidies based on criteria such as type of subscription, subscription plan and characteristics of the subscriber, (ii) providing subsidies exceeding a maximum limit established by the KCC (such limit to be determined between Won 250,000 and Won 350,000, which may be adjusted every six months, with the current limit set at Won 330,000, effective as of April 24, 2015) for the purchase of mobile phone models that were launched within the last 15 months, and (iii) entering into a separate agreement with subscribers imposing obligations to use a specific subscription plan as a condition for providing subsidies. In addition, under the MDDIA, wireless telecommunications service providers are obliged to provide certain benefits, such as discounted rates, to subscribers who subscribe to their service without receiving subsidies. It is difficult to estimate the impact the MDDIA will have on our results of operations as we believe the imposition of the MDDIA may affect the wireless telecommunications industry in various ways that we cannot fully predict, including the impact on our competitors and consumer behavior, which may have an adverse impact on our business. See Item 5. Operating and Financial Review and Prospects Item 5.A. Operating Results Overview New Regulations Relating to Handset Subsidies.

The Government also plays an active role in the selection of technology to be used by telecommunications operators in Korea. For example, the MIC adopted the WCDMA and CDMA2000 technologies as the only standards available in Korea for implementing third generation services. The MSIP may impose similar restrictions on the choice of technology used in future telecommunications services, and it is possible that technologies promoted by the Government in the future may not provide the best commercial returns for us.

Furthermore, the Government sets the policies regarding the use of frequencies and allocates the spectrum of frequencies used for wireless telecommunications. See Item 4.B. Business Overview Law and Regulation

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Competition Regulation Frequency Allocation. The reallocation of the spectrum to our existing competitors could increase competition among wireless telecommunications service providers, which may have an adverse effect on our business.

Pursuant to the Telecommunications Business Act, certain wireless telecommunications service providers designated by the MSIP, which currently include only us, are required to lease their networks or allow use of their networks (collectively, wholesale lease ) to other network service providers, such as an MVNO, that have requested such wholesale lease in order to provide their own services using the leased networks. To date, thirteen MVNOs have commenced providing wireless telecommunications services using the networks leased from us. We believe that leasing a portion of our bandwidth capacity to an MVNO would impair our ability to use our bandwidth in ways that would generate maximum revenues and would strengthen our MVNO competitors by granting them access and lowering their costs to enter into our markets. Accordingly, our profitability may be adversely affected.

Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Our interconnection arrangements, including the interconnection rates we pay and interconnection rates we charge, affect our revenues and operating results. The MSIP determines the basic framework for interconnection arrangements, including policies relating to interconnection rates in Korea. The KCC, which determined such basic framework under the previous Government, changed the basic framework for interconnection arrangements several times. We cannot assure you that we will not be adversely affected by the MSIP's interconnection policies and future changes to such policies. See Item 4.B. Business Overview Interconnection Domestic Calls.

In addition, the MSIP may revoke our licenses or suspend any of our businesses if we fail to comply with its rules, regulations and corrective orders, including the rules restricting beneficial ownership and control or any violation of the conditions of our licenses. Alternatively, in lieu of suspension of our business, the MSIP may levy a monetary penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years. The KCC had the same authority in the previous Government and exercised such authority to suspend our business and impose fines on us. For information about the penalties imposed on us for violating Governmental regulations, see Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings KCC and MSIP Proceedings. Such penalties, which may include the revocation of cellular licenses, suspension of business or imposition of monetary penalties by the MSIP, could have a material adverse effect on our business. We believe we are currently in compliance with the material terms of all our cellular licenses.

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

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

We also qualify as a market-dominating business entity under the Fair Trade Act, which subjects us to additional regulations, including the application of varied interconnection rates. For more information about the interconnection rates applicable to us and our competitors, see Item 4.B. Business Overview Interconnection.

The additional regulations to which we are subject has affected our competitiveness in the past and may materially hurt our profitability and impede our ability to compete effectively against our competitors in the future.



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

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

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

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

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

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. In addition, the global financial markets continue to experience significant volatility as a result of, among other things, the slowdown of economic growth and financial instability in China and other major emerging market economies, as well as political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Egypt, as well as in Ukraine and Russia. In light of the high level of interdependence of the global economy, any of the foregoing factors may continue to negatively impact local economic conditions in Korea and global economic conditions and financial markets, which could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risks related to changes in the global and Korean economic environments, changes in interest rates and instability in the global financial markets. Adverse global and Korean economic conditions may lead to overall decline and volatility in securities prices of Korean companies, including ours, which may result in trading and valuation losses on our trading and investment securities portfolio. Increases in credit spreads, as well as limitations on the availability of credit resulting from heightened concerns about the stability of the markets generally and the strength of counterparties specifically may lead many lenders and institutional investors to reduce or cease providing funding to borrowers, which may negatively impact our liquidity and results of operations. Major market disruptions and adverse changes in economic conditions and regulatory climate may further impair our ability to meet our desired funding needs. We cannot predict future changes in economic conditions. Adverse developments in the global or Korean economies or financial markets may have a material adverse effect on our business and the ability to meet our funding needs, as well as negatively affect the market value of our common shares and ADSs.

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### ***Depreciation of the value of the Won against the Dollar and other major foreign currencies may have a material adverse effect on our results of operations and the market value of our common shares and ADSs.***

Substantially all of our revenues are denominated in Won. Depreciation of the Won may materially affect our results of operations because, among other things, it causes:

an increase in the amount of Won required by us to make interest and principal payments on our foreign currency-denominated debt; and

an increase, in Won terms, of the costs of equipment that we purchase from overseas sources which we pay for in Dollars or other foreign currencies.

Fluctuations in the exchange rate between the Won and the Dollar will affect the Dollar equivalent of the Won price of the our common shares on the KRX KOSPI Market of the Korea Exchange (the KRX KOSPI Market ). These fluctuations also will affect:

the amounts a registered holder or beneficial owner of ADSs will receive from the American Depositary Receipt ( ADR ) depository in respect of dividends, which will be paid in Won to the ADR depository and converted by the ADR depository into Dollars;

the Dollar value of the proceeds that a holder will receive upon sale in Korea of our common shares; and

the secondary market price of our ADSs.

For historical exchange rate information, see Item 3.A. Selected Financial Data Exchange Rates.

## **Risks Relating to Korea**

### ***Unfavorable financial and economic developments in Korea may have an adverse effect on us.***

We are incorporated in Korea, and a significant portion of our operations is based in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the economy is subject to many factors beyond our control.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has also fluctuated widely. See Item 3.A. Selected Financial Data Exchange Rates. A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index (known as the KOSPI ) and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy in the future include:

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increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the euro, the Japanese yen or the Chinese renminbi exchange rates), interest rates, inflation rates or stock markets;

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a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or small and medium sized enterprise borrowers;

continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;

decreases in the market prices of Korean real estate;

declines in consumer confidence and a slowdown in consumer spending;

the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China), as well as a slowdown in the growth of China's economy, which is Korea's most important export market;

social and labor unrest;

a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased Government budget deficit;

financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean conglomerates;

increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

the economic impact of any pending or future free trade agreements;

geo-political uncertainty and risk of further attacks by terrorist groups around the world;

natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;

the occurrence of severe health epidemics in Korea and other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;

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deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea;

hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or increase in the price of oil; and

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

***Escalations in tensions with North Korea could have an adverse effect on us and the market value of our common shares and ADSs.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son, Kim Jong-un, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

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In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programs as well as its hostile military and other actions against Korea. Some of the significant incidents in recent years include the following:

From time to time, North Korea has conducted ballistic missile tests. Most recently in February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program.

North Korea renounced its obligations under the Nuclear Non Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such test (as well as North Korea's long-range rocket launch in February 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to North Korea.

In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North Korea and Korea subsequently entered into an agreement on August 25, 2015 intended to diffuse military tensions.

In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

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

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

The Securities-related Class Action Act of Korea enacted in January 2004 allows class action suits to be brought by shareholders of companies (including us) listed on the KRX KOSPI Market for losses incurred in connection with purchases and sales of securities and other securities transactions arising from (1) false or inaccurate statements provided in the registration statements, prospectuses, business reports, audit reports, semi-annual or quarterly reports and material fact reports and omission of material information in such documents, (2) insider trading, (3) market manipulation and (4) unfair trading. This law permits 50 or more shareholders who collectively hold 0.01% of the shares of a company to bring a class action suit against, among others, the issuer and its directors and officers. Because of the relatively recent enactment of the act, there is not enough judicial precedent to predict how the courts will apply the law. Litigation can be time-consuming and expensive to resolve, and can divert management time and attention from the operation of a business. We are not aware of any basis upon which such suit may be brought against us, nor are any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

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

The Telecommunications Business Act currently sets a 49.0% limit on the aggregate foreign ownership of our issued shares. Under the Telecommunications Business Act, as amended, a Korean entity, such as SK Holdings Co., Ltd. ( SK Holdings ), is deemed to be a foreign entity if its largest shareholder (determined by aggregating the shareholdings of such shareholder and its related parties) is a foreigner and such shareholder (together with the shareholdings of its related parties) holds 15.0% or more of the issued voting stock of the Korean entity. As of December 31, 2015, SK Holdings owned 20,363,452 shares of our common stock, or approximately 25.22%, of our issued shares. If SK Holdings were considered to be a foreign shareholder, then its shareholding in us would be included in the calculation of our aggregate foreign shareholding and our aggregate foreign shareholding (based on our foreign ownership level as of December 31, 2015, which we believe was 39.38%) would exceed the 49.0% ceiling on foreign shareholding. As of December 31, 2015, the two largest foreign shareholders of SK Holdings each held a 3.5% stake therein.

If our aggregate foreign shareholding limit is exceeded, the MSIP may issue a corrective order to us, the breaching shareholder (including SK Holdings if the breach is caused by an increase in foreign ownership of SK Holdings) and the foreign shareholder which owns in the aggregate 15.0% or more of SK Holdings. Furthermore, if SK Holdings is considered a foreign shareholder, it will be prohibited from exercising its voting rights with respect to the shares held in excess of the 49.0% ceiling, which may result in a change in control of us. In addition, the MSIP will be prohibited from granting us licenses or permits necessary for entering into new telecommunications businesses until our aggregate foreign shareholding is reduced to below 49.0%. For a description of further actions that the MSIP could take, see Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and Requirements.

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

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

As of December 31, 2015, SK Holdings owned 25.22% of our total issued common shares and has not agreed to any restrictions on its ability to dispose of our shares. See Item 7.A. Major Shareholders. We can make no prediction as to the timing or amount of any sales of our common shares. We cannot assure you that future sales of our common shares, or the availability of our common shares for future sale, will not adversely affect the prevailing market value of our common shares or ADSs from time to time.

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

Under the deposit agreement, holders of our common shares may deposit those shares with the ADR depositary's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the ADR depositary and receive our common shares. However, under the terms of the deposit agreement, as amended, the depositary bank is required to obtain our prior consent to any such deposit if, after giving effect to such deposit, the total number of our common shares represented by ADSs, which was 9,259,552 shares as of March 31, 2016, exceeds a specified maximum, subject to adjustment under certain circumstances. In addition, the depositary bank or the custodian may not accept deposits of our common shares for issuance of ADSs under certain circumstances, including (1) if it has been determined by us that we should block the deposit to prevent a violation of applicable Korean laws and regulations or our articles of incorporation or (2) if a person intending to make a deposit has been identified as a holder of at least 3.0% of our common shares. See Item 10.B. Memorandum and Articles of Association Description of American Depositary Shares. It is possible that we may not give the consent. Consequently, an investor who has surrendered his or her ADSs and withdrawn the underlying shares may not be allowed to deposit the shares again to obtain ADSs.

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***An investor in our ADSs may not be able to exercise preemptive rights for additional new shares and may suffer dilution of his or her equity interest in us.***

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer a right to subscribe for additional new common shares or any other rights of similar nature, the ADR depositary, after consultation with us, may make the rights available to an ADS holder or use reasonable efforts to dispose of the rights on behalf of the ADS holder and make the net proceeds available to the ADS holder. The ADR depositary, however, is not required to make available to an ADS holder any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the Securities Act is in effect with respect to those shares; or

the offering and sale of those shares is exempt from, or is not subject to, the registration requirements of the Securities Act.

We are under no obligation to file any registration statement with respect to any ADSs. If a registration statement is required for an ADS holder to exercise preemptive rights but is not filed by us, the ADS holder will not be able to exercise his or her preemptive rights for additional shares. As a result, ADS holders may suffer dilution of their equity interest in us.

***Short selling of our ADSs by purchasers of securities convertible or exchangeable into our ADSs could materially adversely affect the market price of our ADSs.***

SK Holdings, through one or more special purpose vehicles, has engaged and may in the future engage in monetization transactions relating to its ownership interest in us. These transactions have included and may include offerings of securities that are convertible or exchangeable into our ADSs. Many investors in convertible or exchangeable securities seek to hedge their exposure in the underlying equity securities at the time of acquisition of the convertible or exchangeable securities, often through short selling of the underlying equity securities or similar transactions. Since a monetization transaction could involve debt securities linked to a significant number of our ADSs, we expect that a sufficient quantity of ADSs may not be immediately available for borrowing in the market to facilitate settlement of the likely volume of short selling activity that would accompany the commencement of a monetization transaction. This short selling and similar hedging activity could place significant downward pressure on the market price of our ADSs, thereby having a material adverse effect on the market value of ADSs owned by you.

***A holder of our ADSs may not be able to enforce a judgment of a foreign court against us.***

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of our ADSs to effect service of process within the United States, or to enforce against us any judgments obtained from the United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.



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*We are generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries.*

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies, which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the SEC and listed on the New York Stock Exchange (the "NYSE"), we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the NYSE. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information available could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

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

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

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

**Item 4. INFORMATION ON THE COMPANY**

**Item 4.A. History and Development of the Company**

As Korea's first wireless telecommunications service provider, we have a recognized history of leadership and innovation in the domestic telecommunications sector. Today, we remain Korea's leading wireless telecommunications services provider and have continued to pioneer the commercial development and implementation of state-of-the-art wireless technologies. We believe we are also a leader in developing new products and services that reflect the increasing convergence of telecommunications technologies, as well as the growing synergies between the telecommunications sector and other industries, and are well-positioned to become Korea's leading platform service provider through our three next-generation growth platforms, IoT solutions, lifestyle enhancement and advanced media.

In 2008 and 2009, we acquired additional equity interests in SK Broadband to increase our total equity interest in SK Broadband to 50.6%. In June 2015, SK Broadband became our wholly-owned subsidiary pursuant to a share exchange transaction (the "Share Exchange") through which we acquired all of the shares of SK Broadband that we did not otherwise own in exchange for 1,692,824 of our treasury shares and cash.

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

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

On March 31, 2016, we had a market capitalization of approximately Won 16.8 trillion (US\$14.8 billion, as translated at the noon buying rate of March 31, 2016) or approximately 1.3% of the total market capitalization on

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the KRX KOSPI Market, making us the fifteenth largest company listed on the KRX KOSPI Market based on market capitalization on that date. Our ADSs, each representing one-ninth of one share of our common stock, have traded on the NYSE since June 27, 1996.

We established our telecommunications business in March 1984 under the name of Korea Mobile Telecommunications Co., Ltd. We changed our name to SK Telecom Co., Ltd., effective March 21, 1997. In January 2002, we merged with Shinsegi, which was then the third-largest wireless telecommunications service provider in Korea. Our registered office is at SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul 04539, Korea and our telephone number is +82-2-6100-2114.

### **Recent Developments**

On November 2, 2015, we entered into a share purchase agreement with CJ O Shopping to acquire a 30.0% interest in CJ HelloVision, a fixed-line cable TV broadcast service provider, for an aggregate purchase price of Won 500.0 billion. In November 2015, we conducted a tender offer for shares of CJ HelloVision and acquired 6,671,993 shares for Won 80.1 billion. Upon the acquisition of CJ HelloVision, SK Broadband will be merged with and into CJ HelloVision pursuant to a merger agreement dated November 2, 2015, and we will be allocated 0.4761236 shares of the merged company for each share of SK Broadband to have a 78.3% equity stake in the merged company. The acquisition and subsequent merger are subject to certain closing conditions, including obtaining regulatory approval from the relevant authorities.

Following the acquisition and subsequent merger, we expect to develop additional technology and infrastructure to integrate our various media service offerings. As of December 31, 2015, CJ HelloVision had a market share of 14.4% of the pay TV market with approximately 4.2 million cable TV subscribers. For further details regarding the acquisition and subsequent merger, refer to the Form 6-Ks furnished to the SEC on November 3, 2015 entitled *Decision on Acquisition of Shares of CJ HelloVision* and *Decision on Merger of SK Broadband*, the Form 6-K/A furnished to the SEC on February 16, 2016 entitled *Changes to the Merger Ratio and Number of New Shares to be Issued Relating to the Merger of SK Broadband and CJ HelloVision*, the Form 6-K/As furnished to the SEC on April 4, 2016 entitled *Changes to the Number of Shares to be Held after Share Acquisition and Scheduled Acquisition Date* and *Changes to the Merger Schedule Relating to the Merger of SK Broadband and CJ HelloVision*.

### **Korean Telecommunications Industry**

Established in March 1984, we became the first wireless telecommunications service provider in Korea. We remained the sole provider of wireless telecommunications services until April 1996, when Shinsegi commenced cellular service. The Government began to introduce competition into the fixed-line and wireless telecommunications services markets in the early 1990 s. During this period, the Government allowed new competitors to enter the fixed-line sector, sold a controlling stake in us to the SK Group, and granted a cellular license to our first competitor, Shinsegi. In October 1997, three additional companies began providing wireless telecommunications services under Government licenses to provide wireless telecommunications services. In 2000 and 2001, the Korean wireless telecommunications market experienced significant consolidation. In January 2002, Shinsegi was merged into us. Additionally, two of the other wireless telecommunications services providers merged.

There are currently three mobile network operators in Korea: our company, KT and LG U+. As of December 31, 2015, the market share of the Korean wireless telecommunications market, in terms of number of subscribers, of KT and LG U+ was approximately 30.4% and 20.2%, respectively (compared to our market share of 49.4%), each including MVNO subscribers leasing the respective networks. As of December 31, 2015, MVNOs had a combined market share of 10.1%, of which MVNOs leasing our networks represented 4.6%, MVNOs leasing KT s networks represented 4.7% and MVNOs leasing LG U+ s networks represented 0.8%.

Telecommunications industry growth in Korea has been among the most rapid in the world, with fixed-line penetration being under five lines per 100 population in 1978 and increasing to 47.9 lines per 100 population as of December 31, 2006 before decreasing to 31.7 lines per 100 population as of December 31, 2015, and wireless

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penetration increasing from 7.0 subscribers per 100 population in 1996 to 112.4 subscribers per 100 population as of December 31, 2015. The table below sets forth certain subscription and penetration information regarding the Korean telecommunications industry as of the dates indicated:

|   | As of December 31,                                |        |        |        |        |
|---|---|--------|--------|--------|--------|
|   | 2015  | 2014   | 2013   | 2012   | 2011   |
|   | (In thousands, except for per population amounts) |        |        |        |        |
| Population of Korea(1)                  | 51,529  | 51,328 | 51,141 | 50,948 | 50,734 |
| Wireless Subscribers                    | 57,937  | 56,310 | 54,681 | 53,624 | 52,507 |
| Wireless Subscribers per 100 Population | 112.4   | 109.7  | 106.9  | 105.3  | 103.5  |
| Telephone Lines in Service              | 16,341  | 16,939 | 17,620 | 18,261 | 18,633 |
| Telephone Lines per 100 Population      | 31.7  | 33.0   | 34.5   | 35.8   | 36.7   |

(1) Source: The Ministry of the Interior.

Since the introduction of short text messaging in 1998, Korea's wireless data market has grown rapidly. This growth has been driven, in part, by the rapid development of wireless Internet service since its introduction in the second half of 1999 and the implementation of LTE technology providing for fast data transmission speeds and large data transmission capacity. As of December 31, 2015, approximately 53.7 million Korean wireless subscribers owned Internet-enabled handsets capable of accessing wireless Internet services, including 43.7 million subscribers that own smartphones that have direct access to the Internet using mobile Internet technology. The table below sets forth certain penetration information regarding the number of Internet-enabled handsets, smartphones and wireless subscribers in Korea as of the dates indicated:

|   | As of December 31,                         |        |        |        |        |
|---|--|--------|--------|--------|--------|
|   | 2015                                       | 2014   | 2013   | 2012   | 2011   |
|   | (In thousands, except for percentage data) |        |        |        |        |
| Number of Wireless Internet-Enabled Handsets      | 53,737                                     | 52,833 | 50,858 | 50,420 | 49,297 |
| Number of Smartphones                             | 43,668                                     | 40,560 | 37,517 | 32,727 | 22,578 |
| Total Number of Wireless Subscribers              | 57,937                                     | 56,310 | 54,681 | 53,624 | 52,507 |
| Penetration of Wireless Internet-Enabled Handsets | 92.8%                                      | 93.8%  | 93.0%  | 94.0%  | 93.9%  |
| Penetration of Smartphones                        | 75.4%                                      | 72.0%  | 66.9%  | 61.0%  | 43.0%  |

In addition to its well-developed wireless telecommunications sector, Korea has one of the largest Internet markets in the Asia Pacific region. According to Korea Internet & Security Agency, the percentage of Internet users in Korea is greater than 80% of the population. From the end of 2005 to the end of 2015, the number of broadband Internet access subscribers increased from approximately 12.2 million to approximately 20.0 million. In connection with such growth in broadband Internet usage, the number of IPTV subscribers has also increased rapidly. The table below sets forth certain information regarding broadband Internet access subscribers and IPTV subscribers as of the dates indicated:

|  | As of December 31, |        |        |        |        |
|--|--------------------|--------|--------|--------|--------|
|  | 2015               | 2014   | 2013   | 2012   | 2011   |
|  | (In thousands)     |        |        |        |        |
| Number of Broadband Internet Access Subscribers(1) | 20,025             | 19,199 | 18,738 | 18,253 | 17,860 |
| Number of IPTV Subscribers                         | 12,314             | 10,840 | 8,738  | 6,457  | 4,894  |

(1) Includes subscribers accessing Internet service using digital subscriber line, or xDSL, connections; cable modem connections; local area network, or LAN, connections; fiber-to-the-home, or FTTH, connections and satellite connections.



**Table of Contents****Item 4.B. Business Overview**

We are Korea's leading wireless telecommunications services provider and continue to pioneer the commercial development and implementation of state-of-the-art wireless and fixed-line technologies and services as well as develop our three next-generation growth platforms, IoT solutions, lifestyle enhancement and advanced media. Our operations are reported in three segments:

cellular services, which include wireless voice and data transmission services, sales of wireless devices, IoT solutions platform services and lifestyle enhancement platform services;

fixed-line telecommunication services, which include fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV) and business communications services; and

other businesses, which include our commerce business and our hardware business.

**Our Business Strategy**

We believe that the current trends in the Korean telecommunications industry are characterized by technological change, evolving consumer needs and increasing digital convergence. Against the backdrop of these industry trends, we aim to maintain our leading position in the Korean market for wireless telecommunications services as well as actively develop differentiated services on our growth platforms, comprising our IoT solutions platform, lifestyle enhancement platform and advanced media platform, through which we will continue our growth in a rapidly changing business environment. Our corporate vision is to be a "Partner for New Possibilities" for both individuals and businesses by leveraging our network infrastructure and cutting-edge technologies. To take advantage of these industry trends and further realize our corporate vision, we have undertaken the following strategic initiatives.

*Maintain our leadership in the wireless services business by offering differentiated value-added products and services.* We plan to maintain our leadership in the wireless services business by providing products and services with differentiated value propositions offered by our competitors. For example, we will continue to develop high-quality devices with convenient features at reasonable price points that run exclusively on our networks such as the Luna and the Sol. In addition, we will continue to offer various rate plans that are tailored to meet our customers' needs for increased data usage such as our "Commuter Free" plan, which offers unlimited wireless data usage during rush hour for a fixed rate. We plan to strengthen our customer relationships by engaging our subscribers to integrate our service offerings in various aspects of their daily lives such as "T map," our interactive navigation service which we provide to our wireless subscribers free of charge, "Club T Kids," our childcare and kids' community platform service offered exclusively for our wireless subscribers, and "oksusu," our mobile IPTV service with a wide range of unique media offerings. We also provide bundled subscriptions to our wireless and fixed-line service offerings, and we believe such bundled subscriptions contribute to increased customer retention and acquisition of new subscribers for both our wireless and fixed-line services due to convenience. In addition, we believe our "T Membership" program, our membership service, also contributes to our subscriber retention with the breadth of membership benefits we provide through our membership partners.

*Strengthen our three next-generation growth platforms.* As part of our initiative to be the leading next-generation platform provider, we aim to continue to develop our next-generation growth platforms, IoT solutions, lifestyle enhancement and advanced media, to provide services which we believe complement and create synergies with our wireless and fixed-line services and through which we can generate new sources of revenue growth.

Through our IoT solutions platform, we offer "Smart Home," a home monitoring service platform for residential customers and customized IoT solutions utilizing machine-to-machine (M2M) connections to our business customers. We will continue to analyze our users' lifestyles to provide value-added services that can be integrated in our "Smart Home" users' daily lives and collaborate with our partners to develop a wide range of compatible appliances and devices. In addition, we endeavor to provide customized value-added services to our business customers and create an ecosystem through which domestic and global



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manufacturers can develop innovative hardware for our IoT solutions platform. Through our lifestyle enhancement platform, we provide various value-added services to enhance our customers' lifestyles. Through our 3C strategy, we aim to provide high-quality content through which customers with similar interests and needs can form communities from which we generate commerce by marketing and advertising targeted products and services. We believe these services will enable us to increase the retention of our wireless subscribers as well as attract new customers. Furthermore, we will continue to enlarge the scope of our media services and content offerings available on our advanced media platform to provide our subscribers with a vast library of high-quality content that can be accessed through our wireless and fixed-line networks.

*Further expand our commerce business globally.* With the expertise we have gained through our operation of 11st, our online open marketplace, and our online-to-offline (O2O) commerce businesses in Korea as well as certain markets in Southeast Asia and the U.S., we intend to further expand into other overseas markets and lead the growth of the e-commerce industry in such markets.

**Cellular Services**

We offer wireless voice and data transmission services, sell wireless devices and provide IoT solutions and lifestyle enhancement platform services through our cellular services segment. Our wireless voice and data transmission services are offered through our backbone networks that collectively can be accessed by approximately 99.0% of the Korean population. We had 28.6 million wireless subscribers, including MVNO subscribers leasing our networks, as of December 31, 2015, representing a market share of 49.4%, the largest market share among Korean wireless telecommunications service providers. The table below sets forth the number of subscribers, including subscribers of MVNOs that lease our wireless networks, using our various digital wireless networks as of the dates indicated:

| <b>Network</b> | <b>As of December 31,</b> |               |               |               |               |
|----------------|---------------------------|---------------|---------------|---------------|---------------|
|                | <b>2015</b>               | <b>2014</b>   | <b>2013</b>   | <b>2012</b>   | <b>2011</b>   |
|                | <b>(in thousands)</b>     |               |               |               |               |
| LTE            | 18,980                    | 16,737        | 13,487        | 7,530         | 634           |
| WCDMA          | 7,008                     | 8,020         | 9,909         | 14,459        | 19,037        |
| CDMA           | 2,638                     | 3,521         | 3,957         | 4,972         | 6,882         |
| <b>Total</b>   | <b>28,626</b>             | <b>28,279</b> | <b>27,352</b> | <b>26,961</b> | <b>26,553</b> |

As part of our initiative to be the leading next-generation platform provider, we aim to continue to develop our IoT solutions platform and lifestyle enhancement platform to provide services which we believe complement and create synergies with our wireless telecommunications service.

In 2015, 2014 and 2013, our cellular services segment revenue was Won 13,269.3 billion, Won 13,527.9 billion and Won 13,315.5 billion, respectively, representing approximately 77.4%, 78.8% and 80.2%, respectively, of our consolidated revenue.

**Wireless Services**

We offer wireless voice transmission and data transmission services to our subscribers through our backbone networks. Our wireless telecommunications services are available to our subscribers receiving service under the SK Telecom brand. In addition, customers can obtain wireless telecommunications services that operate on our network from MVNOs that lease our wireless networks. We derive revenues from our wireless telecommunications service principally through monthly plan-based fees as described in Rate Plans below.

To complement our basic voice transmission services, we provide a voice-over-LTE service, known as our HD Voice service, to all of our LTE subscribers. HD Voice service is a premium communication service which features high-quality voice transmission, fast call connection, voice-to-video call switching and digital content sharing during calls. In addition, we provide T phone service, which is available on most devices running on the Google Android operating system. Our T phone service provides our customers with a number of convenient call functions, including a function to block spam calls and a function called T114 that informs customers of the

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phone numbers of stores, hospitals and other facilities closest in proximity to the customer’s current location. As of December 31, 2015, there were more than 8.0 million subscribers to the T phone service compared to approximately 4.3 million subscribers as of December 31, 2014.

We also offer our subscribers a wide range of wireless data transmissions services. Our messaging service allows our subscribers to send and receive text, graphic, audio and video messages. In addition, our subscribers can access a wide variety of digital content and services through mobile applications providing music, video, gaming, news, commerce and financial services as well as solutions that enable subscribers to access the Internet and e-mail. We intend to continue to build our wireless data services as a platform for growth, extending our portfolio of wireless data services and developing new content for our subscribers.

Through service agreements with various foreign wireless telecommunications service providers, we offer cellular global roaming services, branded as our T-Roaming service. Global roaming services allow subscribers traveling abroad to make and receive calls using their regular mobile phone numbers. In addition, we provide global roaming service to foreigners traveling to Korea. In such cases, we generally receive a fee from the traveler’s local wireless telecommunications service provider.

Through SK Telink, we also operate our MVNO business under the brand T-Mobile, which we believe offers excellent quality at reasonable rates utilizing SK Telecom’s wireless networks. SK Telink is focused on developing low-cost distribution channels and targeting niche customer segments that have a lower average revenue per user than that of SK Telecom’s subscriber base.

In addition, we provide interconnection service to connect our networks to domestic and international fixed-line and other wireless networks. See Item 4.B. Business Overview Interconnection.

***Wireless Device Sales***

We offer several categories of wireless devices, including smartphones and basic phones, tablets and other Internet access devices and wearable devices. As of December 31, 2015, approximately 20.6 million, or 72.0%, of our subscribers owned smartphones that have direct access to the Internet compared to approximately 19.5 million subscribers, or 68.1%, as of December 31, 2014.

*Smartphones and Basic Phones.* All of the smartphones we offer are enabled to utilize our LTE and/or WCDMA networks and run on various operating systems, such as Apple iOS and Google Android. Most of the basic phones we offer are enabled to utilize our WCDMA networks and have the ability to access wireless Internet services.

*Tablets and Other Internet Devices.* We offer tablets which can access the Internet via our LTE and/or WCDMA networks and a Wi-Fi connection. The tablets run primarily on the Apple iOS and Google Android operating systems. In addition, we also offer T Pocket Pie devices that provide a mobile LTE connection and are capable of connecting multiple Wi-Fi enabled devices to the Internet at one time. We offer targeted rate plans for our T Pocket Pie device. See Rate Plans below.

*Wearable Devices.* We offer various wearable devices including smart watches, T pet, our pet tracking device, and T kids phone Joon. These devices utilize our WCDMA network and have specific features for the relevant target customer. For example, T pet devices enable pet owners to send voice messages to their pets, track their position using global positioning system ( GPS ) technology as well as track and log their activity. T kids phone Joon is a wearable phone targeted towards children and provides simple calling, messaging and chat services as well as GPS tracking capabilities. We offer targeted rate plans that are specific to these wearable devices. See Rate Plans below.

We purchase a substantial majority of our wireless devices from Samsung Electronics, Apple and LG Electronics. We also offer a number of devices that were designed by us to exclusively run on our networks such as the Luna which was launched in September 2015 and the Sol which was launched in January 2016. The Luna and the Sol were both designed to include convenient features to easily access media contents that are popular among our subscribers and to provide high-quality devices at a relatively low-to-mid range price point. We intend to continue to work with device manufacturers to develop exclusive devices offering high quality and convenience at competitive prices.



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***IoT Solutions Platform Services***

Through our IoT solutions platform, we provide a home monitoring service platform for residential customers and network access and enhanced services to support telemetry-type applications, which are characterized by M2M wireless connections, to business customers.

In May 2015, we launched Smart Home, a mobile application-based home monitoring service for residential customers. Smart Home is a paid subscription service available not only to our wireless and fixed-line service subscribers but also to subscribers of our competitors' wireless and fixed-line services. Through Smart Home, users can control and monitor their home environment from their mobile devices and enhance the safety and convenience of their daily lives. We have partnered with more than 30 electronics and appliance manufacturers, including Samsung Electronics and LG Electronics, to develop a wide range of appliances, electronic devices, door security, heating and lighting systems that are compatible with our Smart Home service.

We also provide network access and customized IoT solutions to our business customers. Our M2M services support devices that are used in a variety of market segments, including retail, utilities, security, automotive, agriculture and data analytics. For example, we provide enhanced solutions to businesses in order to connect with and monitor their equipment, such as fleet management devices used to monitor city-operated rental bicycles and utility monitoring devices for smart grid applications.

***Lifestyle Enhancement Platform Services***

Through our lifestyle enhancement platform, we provide various value-added services to enhance our customers' lifestyles in areas such as shopping, childcare, security, finance and education with customized content based on their personal interests. Through our 3C strategy, we aim to provide high-quality content through which customers with similar interests and needs can form communities from which we generate commerce by marketing and advertising targeted products and services. We provide certain services exclusively to our wireless service subscribers as well as certain services to users regardless of whether they have a wireless service subscription with us.

Examples of services we provide exclusively to our wireless service subscribers are Club T Kids and Petween. Club T Kids comprises a care service platform for parents through the T Kids mobile application and a community platform for kids through the T kids phone Joon. Through the T Kids mobile application, parents can call their children, check their location, sign up for various children's activity programs and order organic groceries. Through the T kids phone Joon, kids can communicate with their parents, send messages to and chat with their friends, play games and collect character badges. Through Petween, which is currently accessible through the Petween website, pet owners can communicate with each other, access petcare advice from veterinarians and purchase petcare products. We believe these services provide differentiated value to our wireless service subscribers' lifestyles and enhance their loyalty to us.

Examples of services we provide to users regardless of whether they have a wireless service subscription with us are Deal Light and Beauty Link. Deal Light, which is accessible through the Deal Light website and mobile application, is an online marketplace for used products in which we participate directly in the purchase and sale process and pick up the product from the seller and then verify, clean, package, process payment for, and deliver the product to, the buyer. Beauty Link, which is accessible through a mobile application, provides information about nail salons such as location, service offerings and price as well as customer feedback. We believe we can attract new customers by offering specialized services such as these.

In addition, we provide other value-added services that enhance our customers' lifestyles. We provide location-based services such as T map, an interactive navigation service which we provide to our wireless subscribers free of charge and which wireless subscribers to our competitors can subscribe to for a monthly fee. T map uses GPS technology to transmit driving directions, real-time traffic updates and emergency rescue assistance to wireless devices. In addition, we provide mobile phone verification services, enabling users to process secure mobile payment transactions.

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### *Rate Plans*

We offer our wireless telecommunications services on both a postpaid and prepaid basis. Approximately 94% of our subscribers received our wireless telecommunications services on a postpaid basis as of December 31, 2015. Postpaid accounts primarily represent retail subscribers under contract with SK Telecom under which a subscriber is billed in advance a monthly fixed rate in return for a monthly network service allowance, and usage for outgoing voice calls and wireless data services beyond the allowance is billed in arrears. The standard contract period for our rate plans is 24 months, although our subscribers have the option to enter into shorter term contracts or no fixed-term contract at all. We provide various subsidies and discounts, including handset subsidies, depending on the length of the contract. Our prepaid service enables individuals to obtain wireless telecommunications services without a fixed-term contract by paying for all services in advance according to expected usage. We do not charge our customers for incoming calls, although we do receive interconnection charges from KT and other companies for calls from the fixed-line network terminating on our networks and interconnection revenues from other wireless network operators. See Item 4.B. Business Overview Interconnection.

We also charge our customers a 10.0% value-added tax. We can offset the value-added tax we collect from our customers against value-added tax refundable to us by the Korean tax authorities. We remit taxes we collect from our customers to the Korean tax authorities. We record revenues in our financial statements net of such taxes.

*Basic Rate Plans.* We offer various postpaid account plans for smartphones and basic phones that are designed to meet a wide range of subscriber needs and interests. As of December 31, 2015, approximately 7 million subscribers have subscribed to Band Data plans, which are our representative smartphone rate plans featuring unlimited domestic voice minutes and text messaging and a fixed data transmission allowance per month as well as free access to live TV on oksusu, our mobile IPTV service, that range from Won 29,000 to Won 100,000 per month. Our Voice Free plans are available for our basic phones and feature a fixed allowance of voice minutes and 50 text messages per month with rates that range from Won 19,000 to Won 94,000 per month. We also offer a standard rate plan for Won 11,000 per month, through which the subscriber is charged per usage amount, other than on text message usage up to 50 messages per month.

In addition, we provide a variety of differentiated rate plans for our customer segments by age such as children, teenagers and senior citizens. We also offer rate plans for specific customer segments, such as our Band Data Global Pack rate plans for foreigners featuring unlimited domestic voice minutes and text messaging, a fixed allowance of international voice minutes and data transmission per month and our rate plans for people in the military service featuring unlimited domestic voice minutes, text messaging and data transmission for Won 2,000 per day of use while on leave.

For our T Pocket Pie device, we provide a fixed monthly data transmission allowance of 10 GB for Won 15,000 per month and 20 GB for Won 22,500 per month. With respect to the wearable devices that we offer, we offer targeted rate plans such as the T Outdoor rate plan for smart watches at Won 10,000 to Won 11,000 per month, the T pet rate plan for our T pet device at Won 5,000 per month and the T kids rate plan for our T kids phone Joon devices at Won 8,000 per month.

*Data Add-on Rate Plans.* We offer a variety of optional add-on rate plans that are designed to meet a wide range of subscriber needs with respect to increased data usage that followed the widespread use of smartphones and faster transmission speeds made possible by LTE technology. For example, we offer data plans that offer unlimited data based on time, place and occasion such as our Subway Free plan, which offers unlimited wireless data usage on subway platforms and inside subways and our Commuter Free plan, which offers unlimited wireless data usage during rush hour, each for a fixed rate of Won 9,000 per month. We also offer a daily allowance of 1 GB of oksusu access and a monthly allowance of 8,000 points to purchase media content on oksusu through our Band Play Pack plan for Won 5,000 per month. Safe Option Premium offers an additional daily data transmission allowance of 50 MB to subscribers who have used the maximum data transmission on their existing plan without incurring additional data transmission fees for a fixed rate of Won 8,000 per month. We also offer T Data Coupons, through which subscribers can purchase a fixed amount of data for a fixed price. T Data Coupons range from Won 2,000 for 100MB of data to Won 33,000 for 5GB of data. As T Data Coupons are valid for one year after first use, we believe they are attractive to sporadic data users. T Data Coupons can also be sent as gifts to family

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and friends that need additional data allowance. We believe that our data add-on rate plan offerings have contributed to the increase in data usage to 3.9 GB of average monthly data usage per LTE subscriber as of December 31, 2015 from 3.0 GB as of December 31, 2014.

**Roaming Plans.** We provide fixed-rate international roaming plans such as our T Roaming Data Unlimited OnePass plan which provides data roaming services at different speeds depending on usage amount for Won 9,000 per day using WCDMA networks and is available in 148 countries and our T Roaming LTE Data Unlimited OnePass plan which provides data roaming services at different speeds depending on usage amount for Won 15,000 per day using LTE networks and is available in 55 countries. Our T Roaming Data OnePass Premium plan provides data roaming services at different speeds depending on usage amount and a usage charge for outgoing voice calls of Won 500 per minute for Won 12,000 per day using WCDMA networks and is available in 35 countries. With respect to international calls placed by a subscriber, unless the subscriber uses one of our fixed-rate international roaming plans, we bill the subscriber the international rate charged by the Korean international telephone service provider through which the call is routed. We remit to that provider the international charge less our usage charges. See Item 4.B. Business Overview – Interconnection.

**Digital Wireless Network**

We offer wireless voice and data transmission services throughout Korea using digital wireless networks, primarily consisting of our LTE network, WCDMA network, CDMA network and Wi-Fi network. We continually upgrade and increase the capacity of our wireless networks to keep pace with advancements in technology, the growth of our subscriber base and the increased usage of voice and wireless data services by our subscribers.

**LTE Network.** We commenced commercial wireless telecommunications services based on LTE technology, which is generally referred to as a fourth generation technology, on July 1, 2011 and expanded the coverage area of our LTE services to nationwide by the end of April 2012. We launched our LTE multi-carrier service in the 1.8 GHz spectrum in July 2012. In June 2013, we commenced providing commercial LTE-A services at speeds of up to 150 Mbps using carrier aggregation technology which combines spectrum frequencies to improve data transmission speed and capacity, and in June 2014, we launched wideband LTE-A services at speeds of up to 225 Mbps and expanded coverage nationwide in 2014. In December 2014, we commenced tri-band LTE-A services, which bundles three different bandwidths to allow faster network service at speeds of up to 300 Mbps in Seoul and other metropolitan areas. Since then, we have expanded coverage nationwide and as of December 31, 2015, the nationwide geographic coverage percentage of our tri-band LTE-A service was approximately 51.9% according to the MSIP. We continue to deploy improved LTE-A technology to increase the maximum data transmission speed of our services. LTE technology has become widely accepted globally as the standard fourth generation technology. LTE technology enables data to be transmitted at speeds faster than our CDMA and WCDMA networks. Our continued upgrades to our LTE technology enables even faster data transmission speeds, as shown below.

**Wireless network technology**

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

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

**CDMA and WCDMA Networks.** CDMA technology is a continuous digital transmission technology that accommodates higher throughput than analog technology by using various coding sequences to allow concurrent transmission of voice and data signals for wireless communication. In January 1996, we launched our first wireless network based on CDMA technology and became the world's first to commercialize CDMA cellular service.

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WCDMA technology enables us to offer significantly faster and higher-quality voice and data transmission and supports more sophisticated wireless data transmission services than is possible through our CDMA network. We commenced provision of our WCDMA services on a limited basis in Seoul at the end of 2003. Since then, we expanded our WCDMA network nationwide and implemented various technologies to improve data transmission speeds within our WCDMA network.

*Wi-Fi Network.* Wi-Fi technology enables our subscribers with Wi-Fi-capable devices such as smartphones, laptops and tablet computers to access mobile Internet. We started to build Wi-Fi access points in 2010 and, as of December 31, 2015, we had more than 139,000 Wi-Fi access points in public areas such as shopping malls, restaurants, coffee shops, subways and airports where, generally, the demand for high-speed wireless Internet service is high. While each Wi-Fi access point typically has a radius of approximately 20-30 meters, some of our Wi-Fi hot zones, which have multiple Wi-Fi access points, including those installed at public transportation facilities and amusement parks, have much wider service areas. We plan to continue to increase the number of Wi-Fi access points in 2016. We also have a WiBro network that we use as a backhaul for our Wi-Fi network.

### ***Network Infrastructure***

The principal components of our wireless networks are:

cell sites, which are physical locations equipped with transmitters, receivers and other equipment that communicate by radio signals with wireless handsets within range of the cell (typically a 3 to 40 kilometer radius);

switching stations, which switch voice and data transmissions to their proper destinations, which may be, for instance, a mobile phone of one of our subscribers (for which transmissions would originate and terminate on our wireless networks), a mobile phone of a KT or LG U+ subscriber (for which transmissions would be routed to KT's or LG U+'s wireless networks, as applicable), a fixed-line telephone number (for which calls would be routed to the public switched telephone network of a fixed-line network operator), an international number (for which calls would be routed to the network of a long distance service provider) or an Internet site; and

transmission lines, which link cell sites to switching stations and switching stations with other switching stations.

As of December 31, 2015, our LTE, WCDMA, CDMA and WiBro networks had an aggregate of 55,085 cell sites.

We have purchased substantially all of the equipment for our networks from Samsung Electronics, Ericsson LG and Nokia Siemens Networks B.V. Most of the transmission lines we use, including virtually all of the lines linking switching stations, as well as a portion of the lines linking cell sites to switching stations, comprise optical fiber lines that we own and operate directly. However, we have not undertaken to install optical fiber lines to link every cell site and switching station. In places where we have not installed our own transmission lines, we have leased lines from KT and LG U+. We intend to increase the efficiency of our network utilization and provide optimal services by internalizing transmission lines.

We use a wireless network surveillance system. This system oversees the operation of cell sites and allows us to monitor our main equipment located throughout the country from one monitoring station. The automatic inspection and testing provided to the cell sites lets the system immediately rebalance to the most suitable setting, and the surveillance system provides for automatic dispatch of repair teams and quick recovery in emergency situations.

### ***Marketing, Distribution and Customer Service***

*Marketing.* Our marketing strategy is focused on offering solutions tailored to the needs of our various customer segments, promoting our brand and leveraging our extensive distribution network. Our marketing plan includes a coordinated program of television, print, radio, outdoor signage, Internet and point-of-sale media promotions designed to relay a consistent message across all of our markets. Our T brand signifies the centrality

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of Telecommunications and Technology to our business and also seeks to emphasize our commitment to providing Top quality, Trustworthy products and services to our customers. We market our wireless products and services under the T brand.

We have implemented certain information technology improvements in connection with our marketing strategy, including customer management systems, as well as more effective information security controls. We believe these upgrades have enhanced our ability to process and utilize marketing- and subscriber-related data, which, in turn, has helped us to develop more effective and targeted marketing strategies. We currently operate a customer information system designed to provide us with an extensive customer database. Our customer information system includes a billing system that provides us with comprehensive account information for internal purposes and enables us to efficiently respond to customer requests. Our customers can also change their rate plans, verify the charges accrued on their accounts, receive their bills online and send text messages to our other subscribers through our website at [www.tworld.co.kr](http://www.tworld.co.kr) and through our T world mobile application.

We strive to improve subscriber retention through our T Membership program, which is a membership service available to our wireless subscribers. Our T Membership program provides various membership benefits to its members such as discounts with our membership partners for dining, shopping, entertainment and travel, access to our online membership shopping mall and invitations to various promotional events. Although our competitors also have similar membership programs, we believe that our T Membership program has a competitive advantage over our competitors' membership programs due to our large subscriber base and breadth of membership benefits.

*Distribution.* For our distribution network, we use a combination of approximately 26 branch offices and 561 stores directly operated by us through our wholly-owned subsidiary, PS&Marketing Co., Ltd. ( PS&Marketing ), 4,119 authorized exclusive dealers and an extensive network of independent retailers in order to increase subscriber growth while reducing subscriber acquisition costs.

As part of our initiative to provide a differentiated customer service experience, we operate T Premium Stores that allow our potential and existing subscribers to experience certain of our services such as services that are available through our IoT solutions platform and lifestyle enhancement platform. As of December 31, 2015, we operated 120 T Premium Stores and we intend to further expand the number of T Premium Stores in 2016.

In addition, we operate an online distribution channel, T world Direct, through which subscribers can conveniently purchase wireless devices and subscribe to our services online. We intend to continue to develop our online distribution channel to leverage our offline distribution capabilities to provide convenience and additional value to our subscribers. For example, subscribers purchasing wireless devices through T World Direct can opt to pick up their devices at one of our offline stores.

Currently, authorized dealers are entitled to an initial commission for each new subscriber registered by the dealer, as well as an average ongoing commission calculated as a percentage of that subscriber's monthly plan-based rate for the first four years. In order to strengthen our relationships with our exclusive dealers, we offer a dealer financing plan, pursuant to which we provide to each authorized dealer an interest-free or low-interest loan of up to Won 4.0 billion with a repayment period of up to three years. As of December 31, 2015, we had an aggregate of Won 58.6 billion outstanding in loans to authorized dealers.

*Customer Service.* We provide high-quality customer service directly through our two wholly-owned subsidiaries, Service Ace Co., Ltd. and Service Top Co., Ltd., rather than rely on outsourcing. Network O&S Co., Ltd. operates our switching stations and related transmission and power facilities and offers quality customer service primarily to our business customers. We have held the top position with respect to our telecommunications service and retail sales service in Korea's leading three customer satisfaction indices, the National Customer Satisfaction Index, the Korean Customer Satisfaction Index and the Korean Standard Service Quality Index, for over 15 years each.

## **Fixed-line Telecommunication Services**

We offer fixed-line telephone, broadband Internet and advanced media platform services (including IPTV) and business communications services through our fixed-line telecommunication services segment. Our fixed-line

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telecommunications services are provided by our subsidiaries, SK Broadband and SK Telink. The following table sets forth historical information about our subscriber base for our fixed-line telecommunication services for the periods indicated:

|  | As of December 31, |           |           |
|--|--------------------|-----------|-----------|
|  | 2015               | 2014      | 2013      |
| Fixed-Line Telephone (including VoIP)(1) | 4,672,195          | 4,774,748 | 4,801,047 |
| Broadband Internet                       | 5,036,057          | 4,810,493 | 4,569,105 |
| IPTV(2)                                  | 3,481,969          | 2,819,130 | 2,081,260 |

(1) Includes subscribers to VoIP services of SK Broadband and SK Telink.

(2) Includes subscribers to SK Broadband's B tv service and excludes video-on-demand only service subscribers.

In 2015, 2014 and 2013, our fixed-line telecommunication services segment revenue was Won 2,494.5 billion, Won 2,449.9 billion and Won 2,324.4 billion, respectively, representing approximately 14.6%, 14.3% and 14.0%, respectively, of our consolidated revenue.

**Fixed-line Telephone Services**

Our fixed-line telephone services comprise local, domestic long distance, international long distance and VoIP services. VoIP is a technology that transmits voice data through an Internet Protocol network. As of December 31, 2015, we had approximately 4.7 million fixed-line telephone subscribers (including subscribers to VoIP services of SK Broadband and SK Telink). Our fixed-line telephone services are primarily offered under the B phone brand name. SK Telink also provides affordable international calling services under the brand name 00700.

**Broadband Internet Access Services**

Our broadband Internet access network covered more than 80% of households in Korea as of December 31, 2015. As of December 31, 2015, we had approximately 5.0 million broadband Internet access subscribers. We offer broadband Internet access products with various throughput speeds, including band Giga, which is up to 10 times faster than data transmission speeds on networks utilizing fiber-to-the-home, or FTTH, technology and allows for data transmission at a maximum speed of 1 Gbps.

**Advanced Media Platform (including IPTV)**

As part of our initiative to be the leading next-generation platform provider, we aim to provide an advanced media platform with various media content and service offerings.

We have offered video-on-demand services since 2006 and launched real-time IPTV services in 2009. We currently offer IPTV services under the brand name B tv with access to more than 130 live high definition channels as well as video-on-demand service providing a wide range of media content, including recent box office movie releases, popular U.S. and other foreign TV shows and various children's TV programs. We also offer B tv UHD, which is an ultra-high definition IPTV service and has a resolution that is four times as high as the standard high definition broadcasting service in the IPTV industry. As of December 31, 2015, we had approximately 3.5 million IPTV subscribers.

In January 2016, we launched oksusu, a mobile IPTV service that is a combination of the services we previously provided as B tv mobile and hoppin and provides subscribers access to a wide variety of media contents, including various television programs, movies and other video contents that can be downloaded to wireless devices. Oksusu subscribers have access to more than 100 live TV channels, a wide range of sports contents and popular U.S. and other foreign TV shows, among other contents. We are also collaborating with media content developers to provide original media content for our oksusu service. As of December 31, 2015, we had approximately 4.1 million subscribers to oksusu.

We continue to expand the scope of our media services and content offerings to provide our subscribers with a vast library of high-quality content that can be accessed through our wireless networks and our fixed-line network.



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***Business Communications Services***

We offer other business communications services to our business customers, including corporations and government entities. Our business communications services include leased line solutions, Internet data center solutions and network solution services.

Our leased line solutions are exclusive lines that allow point-to-point connection for voice and data traffic between two or more geographically separate points. We hold a license to operate leased line services on a nationwide basis in Korea and also use international transmission lines to provide leased line services to other countries. Our leased line services enable high volumes of data to be transmitted swiftly and reliably. We also provide back-up storage for transmitted data. Through our Internet data center, we provide our business subscribers with server-based support including co-location, dedicated server hosting and cloud computing services. Our network solution service utilizes our network infrastructure and voice platform to provide 24-hour monitoring and control of our customers' networks. Through this service, we conduct remote monitoring of our customers' data and voice communications infrastructure and network and traffic conditions, and carry out preventive examinations and on-site visits.

***Rate Plans***

For our residential customers, we offer both bundled rate plans for a combination of our fixed-line service offerings as well as individual rate plans for each separate service offering. Bundled rate plans are offered at a discount compared to subscribing to the same services through individual rate plans. Approximately 83% of subscribers to our fixed-line services subscribe to two or more of our services through our bundled rate plans. Bundled rate plans for a combination of fixed-line telephone, broadband Internet access and IPTV services range from Won 20,000 to Won 46,000 per month.

Our Unlimited Home Phone plan for subscribers to our fixed-line telephone service features unlimited domestic land-to-land voice minutes for a fixed rate and range from Won 7,000 to Won 10,500 per month depending on whether or not the subscriber opts for a contract and if so, the length of the contract period. We offer individual fixed-rate plans for our broadband Internet access service that range from Won 20,000 to Won 50,000 per month depending on the data throughput speed and existence and length of a contract. We offer individual fixed-rate plans for our IPTV service that range from Won 6,000 to Won 28,000 per month depending on the number of channels provided and existence and length of a contract. In addition, subscribers can purchase individual videos on demand or subscribe to certain paid content on a periodic basis.

With respect to our business communications services, we offer rates that are tailored to the specific needs of our business customers. We also charge certain installation fees and equipment rental fees as well as other ancillary fees with respect to certain of our fixed-line telecommunications services.

***Marketing, Distribution and Customer Service***

We focus on bringing our fixed-line telephone, broadband Internet and advanced media platform services (including IPTV) to residential users, and various business communications services to corporate users. We market our fixed-line telecommunications products and services under the B brand. Our B brand signifies the centrality of Broadband to our business and also seeks to emphasize our commitment to providing the Best quality products and services to our customers that go Beyond expectations, leading to a Bravo response. Our B brand also strengthens our shared identity with our wireless services T brand.

We currently outsource a significant portion of our retail sales force needs. We market our services and provide after-sales service support to customers through more than 80 customer centers and a network of more than 170 authorized exclusive dealers located throughout Korea. In addition, SK Telecom's direct retail stores and authorized dealers for wireless telecommunications services also market our fixed-line telephone, broadband Internet and advanced media platform services (including IPTV), which we believe has contributed to the increase in the number of subscribers to such services. We have contracts with our customer centers to sell our services exclusively. These centers receive a commission for each service contract and installation contract secured. In addition, we pay these centers for the maintenance and repair work that they perform for our subscribers. Customer



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and service centers often enter into sub-contracts with smaller distribution outlets within their area to increase their sales coverage and engage in telemarketing efforts. Authorized dealers are entitled to an initial commission for each new subscriber registered by the dealer.

Sales to business subscribers are handled through our in-house sales group. Our sales teams focus on securing contracts with large commercial complexes, allowing us to install our remote terminals at their premises. After installation, sales teams direct their attention to individual business clients within these premises. Sales teams that have secured contracts with business clients remain the primary contacts for all aspects of the client's needs, including further installation and customer and follow-up service.

### **Other Businesses**

We strive to continually diversify our products and services and develop new growth engines that we believe are complementary to our existing products and services, such as our commerce business, our healthcare business and our hardware business, which we include in our others segment. In 2015, 2014 and 2013, our others segment revenue was Won 1,372.9 billion, Won 1,186.0 billion and Won 962.2 billion, respectively, representing approximately 8.0%, 6.9% and 5.8%, respectively, of our consolidated revenue.

### ***Commerce Business***

Our commerce business consists primarily of our marketplace business and O2O commerce business operated by our subsidiary, SK Planet.

*Marketplace.* We operate 11st which is an online open marketplace that offers a wide range of products through an online and mobile platform. Individual consumers can buy a vast array of products such as clothes and accessories, beauty products, groceries, baby products, books, office supplies, furniture, home goods, outdoor and sporting goods, appliances, electronics, travel packages, entertainment tickets and local deals for restaurants and other services from small- to large-sized retailers that operate mini malls on the 11st platform.

As of December 31, 2015, the mobile version of 11st was the leading mobile commerce platform in terms of unique visitors according to Korean Click. The mobile version of 11st is continuing to grow with an increase in the percentage of annual gross merchandise volume, which represents the total annual monetary value of customer purchases of goods and services, net of estimated refunds, derived from the mobile platform to 41% in 2015 from 28% in 2014.

We have expanded our online open marketplace business globally to Turkey, Indonesia and Malaysia. In March 2013, Dogus Planet, a joint venture between SK Planet and Dogus Group, a Turkish conglomerate, launched n11.com in Turkey. In March 2014, XL Planet, a joint venture between SK Planet and XL Axiata Tbk, an Indonesian mobile telecommunications service provider, launched elevenia in Indonesia. Further, in April 2015, Celcom Planet, a joint venture between SK Planet and Celcom Axiata, a Malaysian telecommunications service provider, launched 11street in Malaysia.

We intend to continue our efforts to increase usage of the mobile version of 11st, enhance the convenience of our 11st mobile and web user interface and develop our growth in overseas e-commerce markets.

*O2O Commerce.* We provide diverse O2O commerce solutions under the Syrup brand name, which include the following:

Syrup Wallet, a mobile wallet service that is the successor to our Smart Wallet service, allows users to conveniently manage membership card points and payment methods such as coupons, credit cards and gift vouchers on their mobile devices for both online and offline purchases and provides shopping information to users in certain shopping areas using advanced location-based technology;

OK Cashbag by Syrup, Korea's largest loyalty points program in terms of number of members with more than 50,000 participating merchants and 38 million members, which allows members to collect and redeem loyalty points at its partnering merchants and offers differentiated marketing services to such partnering merchants;

Syrup Pay, a convenient and secure payment service through which users can register their credit card to simplify payments for online and mobile purchases, including through 11st, our online open marketplace;



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Syrup Gifticon, an online and mobile gift exchange and delivery service;

Syrup Order, a food ordering service that allows users to conveniently place and pay for orders at restaurants in advance; and

Syrup Table, a location-based restaurant discovery service that provides users with information about nearby restaurants. The cumulative number of daily average users of our O2O commerce solutions was 3.0 million as of December 31, 2015.

We are also expanding our O2O commerce solutions business globally. In October 2014, a 95.2%-owned subsidiary of SK Planet acquired a 100.0% ownership interest in Shopkick, the developer of shopkick, a mobile shopping application that checks in and rewards customers that arrive at a participating retail store, for an aggregate purchase price of Won 230.9 billion and the assumption of Won 18.7 billion in current liabilities.

### ***Hardware Business***

We manufacture projection display devices, high-end audio devices and intelligent agent machines through our hardware business.

*Projection Display Devices.* We offer projection display devices under the brand name UO Smart Beam Laser. The UO Smart Beam Laser is a high definition pico projector that uses laser diodes to deliver bright and sharp images with a liquid crystal on silicon, or LCOS, based engine and is compatible with a wide range of computers and mobile devices. The UO Smart Beam Laser was selected as a 2016 CES Innovation Awards Honoree in the Home Video/Audio Components and Accessories category.

*High-end Audio Devices.* We offer high-end audio devices under the brand name Astell&Kern that are manufactured by our subsidiary, Iriver. Two of Iriver's audio devices were selected as 2016 CES Innovation Awards Honorees in the Portable Media Player and Accessories category and High Performance Home Audio/Video category, respectively.

In August 2014, we acquired a 39.3% equity interest in Iriver, a manufacturer of digital audio players and other portable media devices, which we increased to 49.0% in December 2014, for an aggregate purchase price of approximately Won 54.5 billion. We also acquired Won 5.0 billion of convertible bonds issued by Iriver, which may be converted into additional equity interests in Iriver when certain conditions are met.

*Intelligent Agent Machines.* We co-developed educational smart robots, Atti and Albert, as a learning tool for young children with diverse interactive games and educational content. We have also developed a coding training program utilizing our smart robots to teach children how to develop software in a fun and easy way. We have provided our smart robots to various countries globally, including Spain, France, China, Brazil and Colombia. In October 2015, we signed an agreement to provide Albert to be utilized in 300 preschool classrooms in Costa Rica to make learning more effective and interesting for children.

### ***Miscellaneous Businesses***

We offer a portal service under our Nate brand name through SK Communications. Nate can be accessed through its website, www.nate.com, or through its mobile application. Nate offers a wide variety of content and services, including Nate Search, an Internet search engine, Nate News, which provides a library of articles about current events, sports, entertainment and culture, Nate Pann, a user-generated content service as well as access to free e-mail accounts through Nate Mail.

We also operate a mobile application marketplace, T Store. We collaborated with KT and LG U+ to launch One Store in June 2015. One Store is a combination of T Store and the mobile application marketplaces separately operated by KT and LG U+. Through this joint collaboration, we expect to increase the competitiveness of One Store to compete with Google Playstore, the leading mobile application marketplace in Korea.

In addition, we operate a security and network surveillance business through Neosnetworks, a provider of residential and small business electronic security and other related alarm monitoring services. In 2014 and 2015, we acquired an 83.9% interest in Neosnetworks for an aggregate of Won 64.0 billion, as part of our initiative to further develop our IoT solutions platform.

**Table of Contents****Interconnection**

Our wireless and fixed-line networks interconnect with the public switched telephone networks operated by KT and SK Broadband and, through their networks, with the international gateways of KT and LG U+, as well as the networks of the other wireless telecommunications service providers in Korea. These connections enable our subscribers to make and receive calls from telephones outside our networks. Under Korean law, service providers are required to permit other service providers to interconnect to their networks. If a new service provider desires interconnection with the networks of an existing service provider but the parties are unable to reach an agreement within 90 days, the new service provider can appeal to the KCC.

**Domestic Calls**

Guidelines issued by the MSIP require that all interconnection charges levied by a regulated carrier take into account (i) the actual costs to that carrier of carrying a call or (ii) imputed costs. Starting in 2016, the MSIP will determine interconnection rates applicable to each carrier based on changes in traffic volume, taking into account other factors such as research results, competition and trends in technology development.

*Wireless-to-Fixed-line.* According to our interconnection arrangement with KT, for a call from our wireless network to KT's fixed-line network, we collect the usage rate from our wireless subscriber and in turn pay KT the interconnection charges. Similarly, KT pays interconnection charges to SK Broadband for a call from KT's wireless network to SK Broadband's fixed-line network. The interconnection rate applicable to both KT and SK Broadband was Won 13.44 per minute, Won 14.73 per minute and Won 16.74 per minute for 2015, 2014 and 2013, respectively.

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

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

| Applicable Year | Rate per Minute |       |       |
|-----------------|-----------------|-------|-------|
|                 | SK Telecom      | KT    | LG U+ |
| 2012            | 27.05           | 28.03 | 28.15 |
| 2013            | 26.27           | 26.98 | 27.04 |
| 2014            | 22.22           | 22.73 | 22.78 |
| 2015            | 19.53           | 19.92 | 19.96 |

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

Our revenues from the wireless-to-wireless charge were Won 582.6 billion in 2015, Won 651.2 billion in 2014 and Won 641.2 billion in 2013. Our expenses from these charges were Won 579.0 billion in 2015, Won 700.3 billion in 2014 and Won 615.6 billion in 2013. The charges above were agreed among the parties involved and confirmed by the KCC.

**Table of Contents*****International Calls and International Roaming Arrangements***

With respect to international calls, if a call is initiated by our wireless subscribers, we bill the wireless subscriber for the international charges of KT, LG U+ or SK Broadband, and we receive interconnection charges from such operators. If an international call is received by our subscriber, KT, LG U+ or SK Broadband pays interconnection charges to us based on our imputed costs.

To complement the services we provide to our subscribers in Korea, we offer international voice and data roaming services. We charge our subscribers usage fees for global roaming service and, in turn, pay foreign wireless network operators fees for the corresponding usage of their network. For a more detailed discussion of our global roaming services, see Item 4.B. Business Overview Cellular Services Wireless Services above.

**Competition**

We operate in highly saturated and competitive markets, and we believe that our subscriber growth is affected by many factors, including the expansion and technical enhancement of our networks, the development and deployment of new technologies, the effectiveness of our marketing and distribution strategy, the quality of our customer service, the introduction of new products and services, competitive pricing of our rate plans, new market entrants and regulatory changes.

Historically, there has been considerable consolidation in the telecommunications industry, resulting in the current competitive landscape comprising three mobile and fixed network operators in the Korean market, KT, LG U+ and us. Our competitors have substantial financial, technical, marketing and other resources to respond to our business offerings.

The following table shows the market share information, based on number of subscribers, as of December 31, 2015, for the following markets.

|                                       | SK Telecom | Market Share (%) |       |        |
|---------------------------------------|------------|------------------|-------|--------|
|                                       |            | KT               | LG U+ | Others |
| Wireless Service(1)                   | 49.4       | 30.4             | 20.2  |        |
| LTE Service(1)                        | 46.2       | 30.0             | 23.8  |        |
| Fixed-Line Telephone (including VoIP) | 16.2       | 57.5             | 17.5  | 8.8    |
| Broadband Internet                    | 25.1       | 41.6             | 17.4  | 15.9   |
| IPTV(2)                               | 12.1       | 22.7             | 7.9   | 57.3   |

(1) Includes MVNO subscribers that lease the wireless networks of the respective mobile network operator.

(2) Excludes video-on-demand only service subscribers. Market share is expressed as a percentage of the pay TV market (which includes IPTV, cable TV and satellite TV).

***Cellular Services***

As of December 31, 2015, we had 28.6 million subscribers, representing a market share of approximately 49.4%, including MVNO subscribers leasing our networks. As of December 31, 2015, KT and LG U+ had 17.6 million and 11.7 million subscribers, respectively, representing approximately 30.4% and 20.2%, respectively, of the total number of wireless subscribers in Korea on such date, each including MVNO subscribers leasing its networks. As of December 31, 2015, we had 18.9 million LTE subscribers and KT and LG U+ had 12.2 million and 9.7 million LTE subscribers, respectively, each including MVNO subscribers leasing its networks.

In 2015, we had 6.0 million activations and 5.6 million deactivations. For 2015, our monthly churn rate ranged from 1.3% to 2.1%, with an average monthly churn rate of 1.5% for 2015, which decreased by 0.5%p from 2014. In 2015, we gained 47.7% of the total number of new wireless subscribers and subscribers that migrated to a different wireless telecommunications service provider, compared to KT with 28.6% and LG U+ with 23.8%.

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We also compete for subscriber activations with MVNOs, including MVNOs that lease our networks. MVNOs generally provide rate plans that are relatively cheaper than similar rate plans of the wireless network providers from which they lease their networks, including us. To date, thirteen MVNOs have commenced providing wireless

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telecommunications services. As of December 31, 2015, MVNOs had a combined market share of 10.1%, of which MVNOs leasing our networks represented 4.6%, MVNOs leasing KT's networks represented 4.7% and MVNOs leasing LG U+'s networks represented 0.8%.

In addition, other companies may enter the telecommunications service market by acquiring the required licenses from the MSIP. For example, in October 2015, Sejong Telecom, K Mobile and Quantum Mobile applied for licenses to become Korea's fourth mobile network operator. Although the MSIP rejected the applications of all three companies in January 2016, the MSIP may continue its efforts to find an eligible applicant to be Korea's fourth mobile network operator in the future. For a description of the risks associated with the competitive environment in which we operate, see Item 3.D. Risk Factors—Risks Relating to Our Business—Competition may reduce our market share and harm our results of operations and financial condition.

Prior to 2015, competition in the wireless telecommunications business had caused us to significantly increase our marketing and advertising expenses. Between 2012 and 2014, marketing expenses as a percentage of SK Telecom's revenue, on a separate basis, fluctuated heavily between 23.9% to 33.7%, depending on the competitive landscape. However, in 2015, such percentage fluctuated between 23.0% and 27.0%. We attribute such stabilization to the maturity of the LTE market and the implementation of the MDDIA, which prohibits wireless telecommunications service providers from unfairly providing discriminatory subsidies based on certain criteria and from providing subsidies exceeding a maximum limit established by the KCC for the purchase of mobile phone models that were launched within the last 15 months, among other restrictions and requirements. For a more detailed discussion of the MDDIA, see Item 4.B. Business Overview—Law and Regulation—Competition Regulation—Rate Regulation.

We expect that due to the limitations on subsidies pursuant to the MDDIA, the differentiated product and service offerings we provide, the vast library of high-quality media content we offer and the competitiveness of our T Membership program will continue to play an important role in enhancing the loyalty of our wireless subscribers.

We face competition from KT and LG U+ as well as other platform service providers in our other cellular service businesses. For example, our Smart Home service competes with KT's Giga IoT Home service and LG U+'s IoT@Home service. Although it is difficult to determine the markets in which we compete with respect to certain of our lifestyle enhancement platform services, we generally compete with various other Internet or mobile platform service companies such as Naver and Kakao Corp. (Kakao) in connection with such services.

***Fixed-Line Telecommunication Services***

Our fixed-line telephone service competes with KT and LG U+ as well as providers of other VoIP services. As of December 31, 2015, our market share of the fixed-line telephone and VoIP service market was 16.2% (including the services provided by SK Broadband and SK Telink) in terms of number of subscribers compared to KT with 57.5% and LG U+ with 17.5%.

We are the second largest provider of broadband Internet access services in Korea in terms of both revenue and subscribers, and our network covered more than 80% of households in Korea as of December 31, 2015. As of December 31, 2015, our market share of the broadband Internet market was 25.1% in terms of number of subscribers compared to KT with 41.6% and LG U+ with 17.4%.

Our IPTV service competes with other providers of such pay TV services, including KT, LG U+ and cable companies. As of December 31, 2015, our market share of the pay TV market (which includes IPTV, cable TV and satellite TV) was 12.1% compared to KT with 22.7% and LG U+ with 7.9% and the collective market share of other pay TV providers of 57.3%. With respect to our mobile IPTV business, we face competition from similar services provided by KT and LG U+. We also face increasing competition from global media streaming service providers such as Amazon Video and Netflix, which launched its services in Korea in January 2016.

***Other Businesses***

The e-commerce industry is evolving rapidly and is intensely competitive, and we face a broad array of competitors domestically and increasingly, internationally. Our marketplace business, 11st, faces intense competition from various e-commerce providers, including online open marketplaces such as Gmarket, Auction and

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Interpark and online social commerce operators such as Coupang, Ticket Monster and Wemakeprice. We also face competition from traditional retailers with online and mobile shopping portals such as SSG.com and Lotte.com, home shopping providers with online and mobile shopping portals such as CJ Mall by CJ O Shopping, GS Shop by GS Homeshopping and Hyundai Hmall by Hyundai Homeshopping, and various online marketplaces for specific consumer segments or product groups.

The O2O commerce solutions industry is in its early stages of development and is heavily fragmented with a wide range of services being introduced. Thus, it is difficult to determine the markets in which we compete with respect to such services at this stage of the industry's development.

### **Other Investments and Relationships**

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

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

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

In 2015, 2014 and 2013, SK Hynix and its subsidiaries, on a consolidated basis, had revenues of Won 18,798.0 billion, Won 17,125.6 billion and Won 14,165.1 billion, respectively, profit before income tax of Won 5,269.1 billion, Won 5,047.7 billion and Won 3,074.9 billion, respectively, and profit for the year of Won 4,323.6 billion, Won 4,195.2 billion and Won 2,872.9 billion, respectively. As of December 31, 2015, 2014 and 2013, SK Hynix and its subsidiaries, on a consolidated basis, had total assets of Won 29,677.9 billion, Won 26,883.3 billion and Won 20,797.3 billion, respectively, and total equity of Won 21,387.7 billion, Won 18,036.3 billion and Won 13,066.9 billion, respectively.

#### ***Healthcare Business***

We believe that the healthcare business is one of the new growth industries as society ages and medical and health technologies evolve and become integrated with information and communication technologies ( ICT ). In 2011, we began pursuing new opportunities in the healthcare business area by acquiring a 9.3% equity interest in NanoEnTek Inc. ( NanoEnTek ), a biotechnology and nanotechnology company manufacturing, among others, point-of-care diagnostics devices. In April 2014, we became the largest shareholder of NanoEnTek with a 26.0% equity interest. In January 2016, NanoEnTek acquired Bio Focus Co., Ltd., a manufacturer of in vitro diagnostic products. In January 2012, we established a joint venture, Healthconnect Co., Ltd. ( Healthconnect ), with Seoul National University Hospital to develop a health management service model for mobile device users utilizing ICT and currently hold a 49.5% equity interest in Healthconnect.

We are also seeking opportunities in global healthcare markets. In the first quarter of 2013, we acquired a 49.0% equity interest in Xian Tianlong Science and Technology Co., Ltd. ( Tianlong ), a Chinese medical device manufacturer, which has since expanded its product portfolio with the development of a new diagnostic product and entry into new business areas. In July 2014, we established the SK Telecom Healthcare R&D Center in Shenzhen, China and the Shenzhen VISTA-SK Medical Center, which we believe will provide us with a strong foothold in expanding our healthcare business in China. Shenzhen VISTA-SK Medical Center was established through a joint venture with Vista Medical Center, a major private healthcare service provider based in Beijing, China, and has the capacity to provide medical examinations and checkups to approximately 30,000 people annually. We also collaborate with a hospital in the Wuxi region to operate a Smart Primary Healthcare Center based on ICT healthcare solutions, and we plan to provide a mobile healthcare clinic to underserved regions. We believe that there are opportunities to create synergies among these centers and the medical device business of Tianlong in expanding our healthcare business in China.



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In June 2014, we also entered into a contract to provide medical information systems to six Saudi Arabian hospitals for approximately Won 70.0 billion through a consortium with Seoul National University Bundang Hospital. We established a joint venture in Saudi Arabia in March 2016 to provide medical information systems to additional hospitals and further expand our healthcare business in the Middle East.

### ***Packet One Networks***

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

### ***KEBHana Card***

In February 2010, we purchased shares newly issued by Hana SK Card Co., Ltd. (which was subsequently merged into KEB Card Co., Ltd. and renamed KEBHana Card Co., Ltd. ( KEBHana Card ) in November 2014), a credit card services provider, for a total purchase price of Won 400.0 billion. We currently hold 15.0% of the total outstanding shares of KEBHana Card. KEBHana Card offers certain credit card products that provide for discounts on some of our wireless network services and integrate T Membership benefits, among other features.

### ***Other Investments***

Our other investments include:

*POSCO.* We currently own a 1.42% interest in the outstanding capital stock of POSCO, with a book value as of December 31, 2015 of Won 206.6 billion. POSCO is the largest fully integrated steel producer in Korea, and one of the largest steel producers in the world.

*SKY Property Management.* We currently own a 33.0% equity interest in SKY Property Management Ltd. ( SKY Property Management ), with a book value as of December 31, 2015 of Won 251.2 billion. SKY Property Management was established in 2008 to manage buildings and real estate developments in China, in which affiliated companies of the SK Group had invested or will invest.

*Kakao.* We currently own a 2.0% equity interest in Kakao, with a book value as of March 31, 2016 of Won 134.7 billion, pursuant to the transaction in February 2016 through which we sold our 15.0% interest in Loen Entertainment to Kakao for Won 219.9 billion in cash and 1,357,367 new shares of Kakao.

For more information regarding our investment securities, see note 9 of the notes to our consolidated financial statements.

## **Law and Regulation**

### ***Overview***

Korea's telecommunications industry is subject to comprehensive regulation by the MSIP, which is responsible for information and telecommunications policies. The MSIP regulates and supervises a broad range of communications issues, including:

entry into the telecommunications industry;

scope of services provided by telecommunications service providers;

allocation of radio spectrum;

setting of technical standards and promotion of technical standardization;

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rates, terms and practices of telecommunications service providers;

interconnection and revenue-sharing between telecommunications service providers;

research and development of policy formulation for information and telecommunications; and

competition among telecommunications service providers.

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

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

The MSIP may revoke our licenses or suspend any of our businesses if we fail to comply with its rules, regulations and corrective orders, including the rules restricting beneficial ownership and control and corrective orders issued in connection with any violation of rules restricting beneficial ownership and control or any violation of the conditions of our licenses. Alternatively, in lieu of suspension of our business, the MSIP may levy a monetary penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years. A network service provider that wants to cease its business or dissolve must obtain MSIP approval.

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

***Competition Regulation***

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

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

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Because we are a member company of the SK Group, which is a large business group as designated by the FTC, we are subject to the following restrictions under the Fair Trade Act:

*Restriction on debt guarantee among affiliates.* Any affiliate within the SK Group may not guarantee the debts of another domestic affiliate, except for certain guarantees prescribed in the Fair Trade Act, such as those relating to the debts of a company acquired for purposes of industrial rationalization, bid deposits for overseas construction work or technology development funds.

*Restriction on cross-investment.* A member company of the SK Group may not acquire or hold shares in an affiliate belonging to the SK Group that owns shares in the member company.

*Restrictions on circular investments.* A member company of the SK Group may not acquire or hold shares which would constitute circular investments in an affiliate company which also forms part of the SK Group where circular investments refer to a cross-affiliate shareholding relationship under which three or more affiliate companies become connected through cross affiliate shareholdings by owning shares in other affiliates or by becoming an entity whose shares are owned by other affiliates.

*Public notice of board resolution on large-scale transactions with specially related persons.* If a member company of the SK Group engages in a transaction with a specially related person in the amount of 5.0% or more of the member company's capital or paid-in capital or for Won 5.0 billion or more, the transaction must be approved by a resolution of the member company's board of directors and the member company must publicly disclose the transaction.

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

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

*Number Portability.* In January 2003, the MIC announced its plan to implement number portability with respect to wireless telecommunications service in Korea. The number portability system allows wireless subscribers to switch wireless telecommunications service providers while retaining the same mobile phone number.

In addition, the Government has been integrating mobile telephone identification numbers into a common prefix identification number 010 and gradually retracting the current mobile service identification numbers which had been unique to each wireless telecommunications service provider, including 011 for our cellular services, since January 1, 2004. All new subscribers have been given the 010 prefix starting January 2004. As the next step in the 010 integration process, the mobile telephone number prefix for all WCDMA and LTE service users has been changed to 010 as of January 1, 2014. The MSIP plans to complete the integration process by around 2018, when all mobile telephone numbers would have the prefix identification number 010.

*Rate Regulation.* Most network service providers must report to the MSIP the rates and contractual terms for each type of service they provide. However, as the dominant network service provider for specific services (based on having the largest market share in terms of number of subscribers and meeting certain revenue thresholds), we must obtain prior approval of the MSIP on our rates and terms of service; provided,

however, that such pre-approval of the MSIP is not required, if we are planning to reduce the rates for any type of services that we provide under the

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MSIP-approved contractual terms. The MSIP's policy is to approve rates if they are appropriate, fair and reasonable (that is, if the rates have been reasonably calculated, considering supply costs, profits, classification of costs and profits for each service, cost savings through changes in the way services are provided and the influence on fair competition, among others). The MSIP may order changes in the submitted rates if it deems the rates to be significantly unreasonable or against public policy. On October 23, 2015, the Government proposed a bill to the National Assembly to change the approval requirement to a simple reporting requirement, which is the requirement for our competitors. However, the bill is still under review by the relevant sub-committee and was not passed during the most recent term of the National Assembly and will be automatically repealed on May 31, 2016 if not passed by then. Although the Government may resubmit this bill in the future, there is no assurance as to whether such bill will be passed.

Furthermore, in 2007, the Government announced a road map highlighting revisions in regulations to promote deregulation of the telecommunications industry. In accordance with the road map and pursuant to the Combined Sales Regulation, promulgated in May 2007, telecommunications service providers are now permitted to bundle their services, such as wireless data transmission service, wireless voice transmission service, broadband Internet access service, fixed-line telephone service and IPTV service, at a discounted rate; provided, however, that we and KT, as market-dominating business entities under the Telecommunications Business Act, allow other competitors to employ the services provided by us and KT, respectively, so that such competitors can provide similar discounted package services. In September 2007, the regulations and provisions under the Telecommunications Business Act were amended to permit licensed transmission service providers to offer local, domestic long-distance and international telephone services, as well as broadband Internet access and Internet phone services, without additional business licenses.

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

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

*Interconnection.* Dominant network service providers such as ourselves that own essential infrastructure facilities or possess a certain market share are required to provide interconnection of their telecommunications network facilities to other service providers upon request. The MSIP sets and announces the standards for determining the scope, procedures, compensation and other terms and conditions of such provision, interconnection or co-use. We have entered into interconnection agreements with KT, LG U+ and other network service providers permitting these entities to interconnect with our network. We expect that we will be required to enter into additional agreements with new operators as the MSIP grants permits to additional telecommunications service providers.

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*Frequency Allocation.* The MSIP has the discretion to allocate and adjust the frequency bandwidths for each type of service and may auction off the rights to certain frequency bandwidths. Upon allocation of new frequency bandwidths or adjustment of frequency bandwidths, the MSIP is required to give a public notice. The MSIP also regulates the frequency to be used by each radio station, including the transmission frequency used by equipment in our cell sites. All of our frequency allocations are for a definite term. We pay fees to the MSIP for our frequency usage that are determined based upon our number of subscribers, frequency usage by our networks and other factors. For 2015, 2014 and 2013, the fee amounted to Won 189.8 billion, Won 188.1 billion and Won 206.5 billion, respectively.

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

For risks relating to the maintenance of adequate bandwidth capacity, see Item 3.D. Risk Factors Risks Relating to Our Business Our business and results of operations may be adversely affected if we fail to acquire adequate additional spectrum or use our bandwidth efficiently to accommodate subscriber growth and subscriber usage.

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

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

In addition to such universal services for handicapped and low-income citizens, we are also required to make certain monetary contributions to compensate for other service providers costs for the universal services. The size of a service provider s contribution is based on its net annual revenue (calculated pursuant to the MSIP guidelines, which differ from our accounting practices). In 2015, our contribution amount was Won 21.0 billion for our fiscal year 2014. In 2014, our contribution amount was Won 21.8 billion for our fiscal year 2013. In 2013, our contribution amount was Won 19.2 billion for our fiscal year 2012. As a wireless telecommunications services provider, we are not considered a provider of universal telecommunications services and do not receive funds for providing universal service. Other network service providers that do provide universal services make all or a portion of their contribution in the form of expenses related to the universal services they provide.

### ***Foreign Ownership and Investment Restrictions and Requirements***

Because we are a network service provider, and the exception for the foreign shareholding limit under the amended Telecommunications Business Act, which became effective on August 13, 2013, does not apply to us, foreign governments, individuals, and entities (including Korean entities that are deemed foreigners, as discussed below) are prohibited from owning more than 49.0% of our voting stock. Korean entities whose largest shareholder is a foreign government or a foreigner (together with any of its related parties) that owns 15.0% or more of the outstanding voting stock of such Korean entities are also deemed foreigners. If this 49.0% ownership limitation is violated, certain of our foreign shareholders will not be permitted to exercise voting rights in excess of the limitation, and the MSIP may require other corrective action.

As of December 31, 2015, SK Holdings owned 20,363,452 shares of our common stock, or approximately 25.22% of our issued shares. As of December 31, 2015, the two largest foreign shareholders of SK Holdings each

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held a 3.5% stake therein. If such foreign shareholders increase their shareholdings in SK Holdings to 15% or more and any such foreign shareholder constitutes the largest shareholder of SK Holdings, SK Holdings will be considered a foreign shareholder, and its shareholding in us would be included in the calculation of our aggregate foreign shareholding. If SK Holdings' shareholding in us is included in the calculation of our aggregate foreign shareholding, then our aggregate foreign shareholding, assuming the foreign ownership level as of December 31, 2015 (which we believe was 39.38%), would reach 64.60%, exceeding the 49.0% ceiling on foreign shareholding.

If our aggregate foreign shareholding limit is exceeded, the MSIP may issue a corrective order to us, the breaching shareholder (including SK Holdings if the breach is caused by an increase in foreign ownership of SK Holdings) and the foreign shareholder which owns in the aggregate 15.0% or more of SK Holdings. Furthermore, SK Holdings will be prohibited from exercising its voting rights with respect to the shares held in excess of the 49.0% ceiling, which may result in a change in control of us. In addition, the MSIP will be prohibited from granting us licenses or permits necessary for entering into new telecommunications businesses until our aggregate foreign shareholding is reduced to below 49.0%. If a corrective order is issued to us by the MSIP arising from the violation of the foregoing foreign ownership limit, and we do not comply within the prescribed period under such corrective order, the MSIP may:

revoke our business license;

suspend all or part of our business; or

if the suspension of business is deemed to result in significant inconvenience to our customers or to be detrimental to the public interest, impose a one-time administrative penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years.

Additionally, the Telecommunications Business Act also authorizes the MSIP to assess monetary penalties of up to 0.3% of the purchase price of the shares for each day the corrective order is not complied with, as well as a prison term of up to one year or a penalty of Won 50 million. See Item 3.D. Risk Factors Risks Relating to Securities If SK Holdings causes us to breach the foreign ownership limitations on our common shares, we may experience a change of control.

We are required under the Foreign Exchange Transaction Act to file a report with a designated foreign exchange bank or with the Ministry of Strategy and Finance (the MOSF), in connection with any issue of foreign currency denominated securities by us in foreign countries. Issuances of US\$30 million or less require the filing of a report with a designated foreign exchange bank, and issuances that are over US\$30 million in the aggregate within one year from the filing of a report with a designated foreign exchange bank require the filing of a report with the MOSF.

The Telecommunications Business Act provides for the creation of a Public Interest Review Committee under the MSIP to review investments in or changes in the control of network service providers. The following events would be subject to review by the Public Interest Review Committee:

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

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

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

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

If the Public Interest Review Committee determines that any of the foregoing transactions or events would be detrimental to the public interest, then the MSIP may issue orders to stop the transaction, amend any agreements, suspend voting rights, or divest the shares of the relevant network service provider. Additionally, if a dominant network service provider (which would currently include us and KT), together with its



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pecially related persons (as defined under the FSCMA), holds more than 5.0% of the equity of another dominant network service provider, the voting rights on the shares held in excess of the 5.0% limit may not be exercised.

**Table of Contents****Patents and Licensed Technology**

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

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

**Seasonality of the Business**

Our business is not affected by seasonality.

**Item 4.C. Organizational Structure**

We are a member of the SK Group, based on the definition of group under the Fair Trade Act. As of December 31, 2015, SK Group members owned in aggregate 25.2% of the shares of our issued common stock. The SK Group is a diversified group of companies incorporated in Korea with interests in, among other things, telecommunications, trading, energy, chemicals, engineering and leisure industries.

**Significant Subsidiaries**

For information regarding our subsidiaries, see note 1(2) of the notes to our consolidated financial statements.

**Item 4.D. Property, Plants and Equipment**

The following table sets forth certain information concerning our principal properties as of December 31, 2015:

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

(1) Includes cell sites.

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In December 2004, we constructed a building with an area of approximately 82,624 square feet, of which we have full ownership, for use as our corporate headquarters. In addition, we own or lease various locations for cell sites and switching equipment. We do not anticipate that we will encounter material difficulties in meeting our future needs for any existing or prospective leased space for our cell sites. See Item 4.B. Business Overview Cellular Services Network Infrastructure.

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

**Item 4A. UNRESOLVED STAFF COMMENTS**

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

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

You should read the following discussion together with our consolidated financial statements and the related notes thereto which appear elsewhere in this annual report. We prepare our consolidated financial statements in accordance with IFRS as issued by the IASB. In addition, you should read carefully the section titled Critical Accounting Policies, Estimates and Judgments as well as note 4 of the notes to our consolidated financial statements which provide summaries of certain critical accounting policies that require our management to make difficult, complex or subjective judgments relating to matters which are highly uncertain and that may have a material impact on our financial conditions and results of operations.

**Item 5.A. Operating Results Overview**

Our operations are reported in three segments: (1) cellular services, which include wireless voice and data transmission services, sales of wireless devices, IoT solutions platform services and lifestyle enhancement platform services, (2) fixed-line telecommunication services, which include fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV) and business communications services and (3) other businesses, which include our commerce business, our hardware business and other operations that do not meet the quantitative thresholds to be separately considered reportable segments.

In our cellular services segment, we earn revenue principally from our wireless voice and data transmission services through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by our wireless subscribers as well as interconnection fees paid to us by other telecommunications operators for use of our wireless network by their customers and subscribers. We also derive revenue from sales of wireless devices by our subsidiary, PS&Marketing. Other sources of revenue include revenue from our IoT solutions platform services and lifestyle enhancement platform services as well as other miscellaneous cellular services.

In our fixed-line telecommunication services segment, we earn revenue principally from our fixed-line telephone services and broadband Internet services and advanced media platform services (including IPTV) through monthly plan-based fees and usage charges as well as interconnection fees paid to us by other telecommunications operators for use of our fixed-line network by their customers and subscribers. In addition, we derive revenue from international calling services and our business communications services through customized fee arrangements with our business customers.

In our others segment, we earn revenue principally from our commerce business through third-party seller fees earned (including commissions) for transactions in which we act as a selling agent to the mini malls on 11st, our online open marketplace platform, as well as advertising revenue from 11st and our O2O commerce solutions. Other sources of revenue include revenue from our hardware businesses through sales of projection display devices, high-end audio devices and intelligent agent machines, revenue from our security business operated by our subsidiary, Neosnetworks, advertising revenue from our Nate portal service operated by our subsidiary, SK Communications, and sales commissions through our mobile application marketplaces.



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Our cellular service revenue and fixed-line telecommunications service revenue depend principally upon the number of our wireless subscribers, the rates we charge for our services, the frequency and volume of subscriber usage of our services and the terms of our interconnection with other telecommunications operators. Our others revenue depends principally upon the gross merchandise volume, which is the total monetary value of customer purchases of goods and services, net of estimated refunds, of 11st and the number of merchants that utilize 11st and our O2O platforms to advertise and promote their products and services and the extent of such advertisement and promotion.

Among other factors, management uses operating income of each reportable segment presented in accordance with K-IFRS ( segment operating income ) in its assessment of the profitability of each reportable segment. The sum of segment operating income for all three reportable segments differs from our operating income presented in accordance with IFRS by IASB as segment operating income does not include certain items such as gain and loss from disposal of property and equipment and intangible assets and impairment loss on property and equipment and intangible assets. For a reconciliation of operating income presented in accordance with IFRS by IASB and operating income presented in accordance with K-IFRS, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

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

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

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

In 2015, the increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA due to the increase in the applicable discount rate to 20% in April 2015 from 12% in October 2014 contributed to a decrease in revenue. Such increase also led to a decrease in our marketing expenses in 2015 compared to 2014. Furthermore, failure to comply with the MDDIA may lead to suspension of our business or imposition of monetary penalties. For more information about the MDDIA and the penalties imposed for violating Government regulations, see Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation and Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings KCC and MSIP Proceedings.

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

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continue to have a material impact on our results of operations in 2016. For more information about the rates we charge, see Item 4.B. Business Overview Cellular Services Rate Plans and Item 4.B. Business Overview Law and Regulation Competition Regulation Rate Regulation.

*Decrease in Interconnection Fees.* Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Charges for interconnection affect our revenues and operating results. The MSIP determines the basic framework for interconnection arrangements, including policies relating to interconnection rates in Korea. Under our interconnection agreements, we are required to make payments in respect of calls which originate from our networks and terminate in the networks of other Korean telecommunications operators, and the other operators are required to make payments to us in respect of calls which originate in their networks and terminate in our network. The MSIP has continued to gradually decrease the interconnection rates in Korea, which has led to a continued decrease in our interconnection revenue as well as interconnection expenses from 2012 to 2015 and any further reduction in interconnection rates by the MSIP may continue to impact our results of operations. For more information about our interconnection revenue and expenses, see Item 4.B. Business Overview Interconnection.

*Decrease in Monthly Revenue per Subscriber.* We measure monthly average per subscriber using two metrics: billing average monthly per subscriber ( billing ARPU ) and total average monthly revenue per subscriber ( total ARPU ). Billing average monthly revenue per subscriber is derived by dividing the sum of total SK Telecom revenues from voice service and data service for the period by the monthly average number of subscribers (excluding the number of MVNO subscribers leasing our networks) for the period, then dividing that number by the number of months in the period. Total ARPU is derived by dividing the sum of total SK Telecom revenues from voice service, data service, initial subscription fees and interconnection revenue, as well as other revenues, for the period by the monthly average number of subscribers (excluding the number of MVNO subscribers leasing our networks) for the period, then dividing that number by the number of months in the period.

Our billing ARPU increased by 1.3% to Won 36,582 in 2015 from Won 36,101 in 2014 and increased by 4.5% in 2014 from Won 34,551 in 2013. The increases in billing ARPU in 2015 and 2014 were primarily due to the increase in LTE subscribers who subscribe to data plans with higher monthly basic charges than our other wireless telecommunications services and greater data service usage attributable to increases in the number of smartphone users. In 2015, the increase in billing ARPU was partially offset by a decrease in revenue due to the increase in the applicable discount rate for subscribers that elected to receive discounted rates in lieu of receiving handset subsidies according to the MDDIA.

Our total ARPU decreased by 0.3% to Won 43,970 in 2015 from Won 44,124 and increased by 4.1% in 2014 from Won 42,377 in 2013. The decrease in total ARPU in 2015 was primarily due to decreases in initial subscription fees and interconnection revenue, which were partially offset by the reasons set forth above relating to the increase in billing ARPU in 2015. The increase in total ARPU in 2014 was primarily due to an increase in LTE subscribers who subscribe to data plans with higher monthly basic charges than our other wireless telecommunications services and greater data service usage attributable to increases in the number of smartphone users.

*Acquisition of SK Hynix Shares.* In February 2012, we acquired a 21.1% equity stake in SK Hynix, one of the world's largest memory chip makers by revenue, for an aggregate purchase price of approximately Won 3.4 trillion, and became its largest shareholder. As of December 31, 2015, we held a 20.1% equity stake in SK Hynix. SK Hynix's profit for the year was Won 4,323.6 billion in 2015, Won 4,195.2 billion in 2014 and Won 2,872.9 billion in 2013. Our investment in SK Hynix is accounted for using the equity method and the results of SK Hynix's performance is reflected in our operating results as gains (loss) related to investments in subsidiaries and associates.

*Acquisition of SK Networks Retail Distribution Business.* In April 2014, PS&Marketing acquired the retail distribution business of SK Networks. As a result of such acquisition, there were increases in wireless device sales in 2015, due to the reflection of the full year impact of the acquisition, compared to 2014, in which the acquisition only impacted results of operations for part of the year, and in 2014 compared to 2013, along with an increase in various related operating expenses, including cost of products that have been resold and labor costs.

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

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

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

In our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report, such changes in presentation were not adopted. As a result, the presentation of operating income in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB included in this annual report differs from the presentation of operating income in the consolidated statements of income prepared in accordance with K-IFRS for the corresponding periods. The table below sets forth a reconciliation of our operating income as presented in our consolidated statements of income prepared in accordance with IFRS as issued by the IASB for the years ended December 31, 2015, 2014 and 2013 to the operating income as presented in the consolidated statements of income prepared in accordance with K-IFRS after giving effect to the amendments to K-IFRS No. 1001, Presentation of Financial Statements, for each of the corresponding years.

|  | <b>For the Year Ended December 31,</b> |             |             |
|--|--|-------------|-------------|
|  | <b>2015</b>                            | <b>2014</b> | <b>2013</b> |
|  | <b>(In billions of Won)</b>            |             |             |
| Operating income pursuant to IFRS by IASB  | 1,495.4                                | 1,607.9     | 1,578.4     |
| Differences:   |  |             |             |
| Other income pursuant to IFRS  |  |             |             |
| Fee revenues   |  | (8.2)       | (7.3)       |
| Gain on disposal of property and equipment and intangible assets   | (7.1)                                  | (8.8)       | (8.0)       |
| Others   | (23.8)                                 | (39.5)      | (59.7)      |
|  | (30.9)                                 | (56.5)      | (75.0)      |
| Other operating expenses pursuant to IFRS that are classified as other non-operating expenses pursuant to K-IFRS |  |             |             |
| Loss on impairment of property and equipment and intangible assets   | 35.8                                   | 47.5        | 13.8        |
| Loss on disposal of property and equipment and intangible assets   | 21.4                                   | 33.0        | 267.5       |
| Donations  | 72.5                                   | 67.8        | 82.1        |
| Bad debt for accounts receivable other   | 15.3                                   | 17.9        | 22.2        |
| Others   | 98.5                                   | 107.5       | 122.2       |
|  | 243.5                                  | 273.8       | 507.7       |
| Operating income pursuant to K-IFRS  | 1,708.0                                | 1,825.1     | 2,011.1     |

However, there is no impact on profit for the year or earnings per share for the years ended December 31, 2015, 2014 and 2013.



**Table of Contents****Accounting Standards Updates**

We have adopted amendments to IAS 19, Employee Benefits, for the years ended December 31, 2015. See note 3 of the notes to our consolidated financial statements for a summary of IAS 19, Employee Benefits. The adoption of these amendments is not expected to have a significant impact on our consolidated results of operations or financial position.

**Operating Results**

The following table sets forth summary consolidated income statement information, including that expressed as a percentage of operating revenue and other income, for the periods indicated:

|  | 2015   | For the Year Ended December 31, |          |        |          | 2013   |
|--|--|---------------------------------|----------|--------|----------|--------|
|  |  | 2014                            |          | 2013   |          |        |
|  | (In billions of Won, except percentage data) |                                 |          |        |          |        |
| Operating Revenue and Other Income                         | 17,167.6                                     | 100.0%                          | 17,220.3 | 100.0% | 16,677.0 | 100.0% |
| Revenue  | 17,136.7                                     | 99.8                            | 17,163.8 | 99.7   | 16,602.1 | 99.6   |
| Other income   | 30.9   | 0.2                             | 56.5     | 0.3    | 74.9     | 0.4    |
| Operating Expense  | 15,672.2                                     | 91.3                            | 15,612.4 | 90.7   | 15,098.6 | 90.5   |
| Operating Income   | 1,495.4                                      | 8.7                             | 1,607.8  | 9.3    | 1,578.4  | 9.5    |
| Profit before Income Tax                                   | 2,035.4                                      | 11.9                            | 2,253.8  | 13.1   | 1,827.1  | 11.0   |
| Income Tax Expense from Continuing Operations              | 519.5  | 3.0                             | 454.5    | 2.6    | 400.8    | 2.4    |
| Profit from Continuing Operations                          | 1,515.9                                      | 8.8                             | 1,799.3  | 10.4   | 1,426.3  | 8.6    |
| Profit from Discontinued Operation, Net of Income Taxes(1) |  |                                 |          |        | 183.2    | 1.1    |
| Profit (Loss) for the Year Attributable to:                |  |                                 |          |        |          |        |
| Owners of the Parent Company                               | 1,518.6                                      | 8.8                             | 1,801.2  | 10.5   | 1,638.9  | 9.8    |
| Non-controlling Interests                                  | (2.7)  | (0.0)                           | (1.9)    | (0.0)  | (29.4)   | (0.2)  |
| Profit for the Year  | 1,515.9                                      | 8.8                             | 1,799.3  | 10.4   | 1,609.5  | 9.6    |

(1) Relates to results of operations of Loen Entertainment, which ceased being our consolidated subsidiary in July 2013.

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

|   | 2015            |                                   | Year Ended December 31,<br>2014 |                                   | 2013            |                                   |
|---|-----------------|-----------------------------------|---------------------------------|-----------------------------------|-----------------|-----------------------------------|
|   | Amount          | Percentage<br>of Total<br>Revenue | Amount                          | Percentage<br>of Total<br>Revenue | Amount          | Percentage<br>of Total<br>Revenue |
| (In billions of Won, except percentages)                          |                 |                                   |                                 |                                   |                 |                                   |
| <b>Cellular Services Revenue</b>                                  |                 |                                   |                                 |                                   |                 |                                   |
| Wireless Service(1)   | 10,720.50       | 62.6%                             | 11,010.6                        | 64.2%                             | 11,001.1        | 66.3%                             |
| Cellular Interconnection  | 710.0           | 4.1                               | 817.0                           | 4.8                               | 845.0           | 5.1                               |
| Wireless Device Sales   | 963.4           | 5.6                               | 761.6                           | 4.4                               | 645.9           | 3.9                               |
| Miscellaneous(2)  | 875.4           | 5.1                               | 938.6                           | 5.5                               | 823.5           | 5.0                               |
| <b>Total Cellular Services Revenue</b>                            | <b>13,269.3</b> | <b>77.4</b>                       | <b>13,527.9</b>                 | <b>78.8</b>                       | <b>13,315.5</b> | <b>80.2</b>                       |
| <b>Fixed-line Telecommunication Services Revenue</b>              |                 |                                   |                                 |                                   |                 |                                   |
| Fixed-line Telephone Service                                      | 420.6           | 2.5%                              | 467.3                           | 2.7%                              | 474.4           | 2.9%                              |
| Fixed-line Interconnection  | 57.1            | 0.3                               | 57.4                            | 0.3                               | 78.7            | 0.5                               |
| Broadband Internet Service and Advanced<br>Media Platform Service | 1,308.8         | 7.6                               | 1,152.7                         | 6.7                               | 1,023.2         | 6.2                               |
| International Calling Service                                     | 99.1            | 0.6                               | 112.0                           | 0.7                               | 127.0           | 0.8                               |
| Miscellaneous(3)  | 608.9           | 3.6                               | 660.5                           | 3.8                               | 621.1           | 3.7                               |
| <b>Total Fixed-line Telecommunication<br/>Services Revenue</b>    | <b>2,494.5</b>  | <b>14.6</b>                       | <b>2,449.9</b>                  | <b>14.3</b>                       | <b>2,324.4</b>  | <b>14.0</b>                       |
| <b>Other Revenue</b>  |                 |                                   |                                 |                                   |                 |                                   |
| Commerce Service(4)   | 988.5           | 5.8%                              | 911.5                           | 5.3%                              | 742.6           | 4.5%                              |
| Portal Service(5)   | 63.9            | 0.4                               | 73.0                            | 0.4                               | 92.2            | 0.6                               |
| Miscellaneous(6)  | 320.5           | 1.9                               | 201.6                           | 1.2                               | 127.4           | 0.8                               |
| <b>Total Other Revenue</b>  | <b>1,372.9</b>  | <b>8.0</b>                        | <b>1,186.0</b>                  | <b>6.9</b>                        | <b>962.2</b>    | <b>5.8</b>                        |
| <b>Total Revenue</b>  | <b>17,136.7</b> | <b>100.0%</b>                     | <b>17,163.8</b>                 | <b>100.0%</b>                     | <b>16,602.1</b> | <b>100.0%</b>                     |
| <b>Total Revenue Growth</b>                                       | <b>(0.2) %</b>  |                                   | <b>3.4%</b>                     |                                   | <b>2.9</b>      | <b>%</b>                          |
| <b>Segment Operating Expense(7)</b>                               |                 |                                   |                                 |                                   |                 |                                   |
| Cellular Services   | 11,591.0        | 67.6%                             | 11,773.5                        | 68.6%                             | 11,329.4        | 68.2%                             |
| Fixed-line Telecommunication Services                             | 2,386.2         | 13.9                              | 2,369.5                         | 13.8                              | 2,268.8         | 13.7                              |
| Others  | 1,451.5         | 8.5                               | 1,195.8                         | 7.0                               | 992.8           | 6.0                               |
| <b>Total Segment Operating Expense</b>                            | <b>15,428.7</b> | <b>90.0%</b>                      | <b>15,338.7</b>                 | <b>89.4%</b>                      | <b>14,591.0</b> | <b>87.9%</b>                      |
| <b>Segment Operating Income</b>                                   |                 |                                   |                                 |                                   |                 |                                   |
| Cellular Services   | 1,678.3         | 9.8%                              | 1,754.4                         | 10.6%                             | 1,986.1         | 12.0%                             |
| Fixed-line Telecommunication Services                             | 108.3           | 0.6                               | 80.4                            | 0.5                               | 55.6            | 0.3                               |
| Others  | (78.6)          | (0.4)                             | (9.8)                           | (0.1)                             | (30.6)          | (0.2)                             |
| <b>Total Segment Operating Income</b>                             | <b>1,708.0</b>  | <b>10.0%</b>                      | <b>1,825.1</b>                  | <b>10.6%</b>                      | <b>2,011.1</b>  | <b>12.1%</b>                      |

(1) Wireless service revenue includes revenue from wireless voice and data transmission services principally derived through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees paid by our

wireless subscribers.

- (2) Miscellaneous cellular services revenue includes revenue from our IoT solutions platform services as well as other miscellaneous cellular services.

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- (3) Miscellaneous fixed-line telecommunication services revenue includes revenues from business communications services (other than fixed-line telephone service) provided by SK Broadband and VoIP services provided by SK Telink.
- (4) Commerce service revenue includes revenues from 11st, our online open marketplace platform, and O2O commerce solutions.
- (5) Portal service revenue includes revenues from Nate, our online portal service operated by SK Communications, and Cyworld, a social networking service formerly operated by SK Communications. In March 2014, the Cyworld business was spun-off into an unaffiliated company.
- (6) Miscellaneous others revenue includes revenues from our hardware business, our security business operated by our subsidiary, Neosnetworks, and our online open marketplace for mobile applications, among other operations.
- (7) Segment operating expense means operating expense for each reportable segment presented in accordance with K-IFRS and therefore, does not include certain expenses that are classified as other non-operating expenses under K-IFRS. For more information on the difference between our consolidated operating expense pursuant to K-IFRS and pursuant to IFRS as issued by the IASB, see Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

**2015 Compared to 2014**

*Operating Revenue and Other Income.* Our consolidated operating revenue and other income decreased by 0.3% to Won 17,167.6 billion from Won 17,220.3 billion in 2014, due to the following decreases in operating revenue and other income.

Our consolidated operating revenue decreased slightly to Won 17,136.7 billion in 2015 from Won 17,163.8 billion in 2014, primarily due to decreases in wireless service revenue and cellular interconnection revenue, partially offset by increases in wireless device sales and broadband Internet service and advanced media platform service revenue, each as further discussed below.

Our consolidated other income decreased by 45.2% to Won 30.9 billion in 2015 from Won 56.5 billion in 2014 primarily due to a decrease in value-added tax refunds to Won 2.1 billion in 2015 from Won 8.1 billion in 2014 and a decrease in gain on disposal of property and equipment and intangible assets to Won 7.1 billion in 2015 from Won 8.8 billion in 2014.

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

Cellular services: The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, wireless device sales and miscellaneous cellular services, decreased by 1.9% to Won 13,269.3 billion in 2015 from Won 13,527.9 billion in 2014. The decrease in our cellular services revenue was principally due to decreases in our wireless service revenue and cellular interconnection revenue partially offset by an increase in our wireless device sales.

Wireless service revenue decreased by 2.6% to Won 10,720.5 billion in 2015 from Won 11,010.6 billion in 2014, primarily due to the decrease in initial subscription fees which we ceased charging beginning November 2014 and the increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA due to the increase in the applicable discount rate to 20% in April 2015 from 12% in October 2014.

Cellular interconnection revenue decreased by 13.1% to Won 710.0 billion in 2015 from Won 817.0 billion in 2014. The decrease was primarily attributable to decreases in interconnection rates and land-to-mobile call volume in 2015.

Wireless device sales increased by 26.5% to Won 963.4 billion in 2015 from Won 761.6 billion in 2014. Such increase was due in part to the reflection of the full year impact of the acquisition by PS&Marketing in April 2014 of the retail distribution business of SK Networks in 2015 compared to 2014 in which the acquisition only impacted revenue for part of the year.

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Fixed-line telecommunications services: The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service and advanced media platform service

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(including IPTV), fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 1.8% to Won 2,494.5 billion in 2015 from Won 2,449.9 billion in 2014, primarily due to an increase in revenue from our broadband Internet service and advanced media platform service (including IPTV), partially offset by decreases in fixed-line telephone service revenue, miscellaneous fixed-line telecommunication services revenue and international calling service revenue. Fixed-line interconnection revenue was stable between 2014 and 2015.

Revenue from our broadband Internet service and advanced media platform service (including IPTV) increased by 13.5% to Won 1,308.8 billion in 2015 from Won 1,152.7 billion in 2014, primarily due to an increase in the number of IPTV subscribers to 3.5 million subscribers as of December 31, 2015 from 2.8 million subscribers as of December 31, 2014 and an increase in the purchase of paid media content by IPTV subscribers.

Fixed-line telephone service revenue decreased by 10.0% to Won 420.6 billion in 2015 from Won 467.3 billion in 2014, primarily due to a decrease in residential calling volume. Miscellaneous fixed-line telecommunication services revenue decreased by 7.8% to Won 608.9 billion in 2015 from Won 660.5 billion in 2014, primarily due to a decline in new contracts for business communications services provided by SK Broadband. International calling service revenue decreased by 11.5% to Won 99.1 billion in 2015 from Won 112.0 billion in 2014, primarily due to a decrease in international calling volume.

Others: The revenue of our others segment, which is composed of revenues from our commerce service and portal service and miscellaneous other revenue, increased by 15.8% to Won 1,372.9 billion in 2015 from Won 1,186.0 billion in 2014, due to increases in commerce service revenue and miscellaneous other revenue.

Commerce service revenue increased by 8.4% to Won 988.5 billion in 2015 from Won 911.5 billion in 2014, primarily due to an increase in the annual gross merchandise volume of 11st through its mobile version. Miscellaneous other revenue increased by 59.0% to Won 320.5 billion in 2015 from Won 201.6 billion in 2014, primarily due to increases in revenue from our security business operated by Neosnetworks and revenue from SK Planet's advertising business.

*Operating Expense.* Our consolidated operating expense increased by 0.4% to Won 15,672.2 billion in 2015 from Won 15,612.4 billion in 2014, primarily due to a 16.4% increase in cost of products that have been resold to Won 1,955.9 billion in 2015 from Won 1,680.1 billion in 2014, a 14.1% increase in labor cost to Won 1,893.7 billion in 2015 from Won 1,659.8 billion in 2014 and a 4.8% increase in depreciation and amortization to Won 2,845.3 billion in 2015 from Won 2,714.7 billion in 2014. Such increase was partially offset by an 8.5% decrease in commissions paid to Won 5,207.0 billion in 2015 from Won 5,692.7 billion in 2014.

The increase in cost of products that have been resold was primarily due to the reflection of the full year impact of the acquisition by PS&Marketing in April 2014 of the retail distribution business of SK Networks in 2015 compared to 2014 in which the acquisition only impacted associated costs for part of the year and an increase in high-end wireless device sales.

The increase in labor cost was primarily due to one-time severance payments in connection with our early retirement program and the increase in the number of employees at SK Broadband to further expand our advanced media platform service business and in connection with several acquisitions in 2014, including the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014 and the acquisition by SK Planet of Shopkick in October 2014.

The increase in depreciation and amortization was primarily due to increased capital investments to upgrade our LTE network and broadband Internet fixed-line network and the increase in amortization of software.

The decrease in commissions paid was attributable mainly to the stabilized competitive environment due to the maturity of the LTE market and the implementation of the MDDIA as well as an increase in the number of subscribers who elected to receive discounted rates in lieu of receiving handset subsidies pursuant to the MDDIA.

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

**Cellular services:** The segment operating expense for our cellular services segment decreased by 1.6% to Won 11,591.0 billion in 2015 from Won 11,773.5 billion in 2014, primarily due to a decrease in commissions paid, which was partially offset by increases in cost of products that have been resold, labor cost and depreciation and amortization, each for the reasons described above.

**Fixed-line telecommunication services:** The segment operating expense for our fixed-line telecommunication services segment slightly increased to Won 2,386.2 billion in 2015 from Won 2,369.5 billion in 2014, primarily due to an increase in marketing costs to gain more subscribers to our IPTV service and an increase in labor cost due to an increase in the number of employees related to the expansion of our advanced media platform service business.

**Others:** The segment operating expense for our others segment increased by 21.4% to Won 1,451.5 billion in 2015 from Won 1,195.8 billion in 2014, primarily due to an increase in marketing costs relating to various promotional events for 11st and our O2O commerce solutions and an increase in labor cost due to the increase in the number of employees pursuant to the acquisition by SK Planet of Shopkick in October 2014.

**Operating Income.** Our consolidated operating income decreased by 7.0% to Won 1,495.4 billion in 2015 from Won 1,607.8 billion in 2014, due to the decrease in operating revenue and other income and the increase in operating expense.

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

**Cellular services:** The segment operating income of our cellular services segment decreased by 4.3% to Won 1,678.3 billion in 2015 from Won 1,754.4 billion in 2014, primarily due to the decrease in initial subscription fees which we ceased charging beginning November 2014. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating income divided by revenue from such segment, expressed as a percentage) of our cellular services segment decreased to 12.6% in 2015 from 13.0% in 2014.

**Fixed-line telecommunication services:** The segment operating income of our fixed-line telecommunication services segment increased by 34.7% to Won 108.3 billion in 2015 from Won 80.4 billion in 2014, primarily due to the increase in revenue from our IPTV service despite the increase in costs to expand our advanced media platform service business. As a result, the segment operating margin of our fixed-line telecommunication services segment increased to 4.3% in 2015 from 3.3% in 2014.

**Others:** The segment operating loss of our others segment increased to Won 78.6 billion in 2015 from Won 9.8 billion in 2014. As discussed above, while revenue from our commerce service and miscellaneous other revenue increased in 2015, marketing costs related to such services increased to a greater extent, leading to a greater operating loss of our others segment.

**Finance Income and Finance Costs.** Our finance income decreased by 17.8% to Won 103.9 billion in 2015 from Won 126.3 billion in 2014, primarily due to a 23.5% decrease in interest income to Won 45.9 billion in 2015 from Won 60.0 billion in 2014, which was mainly due to a general decrease in interest rates, and a 77.9% decrease in gain on valuation of derivatives to Won 1.9 billion in 2015 from Won 8.7 billion in 2014. Such decreases were partially offset by a gain on valuation of financial asset at fair value through profit or loss of Won 5.2 billion in 2015 relating to profit recognized from the early redemption of certain structured bonds compared to no such gain in





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2014, a 23.4% increase in dividend income to Won 16.1 billion in 2015 from Won 13.0 billion in 2014 and a 16.1% increase in gain on foreign currency transactions to Won 18.9 billion in 2015 from Won 16.3 billion in 2014.

Our finance costs decreased by 9.5% to Won 350.1 billion in 2015 from Won 386.7 billion in 2014 primarily due to an 8.1% decrease in interest expense to Won 297.7 billion in 2015 from Won 323.9 billion in 2014, which was mainly due to a general decrease in interest rates, and a 95.2% decrease in loss relating to financial liability at fair value through profit or loss to Won 0.5 billion in 2015 from Won 10.4 billion in 2014. In 2014, we recognized such loss relating to financial liability at fair value through profit or loss due to the increase in the fair value of debentures in connection with the general decrease in interest rates. Such decreases were partially offset by a significant increase in loss on settlement of derivatives to Won 4.8 billion in 2015 from Won 0.7 billion in 2014.

*Gains (Losses) Related to Investments in Subsidiaries and Associates.* Gains related to investments in subsidiaries and associates decreased 13.3% to Won 786.1 billion in 2015 from Won 906.3 billion in 2014, primarily due to an 8.1% decrease in share of profits of SK Hynix to Won 842.1 billion in 2015 from Won 916.5 billion in 2014. Such decrease was primarily due to the Won 88.7 billion gain recognized in connection with the dilution of equity interest in 2014 due to the conversion by noteholders of SK Hynix's convertible bonds to SK Hynix's common shares compared to no such gain recognized in 2015 despite the 3.1% increase in SK Hynix's profit for the year to Won 4,323.6 billion in 2015 from Won 4,195.2 billion.

*Income Tax.* Income tax expense from continuing operations increased by 14.3% to Won 519.5 billion in 2015 from Won 454.5 billion in 2014 notwithstanding a 9.7% decrease in profit before income tax to Won 2,035.4 billion in 2015 from Won 2,253.8 billion in 2014, primarily due to changes in unrealizable deferred taxes which led to an increase in income tax expense of Won 83.6 billion in 2015, mainly related to the dividend in kind made by SK Planet of SK Communication's common shares to SK Telecom, compared to such changes which led to a decrease in income tax expense of Won 43.8 billion in 2014. Our effective tax rate in 2015 increased by 5.3% to 25.5% in 2015 from 20.2% in 2014, primarily for the reasons set forth above.

*Profit for the Year.* Principally as a result of the factors discussed above, our profit for the year decreased by 15.8% to Won 1,515.9 billion in 2015 from Won 1,799.3 billion in 2014. Profit for the year as a percentage of operating revenue and other income was 8.8% in 2015 compared to 10.4% in 2014.

**2014 Compared to 2013**

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

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

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

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

Cellular services: The revenue of our cellular services segment, which is composed of revenues from wireless service, cellular interconnection, wireless device sales and miscellaneous cellular services, increased by 1.6% to Won 13,527.9 billion in 2014 from Won 13,315.5 billion in 2013.

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

Wireless device sales increased by 17.9% to Won 761.6 billion in 2014 from Won 645.9 billion in 2013, primarily due to the acquisition by PS&Marketing of 190 retail stores as part of its acquisition of the retail distribution business of SK Networks in April 2014. Miscellaneous cellular services revenue increased by 14.0% to Won 938.6 billion in 2014 from Won 823.5 billion in 2013, primarily due to an increase in revenue from our Internet solutions business.

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

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

**Fixed-line telecommunication services:** The revenue of our fixed-line telecommunication services segment, which is composed of revenues from broadband Internet service and advanced media platform service, fixed-line telephone service, international calling service, fixed-line interconnection and miscellaneous fixed-line telecommunication services, increased by 14.3% to Won 2,449.9 billion in 2014 from Won 2,324.4 billion in 2013, primarily due to an increase in revenue from our broadband Internet service and advanced media platform service and miscellaneous fixed-line telecommunications services, partially offset by decreases in revenue from fixed-line interconnection, international calling service and fixed-line telephone service.

Revenue from our broadband Internet service and advanced media platform service increased by 12.7% to Won 1,152.7 billion in 2014 from Won 1,023.2 billion in 2013, primarily attributable to an increase in the number of IPTV subscribers to 2.8 million subscribers as of December 31, 2014 from 2.1 million subscribers as of December 31, 2013. Revenue from our miscellaneous fixed-line telecommunication services increased by 6.3% to Won 660.5 billion in 2014 from Won 621.1 billion in 2013, primarily due to an increase in subscribers of SK Telink's MVNO service.

Fixed-line interconnection revenue decreased by 27.1% to Won 57.4 billion in 2014 from Won 78.7 billion in 2013, primarily due to a decrease in residential calling volume. International calling service revenue decreased by 11.8% to Won 112.0 billion in 2014 from Won 127.0 billion in 2013, primarily due to a decrease in international calling volume. Fixed-line telephone service revenue decreased by 1.5% to Won 467.3 billion in 2014 from Won 474.4 billion in 2013, primarily due to a decrease in residential calling volume.

**Others:** The revenue of our others segment, which is composed of revenues from our commerce service and portal service and miscellaneous other revenue, increased by 3.4% to Won 1,186.0 billion in 2014 from Won 962.2 billion in 2013, due to increases in commerce service revenue and miscellaneous other revenue, partially offset by a decrease in portal service revenue.

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

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

*Operating Expense.* Our consolidated operating expense increased by 3.4% to Won 15,612.4 billion in 2014 from Won 15,098.6 billion in 2013, primarily due to a 29.2% increase in cost of products that have been resold to Won 1,680.1 billion in 2014 from Won 1,300.4 billion in 2013, which was attributable mainly to the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014; a 3.5% increase in commissions paid to Won 5,692.7 billion in 2014 from Won 5,498.7 billion in 2013, which was primarily attributable to an increase in marketing expenses to acquire new LTE subscribers in the first half of 2014 amidst intensified competition among us, KT and LG U+; and a 6.3% increase in labor costs to Won 1,659.8 billion in 2014 from Won 1,561.4 billion in 2013, which was primarily due to the significant increase in the number of employees in connection with several acquisitions in 2014, including the acquisition by PS&Marketing of the retail distribution business of SK Networks in April 2014, the acquisitions by SK Telecom of Neosnetworks in April 2014 and Iriver in August 2014 and the acquisition by SK Planet of Shopkick in October 2014. Such increase was partially offset by an 8.8% decrease in other operating expenses to Won 1,592.6 billion in 2014 from Won 1,746.3 billion in 2013, which was attributable mainly to a decrease in loss on disposal of property and equipment and intangible assets to Won 33.0 billion in 2014 from Won 267.5 billion in 2013.

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

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

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

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

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

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

Cellular services: The segment operating income of our cellular services segment decreased by 11.7% to Won 1,754.4 billion in 2014 from Won 1,986.1 billion in 2013, primarily due to an increase in marketing expenses to acquire new LTE subscribers in the first half of 2014 amidst intensified competition among us, KT and LG U+. As a result, the segment operating margin (which, with respect to each reportable segment, is segment operating income divided by revenue from such segment, expressed as a percentage) of our cellular services segment decreased to 13.0% in 2014 from 14.9% in 2013.

Fixed-line telecommunication services: The segment operating income of our fixed-line telecommunication services segment increased by 44.6% to Won 80.4 billion in 2014 from Won 55.6 billion in 2013, due to an



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increase in revenue from our broadband Internet service and advanced media platform service, which is mainly attributable to the growth in our IPTV service. Driven by strong growth in our IPTV service, the segment operating margin of our fixed-line telecommunication services segment increased to 3.3% in 2014 from 2.4% in 2013.

Others: The segment operating loss of our others segment decreased to Won 9.8 billion in 2014 from Won 30.6 billion in 2013. As discussed above, while our commerce service revenue increased in 2014, intense competition in the commerce service industry led to increased marketing costs, and thus, the profitability of our commerce service business did not improve in 2014; however, while our portal service revenue decreased in 2014, our operating expenses related to this business decreased to a greater degree such that the profitability of our commerce service business improved in 2014 resulting in the aforementioned decrease in the segment operating loss of our others segment.

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

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

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

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

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

**Inflation**

We do not consider inflation in Korea to have had a material impact on our results of operations in recent years. According to data published by The Bank of Korea, annual inflation in Korea was 0.7% in 2015, 1.3% in 2014 and 1.3% in 2013.

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We had a working capital deficit (current liabilities in excess of current assets) of Won 96.3 billion as of December 31, 2015 and Won 337.2 billion as of December 31, 2014. The working capital deficit as of December 31, 2015 was primarily due to working capital needs in the ordinary course of business. The working capital deficit as of December 31, 2014 was primarily due to cash expenditures in 2014 used to fund SK Planet's acquisition of Shopkick and SK Telecom's acquisitions of Neosnetworks and Iriver. We plan to fund our current liabilities with the cash flow generated by our operations, proceeds from the disposal of investment securities or property and equipment that are no longer deemed profitable and proceeds from additional borrowings, as necessary.

We had cash, cash equivalents, short-term financial instruments and short-term investment securities of Won 1,552.3 billion as of December 31, 2015 and Won 1,427.7 billion as of December 31, 2014. We had outstanding short-term borrowings of Won 260.0 billion as of December 31, 2015 and Won 366.6 billion as of December 31, 2014. As of December 31, 2015, we had credit lines with several local banks that provided for borrowing of up to Won 490.0 billion, Won 450.0 billion of which was available for borrowing.

Cash flows from operating activities and debt financing have been our principal sources of liquidity. We had cash and cash equivalents of Won 768.9 billion as of December 31, 2015 and Won 834.4 billion as of December 31, 2014. We believe that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt securities and bank borrowings.

|   | Year Ended December 31,                  |           |           | Change       |        |              |         |
|---|--|-----------|-----------|--------------|--------|--------------|---------|
|   | 2015                                     | 2014      | 2013      | 2015 to 2014 |        | 2014 to 2013 |         |
|   | (In billions of Won, except percentages) |           |           |              |        |              |         |
| Net Cash Provided by Operating Activities   | 3,778.1                                  | 3,677.4   | 3,558.6   | 100.7        | 2.7%   | 118.8        | 3.3%    |
| Net Cash Used in Investing Activities   | (2,880.5)                                | (3,683.2) | (2,506.5) | 802.7        | (21.8) | (1,176.7)    | 46.9    |
| Net Cash Used in Financing Activities   | (964.6)                                  | (559.4)   | (573.2)   | (405.2)      | 72.4   | 13.8         | (2.4)   |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents Held in Foreign Currencies | 1.5                                      | 1.0       | (0.4)     | 0.5          | 49.2   | 1.4          | N/A     |
| Net Increase (Decrease) in Cash and Cash Equivalents                                    | (67.0)                                   | (565.2)   | 478.9     | 498.2        | (88.2) | (1,044.1)    | N/A     |
| Cash and Cash Equivalents at Beginning of Period  | 834.4                                    | 1,398.6   | 920.1     | (564.2)      | (40.3) | 478.5        | 52.0    |
| Cash and Cash Equivalents at End of Period  | 768.9                                    | 834.4     | 1,398.6   | (65.5)       | (7.9)% | (564.2)      | (40.3)% |

N/A = Not applicable.

**Cash Flows from Operating Activities.** Net cash provided by operating activities was Won 3,778.1 billion in 2015, Won 3,677.4 billion in 2014 and Won 3,558.6 billion in 2013. Profit for the year was Won 1,515.9 billion in 2015, Won 1,799.3 billion in 2014 and Won 1,609.5 billion in 2013. Net cash provided by operating activities in 2015 increased slightly by 2.7% from 2014. Net cash provided by operating activities in 2014 increased by 3.3% from 2013, primarily due to an 11.8% increase in profit for the year to Won 1,799.3 billion in 2014 from Won 1,609.5 billion in 2013.

**Cash Flows from Investing Activities.** Net cash used in investing activities was Won 2,880.5 billion in 2015, Won 3,683.2 billion in 2014 and Won 2,506.5 billion in 2013. Cash inflows from investing activities were Won 914.5 billion in 2015, Won 341.4 billion in 2014 and Won 1,251.8 billion in 2013. Cash inflows in 2015 were primarily attributable to collection of short-term loans of Won 398.3 billion and proceeds from disposals of investments in associates and joint ventures of Won 185.1 billion, mostly in connection with the disposal of 27,725,264 shares of KEBHana Card for Won 176.3 billion. Cash inflows in 2014 were primarily attributable to collection of short-term loans of Won 207.4 billion. Cash inflows in 2013 were primarily attributable to collection of short-term loans of Won 290.9 billion, proceeds from disposal of long-term investment securities of Won 287.8 billion, mostly in connection with the merger of SK Marketing & Co., Ltd. into SK Planet in February 2013, proceeds from disposal of a subsidiary of Won 215.9 billion, mostly attributable to the sale in July 2013 of shares of Loen Entertainment, net proceeds from the disposition of non-current assets held for sale of

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Won 190.4 billion, relating to the sale of shares of SKY Property Management, and a decrease in short-term financial instruments, net of Won 186.4 billion, the proceeds of which were used to repay our outstanding debt.

Cash outflows for investing activities were Won 3,795.0 billion in 2015, Won 4,024.6 billion in 2014 and Won 3,758.3 billion in 2013. Cash outflows in 2015, 2014 and 2013 were primarily attributable to expenditures related to the acquisition of property and equipment of Won 2,478.8 billion, Won 3,008.0 billion and Won 2,879.1 billion, respectively, primarily in connection with the acquisition of LTE equipment and the expansion of our LTE network. In 2015, the decrease in cash outflows for the acquisition of property, plant and equipment was partially offset by an increase in cash outflows for the acquisition of long-term investment securities to Won 312.3 billion in 2015 compared to Won 41.3 billion in 2014 and Won 22.1 billion in 2013, primarily due to the acquisition of a 2.06% equity interest in Hana Financial Group Inc.

*Cash Flows from Financing Activities.* Net cash used in financing activities was Won 964.6 billion in 2015, Won 559.4 billion in 2014 and Won 573.2 billion in 2013. Cash inflows from financing activities were Won 1,375.2 billion in 2015, Won 1,421.0 billion in 2014 and Won 1,852.2 billion in 2013. Such inflows were primarily driven by the issuance of debentures, which provided cash of Won 1,375.0 billion in 2015, Won 1,255.5 billion in 2014 and Won 1,328.7 billion in 2013, proceeds from long-term borrowings, which provided cash of Won 62.6 billion in 2014 and Won 105.1 billion in 2013, and the issuance of hybrid bonds in 2013, which provided cash of Won 398.5 billion. In 2014, we had cash inflows of Won 102.9 billion due to proceeds from short-term borrowings.

Cash outflows for financing activities were Won 2,339.8 billion in 2015, Won 1,980.5 billion in 2014 and Won 2,425.4 billion in 2013. Cash outflows for financing activities included payment of dividends, repayments of current portion of long-term debt, repayment of long-term borrowings, repayment of debentures, acquisition of treasury stock and repayment of short-term borrowings, among other items. Payment of dividends were Won 668.5 billion in 2015, Won 666.8 billion in 2014 and Won 655.9 billion in 2013. Repayments of other long-term account payables were Won 191.4 billion in 2015, Won 207.8 billion in 2014 and Won 161.6 billion in 2013. Repayment of long-term borrowings were Won 21.9 billion in 2015, Won 23.3 billion in 2014 and Won 467.2 billion in 2013. Repayment of debentures were Won 620.0 billion in 2015, Won 1,039.9 billion in 2014 and Won 772.0 billion in 2013. Decrease in short-term borrowings, net accounted for Won 106.6 billion and Won 340.2 billion of cash outflows for financing activities in 2015 and 2013, respectively. In 2015, we had cash outflows of Won 490.2 billion due to acquisition of treasury stock and cash outflows of Won 220.4 billion related to equity interest transactions, principally in connection with the Share Exchange.

As of December 31, 2015, we had total long-term debt (excluding current portion) outstanding of Won 6,560.7 billion, which included debentures in the amount of Won 6,439.1 billion and bank and institutional borrowings in the amount of Won 121.6 billion. As of December 31, 2014, we had total long-term debt (excluding current portion) outstanding of Won 5,798.9 billion, which included debentures in the amount of Won 5,649.2 billion and bank and institutional borrowings in the amount of Won 149.7 billion. The increase in our long-term debt as of December 31, 2015 was primarily due to an increase in debentures issued during 2015 to acquire treasury stock. For a description of our long-term debt, see note 18 of the notes to our consolidated financial statements.

As of December 31, 2015, we had Won 4,535.7 billion aggregate principal amount of Korean Won-denominated debentures outstanding, of which SK Telecom issued Won 3,385.7 billion, SK Broadband issued Won 1,120.0 billion and PS&Marketing issued Won 30.0 billion, and Won 2,603.9 billion aggregate principal amount of debentures outstanding denominated in foreign currencies, including U.S. dollars, Swiss Francs and Australian Dollars. The interest rates of our debentures range from 1.75% to 6.63% depending on the offering size, maturity, interest rate environment at the time of the offering and currency, among other factors. We have a diversified maturity profile with respect to our debentures. See Contractual Obligations and Commitments for more details.

As of December 31, 2015, a substantial portion of our foreign currency-denominated long-term borrowings, which amounted to approximately 28.5% of our total outstanding long-term debt, including current portion and present value discount as of such date, was denominated in Dollars. However, substantially all of our revenue and operating expenses are denominated in Won. We generally pay for imported capital equipment in Dollars.

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Appreciation of the Won against the Dollar will result in net foreign currency transaction and translation gains, while depreciation of the Won against the Dollar will result in net foreign currency transaction and translation losses. Changes in foreign currency exchange rates will also affect our liquidity because of the effect of such changes on the amount of funds required for us to make interest and principal payments on our foreign currency-denominated debt. For a description of swap or derivative transactions we have entered into, among other transactions, to mitigate the effects of such losses, see Item 11. Quantitative and Qualitative Disclosures about Market Risk.

### *Capital Requirements*

Historically, capital expenditures, repayment of outstanding debt and research and development expenditures have represented our most significant use of funds. In recent years, we have also increasingly dedicated capital resources to develop and invest in new growth engines, including our three next-generation growth platforms, IoT solutions, lifestyle enhancement and advanced media. In addition, we have used funds for the acquisition of treasury shares, financing of our subscribers' handset purchases on installment payment plans and payment of retirement and severance benefits.

To fund our scheduled debt repayment and planned capital expenditures over the next several years, we intend to rely primarily on cash flows from operating activities, as well as bank and institutional borrowings, and offerings of debt or equity in the domestic or international markets. We believe that these sources will be sufficient to fund our planned capital expenditures for 2016. Our ability to rely on these alternatives could be affected by the liquidity of the Korean financial markets or by Government policies regarding Won and foreign currency borrowings and the issuance of equity and debt. Our failure to make needed expenditures would adversely affect our ability to sustain subscriber growth and provide quality services and, consequently, our results of operations.

*Capital Expenditures.* The following table sets forth our actual capital expenditures for 2015, 2014 and 2013:

|                    | Year Ended December 31, |         |         |
|--------------------|-------------------------|---------|---------|
|                    | 2015                    | 2014    | 2013    |
|                    | (In billions of Won)    |         |         |
| LTE Network        | 1,022.7                 | 1,357.2 | 1,439.4 |
| WCDMA Network      | 90.0                    | 92.3    | 124.2   |
| Fixed-line Network | 393.1                   | 399.0   | 403.5   |
| Other Network(1)   | 332.4                   | 283.2   | 338.5   |
| Others(2)          | 640.6                   | 876.3   | 573.5   |
| Total              | 2,478.8                 | 3,008.0 | 2,879.1 |

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

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

We set our capital expenditure budget for each upcoming year on an annual basis. Our actual capital expenditures in 2015, 2014 and 2013 were Won 2,478.8 billion, Won 3,008.0 billion and Won 2,879.1 billion, respectively. Of such amounts, we spent approximately 41.3%, 45.1%, 50.0% in 2015, 2014, 2013, respectively, on capital expenditures related to expanding and enhancing the quality of our LTE network. Our other non-network related capital expenditures in 2015, 2014 and 2013 primarily related to developing new products and maintenance and upgrades to our information technology systems.

We were required to pay the cost of our WCDMA license for 2 x 10 MHz of spectrum in the 2.1 GHz band that we acquired in May 2010 in annual installments of Won 17.5 billion each year from 2012 through 2014 after the initial payment of Won 52.6 billion in 2010. We are also required to pay license fees for the additional frequency licenses in the 800 MHz and 1.8 GHz spectrums that we acquired in 2011. The license fee for the 30 MHz bandwidth in the 800 MHz spectrum was Won 416.5 billion, of which Won 208.3 billion was paid in 2011 with the



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remainder paid in annual installments from 2013 through 2015. The license fee for the 20 MHz of bandwidth in the 1.8 GHz spectrum was Won 995.0 billion, of which Won 74.6 billion, Won 74.6 billion and

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Won 248.8 billion was paid in 2013, 2012 and 2011, respectively, and the remainder has been waived in connection with our return of the right to use the 20 MHz bandwidth. The license fee for the 35 MHz of bandwidth in the 1.8 GHz spectrum was Won 1.08 trillion, of which Won 115.2 billion was paid in 2013, and the remainder is payable in annual installments through the end of the license period in 2021. In addition, we were reallocated 27 MHz of spectrum in the 2.3 GHz band for our WiBro service in March 2012. The license fee for such spectrum is Won 17.3 billion, of which Won 8.7 billion was paid in 2012, and the remainder is payable in annual installments from 2014 through 2016. For more information, see note 17 of the notes to our consolidated financial statements.

In addition, we have been making capital expenditures to build more advanced networks based on LTE technology. We commenced commercial LTE services in July 2011 and expanded our LTE network nationwide and launched our LTE multi-carrier technology in 2012. We launched our LTE-A service in June 2013, our wideband LTE-A service in September 2013 and our tri-band LTE-A service in December 2014. For a more detailed description of our LTE network, see Item 4.B. Business Overview Digital Wireless Network LTE Network. We plan to continue to make capital investments in 2016 to further improve and expand our LTE network and develop related technologies.

We expect that our capital expenditure amount in 2016 will be similar to that of 2015. Our expenditures will be for a range of projects, including investments to improve and expand our LTE network and LTE-A services, investments to improve and expand our Wi-Fi network, investments to develop our platform business portfolio and funding for mid-to long-term research and development projects, as well as other initiatives, primarily related to the development of new growth engines, as well as initiatives related to our ongoing businesses in the ordinary course. However, our overall expenditure levels and our allocation among projects remain subject to many uncertainties. We may increase, reduce or suspend our planned capital expenditures for 2016 or change the timing and area of our capital expenditure spending from the estimates described above in response to market conditions or for other reasons. We may also make additional capital expenditure investments as opportunities arise, including in connection with building out our networks on any new bandwidths we may acquire in the frequency bandwidth auctions to be held by the MSIP in 2016. Accordingly, we periodically review the amount of our capital expenditures and may make adjustments based on the current progress of capital expenditure projects and market conditions. No assurance can be given that we will be able to meet any such increased expenditure requirements or obtain adequate financing for such requirements, on terms acceptable to us, or at all.

*Repayment of Outstanding Debt.* As of December 31, 2015, our principal repayment obligations with respect to long-term borrowings, bonds and obligations under capital leases outstanding were as follows for the periods indicated:

| Year Ending December 31, | Total<br>(In billions of Won) |
|--------------------------|-------------------------------|
| 2016                     | 964.1                         |
| 2017                     | 867.5                         |
| 2018                     | 1,606.7                       |
| 2019 and thereafter      | 4,118.8                       |

We note that no commercial bank in Korea may extend credit (including loans, guarantees and purchase of bonds) in excess of 20.0% of its shareholders' equity to any one borrower. In addition, no commercial bank in Korea may extend credit exceeding 25.0% of the bank's shareholders' equity to any one borrower and to any person with whom the borrower shares a credit risk.

*Investments in New Growth Engines.* We may also require capital for investments to support our development of new growth engines.

In April 2014, we acquired a controlling interest in Neosnetworks, a provider of residential and small business electronic security and other related alarm monitoring services, for an aggregate purchase price of approximately Won 24.0 billion. We acquired additional interests in Neosnetworks in April 2015 for Won 40.0 billion, resulting in an increase in our ownership of Neosnetworks to 83.9%. In August 2014, we acquired a 39.3% equity interest of Iriver, a manufacturer of digital audio players and other portable media devices, which we increased to 49.0% in December 2014, for an aggregate purchase price of approximately Won 54.5 billion. We also acquired Won 5.0 billion of convertible bonds issued by Iriver, which may be converted into additional equity interests of Iriver when certain conditions are met. In October 2014, SK Planet acquired a 100.0% ownership interest through

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its less than wholly-owned subsidiary of Shopkick, a developer of a shopping app for mobile devices that provides benefits to customers for visiting stores, in order to penetrate the commerce business in the United States for an aggregate purchase price of Won 230.9 billion and the assumption of Won 18.7 billion in current liabilities.

In addition, upon the completion of the acquisition of a 30.0% interest in CJ HelloVision described in Item 4. Information on the Company Item 4.A. History and Development of the Company Recent Developments, we will be required to pay the share purchase price of Won 500.0 billion and may need to make additional capital expenditures in connection with the subsequent merger and integration of CJ HelloVision's business with ours.

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

*Severance Payments.* The defined benefit obligation, which is the total accrued and unpaid retirement and severance benefits for our employees, as of December 31, 2015 was Won 98.9 billion. This amount was reflected in our consolidated financial statements as a liability, which is net of deposits with insurance companies totaling Won 426.4 billion to fund a portion of the employees' severance indemnities.

Also see Item 6.D. Employees Employee Benefits and note 22 of the notes to our consolidated financial statements.

*Dividends.* Total cash outflows for payments of dividends amounted to Won 668.5 billion in 2015, Won 666.8 billion in 2014 and Won 655.9 billion in 2013.

In April 2016, we distributed annual dividends at Won 9,000 per share to our shareholders for an aggregate payout amount of Won 635.5 billion.

**Contractual Obligations and Commitments**

The following summarizes our contractual cash obligations at December 31, 2015, and the effect such obligations are expected to have on liquidity and cash flow in future periods:

|   | Total           | Payments Due by Period(1) |                                   |                |                |
|---|-----------------|---------------------------|-----------------------------------|----------------|----------------|
|   |                 | Less Than 1 Year          | 1-3 Years<br>(In billions of Won) | 4-5 Years      | After 5 Years  |
| Bonds                                     |                 |                           |                                   |                |                |
| Principal                                 | 7,139.7         | 670.0                     | 2,410.4                           | 1,534.8        | 2,524.5        |
| Interest                                  | 1,374.3         | 227.9                     | 317.5                             | 254.2          | 574.7          |
| Long-term borrowings                      |                 |                           |                                   |                |                |
| Principal                                 | 417.4           | 294.1                     | 63.8                              | 39.3           | 20.2           |
| Interest                                  | 10.7            | 4.0                       | 5.1                               | 1.1            | 0.5            |
| Capital lease obligations                 |                 |                           |                                   |                |                |
| Principal                                 | 0               | 0                         |                                   |                |                |
| Interest                                  |                 |                           |                                   |                |                |
| Operating leases                          |                 |                           |                                   |                |                |
| Facility deposits                         | 5.5             | 0.4                       |                                   |                | 5.1            |
| Derivatives                               | 92.5            | 4.9                       | 87.6                              |                |                |
| Other long-term payables(2)               |                 |                           |                                   |                |                |
| Principal                                 | 709.9           | 120.7                     | 235.7                             | 235.7          | 117.8          |
| Interest                                  | 69.1            | 19.8                      | 29.6                              | 16.4           | 3.3            |
| Short-term borrowings                     | 260.0           | 260.0                     |                                   |                |                |
| <b>Total contractual cash obligations</b> | <b>10,079.1</b> | <b>1,601.8</b>            | <b>3,149.7</b>                    | <b>2,081.5</b> | <b>3,246.1</b> |

- (1) We are contractually obligated to make severance payments to eligible employees we have employed for more than one year, upon termination of their employment, regardless of whether such termination is voluntary or involuntary. Accruals for severance indemnities are recorded based on the amount we would be required to pay in the event the employment of all our employees were to terminate at the balance date. However, we have not yet estimated cash flows for future periods. Accordingly, payments due in connection with severance indemnities have been excluded from this table.

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(2) Related to acquisition of frequency licenses. See note 17 of the notes to our consolidated financial statements.  
See note 37 of the notes to our consolidated financial statements for details related to our other commitments and contingencies.

**Critical Accounting Policies, Estimates And Judgments**

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

***Allowances for Doubtful Accounts***

An allowance for doubtful accounts is provided based on a review of the status of individual receivable accounts at the end of the year. We maintain allowances for doubtful accounts for estimated losses that result from the inability of our customers to make required payments. We base our allowances on the likelihood of recoverability of accounts receivable based on the aging of accounts receivables at the end of the period, past customer default experience and their credit status, and economic and industrial factors. Allowance for doubtful accounts amounted to Won 344.0 billion in 2015 and Won 328.2 billion in 2014. As there was no significant change in our assumptions and judgments including on the aging of accounts receivables, past customer default experience and credit status, and economic and industrial factors, there was no significant change in the percentage of allowance for doubtful accounts as of December 31, 2015 compared to the prior year. If economic or specific industry trends worsen beyond our estimates, the allowances for doubtful accounts we have recorded may be materially adjusted in the future.

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

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

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

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

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

Long-lived assets generally consist of property, plant and equipment and intangible assets. We review our depreciation and amortization methods, estimated useful lives and residual values of long-lived assets at the end of

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

Our intangible assets include our frequency usage rights, which have contractual lives of 6.3 to 13.1 years and are amortized from the date commercial service is initiated through the end of their contractual lives. Because the use of frequency usage rights presents risks and challenges to our business, any or all of which, if realized or not properly addressed, may have a material adverse effect on our financial condition, results of operations and cash flows, we review the frequency usage rights for impairment on an annual basis. In connection with our review, we utilize the estimated long-term revenue and cash flow forecasts. The use of different assumptions within our cash flow model could result in different recoverable amounts for our frequency usage rights. The results of our review using the testing method described above resulted in no impairment of our frequency usage rights in 2015. See note 17 of the notes to our consolidated financial statements.

***Impairment of Goodwill***

Goodwill is measured as the excess of the sum of: (1) the consideration transferred, (2) the amount of any non-controlling interests in the acquiree and (3) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not depreciated, but tested for impairment at the end of each annual reporting period or whenever there is an indication that the asset may be impaired. Goodwill is carried at cost less accumulated impairment losses and the impairment losses are not reversed. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires our management to estimate the future cash flows expected related to the respective cash-generating unit and the determination of an appropriate discount rate in order to calculate present value. See note 16 of the notes to our consolidated financial statements.

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

We provide handset subsidies to subscribers who purchase handsets on an installment basis. When the subscribers agree to use our services for a predetermined service period and purchase handsets on an installment basis, the subsidies are paid every month over the installment period and we estimate a provision for handset subsidies to be paid, which is recognized as commissions paid in operating expenses at the time telecommunication service contracts are made. Our provision for handset subsidies was Won 5.7 billion as of December 31, 2015 and Won 26.8 billion as of December 31, 2014. Our provision for handset subsidies has decreased as we gradually reduced the amount of handset subsidies provided to subscribers.

We estimate restoration costs required to restore leased premises on which our cell sites and switching equipment are located after termination of the leases. These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the relevant liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements. See note 20 of the notes to our consolidated financial statements.

***Retirement Benefit Plans***

We have defined retirement benefit plans. The costs of providing benefits under the plans are determined using actuarial valuation methods that require management assumptions on discount rates, expected rates of salary increases and expected rates of returns on plan assets. These assumptions involve critical uncertainties due to the long-term nature of the retirement benefit plans. Due to changing market and economic conditions, the underlying

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key assumptions may differ from actual developments and may lead to significant changes in our defined retirement benefit plans. We immediately recognize all actuarial gains and losses arising from defined retirement benefit plans in retained earnings. If the estimated average discount rates by actuarial assumptions used in these valuations were increased by 0.5%, then the estimated defined benefit obligations would have decreased by Won 20.7 billion, or 3.9% in total. If the expected rates of salary increase were increased by 0.5%, then the estimated defined benefit obligations would have increased by Won 22.6 billion, or 4.3% in total. Defined benefit liabilities were Won 98.9 billion in 2015 and Won 91.6 billion in 2014. Defined benefit liabilities in 2015 increased by Won 7.8 billion compared to 2014 due to a decrease by 0.55%p of the estimated average discount rate despite a decrease by 0.18%p of the average expected rates of salary increase. See note 22 of the notes to our consolidated financial statements.

### ***Income Taxes***

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

We believe that the accounting estimate related to assessment of deferred tax assets for recoverability is a critical accounting estimate because (1) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities and (2) the impact that changes in actual performance versus these estimates could have on the realization of tax benefits as reported in our results of operations could be material. Management's assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so. As of December 31, 2015 and 2014, unused tax loss carryforwards of Won 1,034.0 billion and Won 729.6 billion, respectively, were not recognized as deferred tax assets because we did not believe that their realization would be probable. The increase of Won 304.4 billion in unrecognized tax loss carryforwards in 2015 compared to 2014 was primarily related to the tax loss that arose from the Won 336.0 billion decrease in deductible temporary difference related to the dividend in kind made by SK Planet of SK Communication's common shares to SK Telecom. See note 31 of the notes to our consolidated financial statements.

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

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

In 2015, 2014 and 2013, our annual research and development expenses were Won 322.7 billion, Won 397.8 billion and Won 363.7 billion, respectively. Such expenses consist of research and development costs that are expensed and costs that are amortized during the respective period.

Our total research and development expenses were approximately 1.9% in 2015, 2.3% in 2014 and 2.1% in 2013, respectively, of operating revenue and other income.

The main focus of our research and development activity is the development of new wireless technologies and services and value-added technologies and services for our LTE network, such as wireless data communications, as well as development of new technologies that reflect the growing convergence between telecommunications and other industries. Our research and development activity is centered at a research center with state-of-the-art facilities and equipment established in January 1999 in Bundang-gu, Seongnam-si, Gyeonggi-do, Korea. To more efficiently manage our research and development resources, our research and development center is organized into the following core areas:

Network Technology R&D Center, through which we research and develop 5G-related technologies as well as technologies for access network, core network, broadband Internet, wireless devices and next-generation open source software;

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Future Technology R&D Center, through which we research and develop technologies for human machine interface, artificial intelligence, video, big data and other business solutions;

Platform Technology R&D Center, through which we research and develop technologies for our IoT solutions platform, lifestyle enhancement platform and advanced media platform and quantum technologies; and

Network IT Convergence R&D Center, through which we research and develop technologies that converge network technology and information technology in the ICT area.

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

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

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

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

None.

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

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

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

These matters are discussed under Forward-Looking Statements.

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

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

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

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

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



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also represent at least one-third of our total voting shares then issued and outstanding.

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

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

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

| Name           | Date of Birth | Director Since | Expiration of Term | Position                              | Other Principal Directorships and Positions | Business Experience  |
|----------------|---------------|----------------|--------------------|---------------------------------------|---|--|
| Dong Hyun Jang | Aug. 20, 1963 | 2015           | 2018               | President and Chief Executive Officer |   | Chief Operating Officer, SK Planet; Chief Marketing Officer, Chief Finance Officer, and Executive Vice President of Strategy and Planning Division, SK Telecom |
| Dae Sik Cho    | Nov. 27, 1960 | 2013           | 2019               | Executive Director                    | Chief Executive Officer, SK Holdings        | Chief Finance Officer, Head of Finance Division and Risk Management & Corporate Auditing Office, SK Holdings; Head of Business Management Office, SK Holdings  |

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

| Name            | Date of Birth | Director Since | Expiration of Term | Position                           | Other Positions   | Business Experience   |
|-----------------|---------------|----------------|--------------------|------------------------------------|---|---|
| Dae Shick Oh    | Nov. 28, 1954 | 2013           | 2019               | Independent Non-executive Director | Advisor, Bae, Kim & Lee LLC   | Outside Director, CJ Corporation, Head of Seoul Regional Tax Office; Head of Investigation Department, Korea National Tax Service                                     |
| Jay Young Chung | Oct. 15, 1944 | 2011           | 2017               | Independent Non-executive Director | Honorary Professor, Sung Kyun Kwan University                                     | Chief, Asia-Pacific Economic Association; Vice President, Sung Kyun Kwan University; Independent Non-executive Director, POSCO  |
| Jae Hoon Lee    | Sep. 26, 1955 | 2014           | 2017               | Independent Non-executive Director | President, Association of Future Strategy Forum on Energy & Resources Development | Vice Minister, Ministry of Knowledge Economy; Vice Minister, Ministry of Commerce, Industry and Energy; Assistant Minister, Ministry of Commerce, Industry and Energy |
| Jae Hyeon Ahn   | Feb. 2, 1961  | 2014           | 2017               | Independent Non-executive Director | Vice President, College of Business, KAIST  | Dean, College of Information and Media Management, KAIST; President, Korea Media Management Association; Senior Technical Staff Member, AT&T Bell Labs                |

**Item 6.B. Compensation**

The aggregate of the remuneration paid and in-kind benefits granted to the directors (all standing directors, who also serve as our executive officers, and non-standing directors) during the year ended December 31, 2015 totaled approximately Won 2.6 billion. This amount included Won 163 million in salary and Won 553 million in bonus paid to our former director and President and Chief Executive Officer, Mr. Sung Min Ha, who has since resigned, and Won 82 million in salary and Won 441 million in bonus paid to our former director and Head of our Corporate Vision Department, Mr. Dong Seob Jee, who has since resigned.



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

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

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

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

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

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

### **Audit Committee**

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

examine the agenda for the general meeting of shareholders;

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

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

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

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

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

### **Independent Director Nomination Committee**

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



**Table of Contents****Capex Review Committee**

This committee is responsible for reviewing our business plan (including the budget). It also examines major capital expenditure revisions, and routinely monitors capital expenditure decisions that have already been executed. The committee is comprised of four independent directors, Jae Hoon Lee, Jay Young Chung, Dae Shick Oh and Jae Hyeon Ahn.

**Compensation Review Committee**

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

**Corporate Citizenship Committee**

This committee was established to help us achieve world-class sustainable growth and to help us fulfill our corporate social responsibilities. It is comprised of three independent directors, Jae Hyeon Ahn, Jay Young Chung and Dae Shick Oh.

**Item 6.D. Employees**

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

|                   | Regular<br>Employees | Temporary<br>Employees | Total  |
|-------------------|----------------------|------------------------|--------|
| December 31, 2013 | 21,546               | 2,243                  | 23,789 |
| December 31, 2014 | 24,404               | 1,285                  | 25,689 |
| December 31, 2015 | 24,479               | 1,513                  | 25,992 |

**Labor Relations**

As of December 31, 2015, SK Telecom had a company union consisting of 1,968 regular employees out of 3,892 total regular employees. We have never experienced a work stoppage of a serious nature. Every two years, the union and management negotiate and enter into a new collective bargaining agreement that has a two-year duration, which is focused on employee benefits and welfare. Employee wages are separately negotiated on an annual basis. Our wage negotiations for 2013 were completed in October 2013 and resulted in an average wage increase of 1.5% for SK Telecom employees. Our wage negotiations for 2014 were completed in May 2014 and resulted in no change to the average wage of SK Telecom employees. Our wage negotiations for 2015 were completed in November 2015 and resulted in an average monthly wage increase of Won 80,000 for SK Telecom employees. Our wage negotiations for 2016 have not commenced yet. We consider our relations with our employees to be good.

**Employee Benefits**

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

We are required to pay a severance amount to eligible employees who voluntarily or involuntarily cease employment with us, including through retirement. This severance amount is based upon the employee's length of service with us and the employee's salary level at the time of severance. As of December 31, 2015, the defined benefit obligation, which is the accrued and unpaid retirement and severance benefits, of Won 525.3 billion for all of our employees are reflected in our consolidated financial statements as a liability, of which a total of Won 426.4 billion was funded. Under Korean laws and regulations, we are prevented from involuntarily terminating a



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full-time employee except under certain limited circumstances. In September 2002, we entered into an employment stabilization agreement with the union. Among other things, this agreement provides for a one-year guarantee of the same wage level in the event that we reorganize a department into a separate entity or we outsource an employee to a separate entity where the wage is lower.

Under the Basic Labor Welfare Act, we may also contribute up to 5.0% of our annual earnings before tax for employee welfare. Contribution amounts are determined annually following negotiation with the union. The contribution amount for 2015 was set at 2.04% of SK Telecom's profit before income tax on a separate basis, or Won 30.0 billion. The contribution amount for 2014 was set at 1.51% of SK Telecom's profit before income tax on a separate basis, or Won 20.0 billion. The contribution amount for 2013 was set at 1.64% of SK Telecom's profit before income tax on a separate basis, or Won 20.0 billion.

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

**Item 6.E. Share Ownership**

The following table sets forth the share ownership by our standing and non-standing directors as of March 31, 2016:

| Name                           | Position                            | Number of Shares Owned | Percentage of Total Shares Outstanding | Special Voting Rights | Options |
|--------------------------------|-------------------------------------|------------------------|--|-----------------------|---------|
| <b>Standing Directors:</b>     |                                     |                        |  |                       |         |
| Dong Hyun Jang                 | President & Chief Executive Officer | 251                    | 0.0%                                   | None                  | None    |
| Dae Sik Cho                    | Executive Director                  | 0                      | 0                                      | None                  | None    |
| <b>Non-Standing Directors:</b> |                                     |                        |  |                       |         |
| Dae Shick Oh                   | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |
| Jay Young Chung                | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |
| Jae Hoon Lee                   | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |
| Jae Hyeon Ahn                  | Independent Non-executive Director  | 0                      | 0                                      | None                  | None    |

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

As of the close of our shareholders' registry on December 31, 2015, approximately 60.62% of our issued shares were held in Korea by approximately 61,372 shareholders. According to Citibank, N.A. (Citibank), depositary for our ADRs, as of December 31, 2015, there were 34,173 U.S. holders of our ADRs evidencing ADSs and 9,245,141 shares of our common stock were held in the form of ADSs. As of such date, outstanding ADSs represented approximately 13.1% of our outstanding common shares.



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The following table sets forth certain information as of March 31, 2016 with respect to any person known to us to be the beneficial owner of more than 5.0% of our common shares and with respect to the total amount of such shares owned by our officers and directors, as a group:

| Shareholder/Category               | Number of Shares | Percentage Total Shares Issued | Percentage Total Shares Outstanding |
|------------------------------------|------------------|--------------------------------|-------------------------------------|
| <b>Domestic Shareholders</b>       |                  |                                |                                     |
| SK Holdings                        | 20,363,452       | 25.22%                         | 28.84%                              |
| Treasury shares(1)                 | 10,136,551       | 12.55                          | 14.36                               |
| Officers and Directors             | 251              | 0.00                           |                                     |
| <b>Other Domestic Shareholders</b> | 17,740,302       | 21.97                          | 25.12                               |
| <b>Foreign Shareholders(2)</b>     |                  |                                |                                     |
| Shareholders holding ADRs          | 9,259,552        | 11.47                          | 13.11                               |
| Shareholders holding common stock  | 23,245,603       | 28.79                          | 32.92                               |
| <b>Total Issued Shares</b>         | 80,745,711       | 100%                           |                                     |
| <b>Total Outstanding Shares(3)</b> | 70,609,160       |                                | 100%                                |

(1) Treasury shares do not have any voting rights. Pursuant to the Share Exchange in June 2015, we exchanged 1,692,824 treasury shares for the common shares of SK Broadband. In the fourth quarter of 2015, we acquired 2,020,000 treasury shares on the market through a share buy-back program.

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

(3) Represents total issued shares excluding treasury shares.

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

| Shareholder              | As of December 31,                          |        |        |
|--------------------------|---|--------|--------|
|                          | 2015  | 2014   | 2013   |
|                          | (As a percentage of total issued shares)(1) |        |        |
| SK Group(2)              | 25.22%                                      | 25.22% | 25.22% |
| SK Holdings              | 25.22                                       | 25.22  | 25.22  |
| National Pension Service | 8.62  | 7.09   | 5.90   |

(1) Includes 10,136,551, 9,809,375 and 9,809,375 shares held in treasury as of December 31, 2015, 2014 and 2013, respectively. Pursuant to the Share Exchange in June 2015, we exchanged 1,692,824 treasury shares for the common shares of SK Broadband. In the fourth quarter of 2015, we acquired 2,020,000 treasury shares on the market through a share buy-back program.

(2) SK Group's ownership interest as of December 31, 2015, 2014 and 2013 consisted of the ownership interest of SK Holdings only.

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

On July 1, 2007, the company formerly known as SK Corporation underwent a corporate reorganization, pursuant to which SK Corporation spun off substantially all of its operating business divisions into a newly established corporation named SK Energy Co., Ltd. The surviving company currently operates as a holding company, renamed SK Holdings. Ownership of all our shares held by SK Corporation immediately preceding the reorganization passed to SK Holdings as of July 1, 2007. On August 1, 2015, SK Holdings merged with and into SK C&C and the merged entity was renamed SK Holdings.

As of March 31, 2016, SK Holdings held 25.22% of our shares of common stock. For a description of our foreign ownership limitation, see Item 3.D. Risk Factors Risks Relating to Securities If SK Holdings causes us to breach the foreign ownership limitations on our common shares, we may experience a change of control and Item 4.B. Business Overview Law and Regulation Foreign Ownership and Investment Restrictions and

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Requirements. In the event that SK Holdings announces plans of a sale of our shares, we expect to be able to discuss the details of such sale with them in advance and will endeavor to minimize any adverse effects on our share prices as a result of such sale.

As of March 31, 2016, the total number of our common shares outstanding was 70,609,160.

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

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

We are part of the SK Group of affiliated companies. See Item 7.A. Major Shareholders. As disclosed in note 36 of the notes to our consolidated financial statements, we had related party transactions with a number of affiliated companies of the SK Group during the year ended December 31, 2015.

#### **SK Networks**

In September 2009, we acquired the leased-line business and related ancillary businesses from SK Networks for Won 892.8 billion and assumed Won 611.4 billion of debt as part of the transaction. Prior to such acquisition, KT and SK Networks provided a substantial majority of our leased lines. For a more detailed discussion of the lines we lease from fixed-line operators, see Item 4.B. Business Overview Cellular Services Network Infrastructure. In addition, PS&Marketing acquired the retail distribution business of SK Networks in April 2014.

As of December 31, 2015, we had Won 1.6 billion of accounts receivable from SK Networks. As of the same date, we had Won 208.3 billion of accounts payable to SK Networks, mainly relating to payments for wireless devices by PS&M. The aggregate fees we paid to SK Networks for dealer commissions amounted to Won 1,258.0 billion, Won 1,509.0 billion and Won 1,463.3 billion in 2015, 2014 and 2013.

#### **SK Holdings**

We enter into agreements with SK Holdings from time to time for specific information technology-related projects. The aggregate fees we paid to SK Holdings for information technology services amounted to Won 324.1 billion in 2015, Won 360.8 billion in 2014 and Won 357.9 billion in 2013. We also purchase various information technology-related equipment from SK Holdings from time to time. The total amount of such purchases was Won 236.4 billion in 2015, Won 168.8 billion in 2014 and Won 206.3 billion in 2013. We are a party to several service agreements with SK Holdings relating to the development and maintenance of our information technologies systems. We also pay SK Holdings for use of the SK brand.

### **Item 7.C. *Interests of Experts and Counsel***

Not applicable.

## **Item 8. *FINANCIAL INFORMATION***

### **Item 8.A. *Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through G-71.

#### **Legal Proceedings**

##### ***FTC Proceedings***

In March 2012, the FTC fined us Won 21.9 billion for allegedly colluding with KT, LG U+, Samsung Electronics, LG Electronics and Pantech (which were also assessed separate fines) to inflate the prices of handsets while advertising that the handsets are offered at a discount through

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subsidy plans. We paid such fine in September 2012 and filed an appeal at the Seoul High Court, which ruled against us in October 2014. We appealed the decision to the Supreme Court of Korea, where the case is currently pending.

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In July 2012, the FTC fined us Won 25.0 billion for alleged violation of Article 23 of the Fair Trade Act relating to the payment of system management and operation fees. We paid such fine in November 2012 and filed an appeal at the Seoul High Court, which ruled in favor of us in May 2014. The FTC appealed the decision to the Supreme Court of Korea, which ruled in favor of us in March 2016.

***KCC and MSIP Proceedings***

Prior to the implementation of the MDDIA, the KCC and the MSIP imposed suspensions on acquiring new subscribers and fines on us for providing subsidies to subscribers which were not universally available. In 2013, the KCC imposed fines on us of Won 96.3 billion in aggregate. In 2014, the KCC and the MSIP suspended us from acquiring new subscribers for an aggregate of 52 days and imposed fines on us of Won 54.6 billion in aggregate.

On March 26, 2015, the KCC imposed a fine of Won 23.5 billion on us and imposed a suspension on acquiring new subscribers for a period of seven days for providing subsidies to subscribers in excess of the amounts permitted under the MDDIA. We suspended acquisition of new customers during the period from October 1, 2015 to October 7, 2015. On May 13, 2015, the KCC imposed a fine of Won 3.6 billion on us and issued a correctional order for violating its obligations to protect personal information. We paid such fine in July 2015 and reported to the KCC on the implementation of actions pursuant to the correctional order in September 2015. On May 28, 2015 and December 10, 2015, the KCC imposed a fine of Won 350 million and Won 560 million, respectively, on us and issued a correctional order for misleading and exaggerated advertisement of bundled wireless and fixed-line telecommunications products. On January 14, 2016, the KCC imposed a fine of Won 15 million on us and issued a correctional order for failure to comply with the retention period for our subscribers' personal information.

***KT Interconnection Fee Litigation***

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

***SK Communications Litigation***

In July 2011, there was a leak of personal information of subscribers of NATE and Cyworld websites operated by SK Communications, our consolidated subsidiary. Various lawsuits have been filed against SK Communications alleging that the leak was caused by its poor management of subscribers' personal information. With respect to three of the lawsuits for which final judgments have been rendered, the relevant courts have rendered judgments in favor of SK Communications. As of December 31, 2015, twelve of the lawsuits, seeking damages of approximately Won 0.8 billion in aggregate, were pending at various district courts, various high courts and the Supreme Court of Korea.

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

**Dividends**

Annual dividends, if any, on our outstanding shares must be approved at the annual general meeting of shareholders. This meeting is generally held in March of the following year, and the annual dividend is generally paid shortly after the meeting. Since our shareholders have discretion to declare annual dividends, we cannot give

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any assurance as to the amount of dividends per share or that any dividends will be declared at all. Interim dividends, if any, can be approved by a resolution of our board of directors. Once declared, dividends must be claimed within five years, after which the right to receive the dividends is extinguished and reverted to us.

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

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

| <b>Year Ended December 31,</b> | <b>Dividend<br/>per Share<br/>(In Won)</b> | <b>Total Amount<br/>of Dividends<br/>(In billions of Won)</b> | <b>Number of<br/>Shares Entitled<br/>to Dividend</b> |
|--------------------------------|--|---|--|
| 2011                           | 9,400                                      | 656.5   | 69,694,999(1)  |
| 2012                           | 9,400                                      | 655.1   | 69,694,999   |
| 2013                           | 9,400                                      | 666.4   | 70,936,336   |
| 2014                           | 9,400                                      | 666.8   | 70,936,336   |
| 2015                           | 10,000                                     | 708.1   | 70,609,160(2)  |

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

(2) The number of shares entitled to the interim dividend was 72,629,160.

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

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

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

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



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In addition, the Korean Commercial Code and our articles of incorporation provide that, in addition to annual dividends, we may pay interim dividends once during each fiscal year. Unlike annual dividends, the decision to pay interim dividends can be made by a resolution of the board of directors and is not subject to shareholder approval. Any interim dividends must be paid in cash to the shareholders of record as of June 30 of the relevant fiscal year. In July 2014, we distributed such interim dividends at Won 1,000 per share to our shareholders for a total amount of approximately Won 71.0 billion.

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

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

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

Not applicable.

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

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

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

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

Not applicable.

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

The principal trading market for our common shares is the KRX KOSPI Market. As of March 31, 2016, 70,609,160 shares of our common stock were outstanding.

The ADSs are traded on the NYSE and the London Stock Exchange. The ADSs have been issued by the ADR depository and are traded on the NYSE under the ticker symbol *SKM*. Each ADS represents one-ninth of one share of our common stock. As of March 31, 2016, ADSs representing 9,259,552 shares of our common stock were outstanding.



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

The following table sets forth the high, low and closing prices and the average daily trading volume of our common shares on the KRX KOSPI Market since January 1, 2011:

| Calendar Year                     | Prices  |                            |         | Average Daily<br>Trading<br>Volume<br>(Number of shares) |
|-----------------------------------|---------|----------------------------|---------|--|
|                                   | High(1) | Low(1)<br>(Won per shares) | Close   |  |
| 2011                              | 172,500 | 131,000                    | 141,500 | 214,788  |
| First Quarter                     | 172,500 | 156,000                    | 163,500 | 124,796  |
| Second Quarter                    | 169,000 | 152,500                    | 161,500 | 160,839  |
| Third Quarter                     | 161,500 | 131,000                    | 149,500 | 324,018  |
| Fourth Quarter                    | 165,000 | 141,500                    | 141,500 | 249,500  |
| 2012                              | 161,000 | 120,500                    | 152,500 | 216,031  |
| First Quarter                     | 146,000 | 134,500                    | 139,500 | 193,924  |
| Second Quarter                    | 142,500 | 120,500                    | 125,000 | 284,712  |
| Third Quarter                     | 153,000 | 125,000                    | 147,000 | 208,276  |
| Fourth Quarter                    | 161,000 | 145,500                    | 152,500 | 177,955  |
| 2013                              | 238,500 | 150,000                    | 230,000 | 212,769  |
| First Quarter                     | 185,500 | 150,000                    | 180,500 | 234,684  |
| Second Quarter                    | 225,500 | 172,000                    | 210,000 | 245,151  |
| Third Quarter                     | 226,500 | 202,000                    | 218,500 | 175,670  |
| Fourth Quarter                    | 238,500 | 211,500                    | 230,000 | 195,925  |
| 2014                              | 298,500 | 196,500                    | 268,000 | 170,709  |
| First Quarter                     | 229,000 | 196,500                    | 215,500 | 184,185  |
| Second Quarter                    | 243,500 | 198,000                    | 236,500 | 180,743  |
| Third Quarter                     | 298,500 | 236,000                    | 290,000 | 152,740  |
| Fourth Quarter                    | 298,500 | 259,000                    | 268,000 | 165,710  |
| 2015                              | 301,500 | 214,000                    | 215,500 | 185,999  |
| First Quarter                     | 301,500 | 261,500                    | 272,500 | 151,786  |
| Second Quarter                    | 293,500 | 236,500                    | 250,000 | 209,931  |
| Third Quarter                     | 263,000 | 236,000                    | 263,000 | 185,542  |
| Fourth Quarter                    | 267,000 | 214,000                    | 215,500 | 195,488  |
| 2016 (through April 22)           | 234,000 | 191,500                    | 201,500 | 199,721  |
| First Quarter                     | 234,000 | 191,500                    | 208,500 | 212,966  |
| January                           | 216,000 | 191,500                    | 209,000 | 217,493  |
| February                          | 233,500 | 199,500                    | 233,500 | 253,416  |
| March                             | 234,000 | 206,000                    | 208,500 | 175,756  |
| Second Quarter (through April 22) | 212,000 | 201,000                    | 201,500 | 146,741  |
| April (through April 22)          | 212,000 | 201,000                    | 201,500 | 146,741  |

Source: Korea Exchange

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

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

The following table sets forth the high, low and closing prices and the average daily trading volume of the ADSs on the NYSE since January 1, 2011:

| Calendar Year                     | Prices |                       |       | Average Daily<br>Trading<br>Volume<br>(Number of ADSs) |
|-----------------------------------|--------|-----------------------|-------|--|
|                                   | High   | Low<br>(US\$ per ADS) | Close |  |
| 2011                              | 19.80  | 13.47                 | 13.61 | 1,866,528  |
| First Quarter                     | 18.81  | 16.83                 | 18.81 | 1,639,731  |
| Second Quarter                    | 19.80  | 17.36                 | 18.70 | 1,640,469  |
| Third Quarter                     | 18.77  | 13.47                 | 14.07 | 2,125,730  |
| Fourth Quarter                    | 15.89  | 13.49                 | 13.61 | 2,060,180  |
| 2012                              | 16.48  | 11.14                 | 15.83 | 1,758,414  |
| First Quarter                     | 14.60  | 12.90                 | 13.91 | 1,644,366  |
| Second Quarter                    | 14.13  | 11.14                 | 12.10 | 2,135,473  |
| Third Quarter                     | 15.06  | 12.23                 | 14.54 | 1,836,959  |
| Fourth Quarter                    | 16.48  | 14.48                 | 15.83 | 1,409,508  |
| 2013                              | 25.16  | 15.69                 | 24.62 | 1,407,958  |
| First Quarter                     | 18.69  | 15.69                 | 17.87 | 1,884,190  |
| Second Quarter                    | 22.37  | 17.05                 | 20.33 | 1,724,433  |
| Third Quarter                     | 22.70  | 19.47                 | 22.70 | 848,082  |
| Fourth Quarter                    | 25.16  | 22.16                 | 24.62 | 1,204,890  |
| 2014                              | 31.75  | 20.76                 | 27.01 | 905,341  |
| First Quarter                     | 24.07  | 20.76                 | 22.57 | 952,847  |
| Second Quarter                    | 26.50  | 20.76                 | 25.94 | 908,195  |
| Third Quarter                     | 31.75  | 25.54                 | 30.34 | 963,636  |
| Fourth Quarter                    | 30.62  | 27.01                 | 27.01 | 803,932  |
| 2015                              | 30.07  | 20.15                 | 20.15 | 600,919  |
| First Quarter                     | 29.76  | 26.22                 | 27.21 | 787,402  |
| Second Quarter                    | 30.07  | 23.96                 | 24.79 | 598,632  |
| Third Quarter                     | 25.22  | 22.08                 | 24.40 | 515,965  |
| Fourth Quarter                    | 25.49  | 20.15                 | 20.15 | 508,946  |
| 2016 (through April 22)           | 20.98  | 17.89                 | 19.39 | 739,569  |
| First Quarter                     | 20.98  | 17.89                 | 20.17 | 674,693  |
| January                           | 19.99  | 17.89                 | 19.71 | 759,842  |
| February                          | 20.82  | 18.78                 | 20.82 | 689,515  |
| March                             | 20.98  | 19.60                 | 20.17 | 587,682  |
| Second Quarter (through April 22) | 20.20  | 19.27                 | 19.39 | 986,906  |
| April (through April 22)          | 20.20  | 19.27                 | 19.39 | 986,906  |

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

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



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

As of December 31, 2015, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately Won 1,242.8 trillion. For the year ended December 31, 2015, the average daily trading volume of equity securities was approximately 455.3 million shares with an average trading value of Won 5,351.7 billion. For the year ended December 31, 2014, the average daily trading volume of equity securities was approximately 278.1 million shares with an average trading value of Won 3,983.6 billion. For the year ended December 31, 2013, the average daily trading volume of equity securities was approximately 328.3 million shares with an average trading value of Won 3,993.4 billion.

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

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

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

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

| Year | Opening  | High     | Low    | Closing  | Period Average           |                      |
|------|----------|----------|--------|----------|--------------------------|----------------------|
|      |          |          |        |          | Dividend Yield(1)<br>(%) | Price to Earnings(2) |
| 1980 | 100.00   | 119.36   | 100.00 | 106.87   | 20.9                     | 2.6                  |
| 1981 | 97.95    | 165.95   | 93.14  | 131.37   | 13.2                     | 3.1                  |
| 1982 | 123.60   | 134.49   | 106.00 | 127.31   | 10.5                     | 3.4                  |
| 1983 | 122.52   | 134.46   | 115.59 | 121.21   | 6.9                      | 3.8                  |
| 1984 | 116.73   | 142.46   | 114.37 | 142.46   | 5.1                      | 4.5                  |
| 1985 | 139.53   | 163.37   | 131.40 | 163.37   | 5.3                      | 5.2                  |
| 1986 | 161.40   | 279.67   | 153.85 | 272.61   | 4.3                      | 7.6                  |
| 1987 | 264.82   | 525.11   | 264.82 | 525.11   | 2.6                      | 10.9                 |
| 1988 | 532.04   | 922.56   | 527.89 | 907.20   | 2.4                      | 11.2                 |
| 1989 | 919.61   | 1,007.77 | 844.75 | 909.72   | 2.0                      | 13.9                 |
| 1990 | 908.59   | 928.77   | 566.27 | 696.11   | 2.2                      | 12.8                 |
| 1991 | 679.75   | 763.10   | 586.51 | 610.92   | 2.6                      | 11.2                 |
| 1992 | 624.23   | 691.48   | 459.07 | 678.44   | 2.2                      | 10.9                 |
| 1993 | 697.41   | 874.10   | 605.93 | 866.18   | 1.6                      | 12.7                 |
| 1994 | 879.32   | 1,138.75 | 860.47 | 1,027.37 | 1.2                      | 16.2                 |
| 1995 | 1,013.57 | 1,016.77 | 847.09 | 882.94   | 1.2                      | 16.4                 |
| 1996 | 888.85   | 986.84   | 651.22 | 651.22   | 1.3                      | 17.8                 |
| 1997 | 653.79   | 792.29   | 350.68 | 376.31   | 1.5                      | 17.0                 |
| 1998 | 385.49   | 579.86   | 280.00 | 562.46   | 1.9                      | 10.8                 |
| 1999 | 587.57   | 1,028.07 | 498.42 | 1,028.07 | 1.1                      | 13.5                 |

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| Year                    | Opening  | High     | Low      | Closing  | Period Average    |                      |
|-------------------------|----------|----------|----------|----------|-------------------|----------------------|
|                         |          |          |          |          | Dividend Yield(1) | Price to Earnings(2) |
| 2000                    | 1,059.04 | 1,059.04 | 500.60   | 504.62   | 2.4               | 15.3                 |
| 2001                    | 520.95   | 704.50   | 468.76   | 693.70   | 1.7               | 29.3                 |
| 2002                    | 724.95   | 937.61   | 584.04   | 829.44   | 1.8               | 15.6                 |
| 2003                    | 635.17   | 822.16   | 515.24   | 810.71   | 2.1               | 10.1                 |
| 2004                    | 821.26   | 936.06   | 719.59   | 895.92   | 2.1               | 15.8                 |
| 2005                    | 893.71   | 1,379.37 | 870.84   | 1,379.37 | 1.7               | 11.0                 |
| 2006                    | 1,389.27 | 1,464.70 | 1,192.09 | 1,434.46 | 1.7               | 11.4                 |
| 2007                    | 1,435.26 | 2,064.85 | 1,355.79 | 1,897.13 | 1.4               | 16.8                 |
| 2008                    | 1,853.45 | 1,888.88 | 938.75   | 1,124.47 | 2.6               | 9.0                  |
| 2009                    | 1,157.4  | 1,718.88 | 1,018.81 | 1,682.77 | 1.2               | 23.7                 |
| 2010                    | 1,696.14 | 2,052.97 | 1,532.68 | 2,051.00 | 1.1               | 17.8                 |
| 2011                    | 2,070.08 | 2,228.96 | 1,652.71 | 1,825.74 | 1.6               | 10.9                 |
| 2012                    | 1,826.37 | 2,049.28 | 1,769.31 | 1,997.05 | 1.3               | 12.9                 |
| 2013                    | 2,031.10 | 2,059.58 | 1,780.63 | 2,011.34 | 1.2               | 13.5                 |
| 2014                    | 2,013.11 | 2,093.08 | 1,881.73 | 1,915.59 | 1.1               | 15.3                 |
| 2015                    | 1,926.44 | 2,173.41 | 1,829.81 | 1,961.31 | 1.2               | 16.1                 |
| 2016 (through April 22) | 1,918.76 | 2,022.10 | 1,835.28 | 2,015.49 | 1.3               | 15.5                 |

Source: Korea Exchange

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

(2) The price to earnings ratio is based on figures for companies that record a profit in the preceding year. KOSPI closed at 2,015.49 on April 22, 2016.

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

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

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

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

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The brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the KRX KOSPI Market. See Item 10.E. Taxation Korean Taxation.

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

| Year                    | Market Capitalization on the<br>Last Day of Each Period |                      |                          | Average Daily Trading Volume, Value |                      |                           |
|-------------------------|---|----------------------|--------------------------|-------------------------------------|----------------------|---------------------------|
|                         | Number of<br>Listed<br>Companies                        | (Billions of<br>Won) | (Millions of<br>US\$)(1) | Thousands<br>of Shares              | (Millions of<br>Won) | (Thousands of<br>US\$)(1) |
| 1981                    | 343   | 2,959                | US\$ 4,223               | 10,565                              | 8,708                | US\$ 12,427               |
| 1982                    | 334   | 3,001                | 4,012                    | 9,704                               | 6,667                | 8,914                     |
| 1983                    | 328   | 3,490                | 4,361                    | 9,325                               | 5,941                | 7,425                     |
| 1984                    | 336   | 5,149                | 6,207                    | 14,847                              | 10,642               | 12,829                    |
| 1985                    | 342   | 6,570                | 7,362                    | 18,925                              | 12,315               | 13,798                    |
| 1986                    | 355   | 11,994               | 13,863                   | 31,755                              | 32,870               | 37,991                    |
| 1987                    | 389   | 26,172               | 32,884                   | 20,353                              | 70,185               | 88,183                    |
| 1988                    | 502   | 64,544               | 93,895                   | 10,367                              | 198,364              | 288,571                   |
| 1989                    | 626   | 95,477               | 140,119                  | 11,757                              | 280,967              | 412,338                   |
| 1990                    | 669   | 79,020               | 109,872                  | 10,866                              | 183,692              | 255,412                   |
| 1991                    | 686   | 73,118               | 95,541                   | 14,022                              | 214,263              | 279,973                   |
| 1992                    | 688   | 84,712               | 107,027                  | 24,028                              | 308,246              | 389,445                   |
| 1993                    | 693   | 112,665              | 138,870                  | 35,130                              | 574,048              | 707,566                   |
| 1994                    | 699   | 151,217              | 190,762                  | 36,862                              | 776,257              | 979,257                   |
| 1995                    | 721   | 141,151              | 181,943                  | 26,130                              | 487,762              | 628,721                   |
| 1996                    | 760   | 117,370              | 138,490                  | 26,571                              | 486,834              | 928,418                   |
| 1997                    | 776   | 70,989               | 41,881                   | 41,525                              | 555,759              | 327,881                   |
| 1998                    | 748   | 137,799              | 114,261                  | 97,716                              | 660,429              | 547,619                   |
| 1999                    | 725   | 349,504              | 307,662                  | 278,551                             | 3,481,620            | 3,064,806                 |
| 2000                    | 704   | 188,042              | 148,415                  | 306,163                             | 2,602,211            | 2,053,837                 |
| 2001                    | 689   | 255,850              | 194,785                  | 473,241                             | 1,997,420            | 1,520,685                 |
| 2002                    | 683   | 258,681              | 216,071                  | 857,245                             | 3,041,598            | 2,540,590                 |
| 2003                    | 684   | 355,363              | 298,624                  | 542,010                             | 2,216,636            | 1,862,719                 |
| 2004                    | 683   | 412,588              | 398,597                  | 372,895                             | 2,232,109            | 2,156,419                 |
| 2005                    | 702   | 655,075              | 648,589                  | 467,629                             | 3,157,662            | 3,126,398                 |
| 2006                    | 731   | 704,588              | 757,622                  | 279,096                             | 3,435,180            | 3,693,742                 |
| 2007                    | 746   | 951,900              | 1,017,205                | 363,732                             | 5,539,588            | 5,919,697                 |
| 2008                    | 765   | 576,888              | 457,122                  | 355,205                             | 5,189,644            | 4,112,238                 |
| 2009                    | 770   | 887,316              | 762,528                  | 485,657                             | 5,795,552            | 4,980,494                 |
| 2010                    | 777   | 1,114,882            | 1,260,486                | 379,171                             | 5,607,749            | 6,340,121                 |
| 2011                    | 791   | 1,041,999            | 899,438                  | 353,759                             | 6,863,146            | 5,924,166                 |
| 2012                    | 784   | 1,154,294            | 1,085,679                | 486,734                             | 4,824,610            | 4,537,819                 |
| 2013                    | 777   | 1,185,974            | 1,123,826                | 328,325                             | 3,993,422            | 3,784,158                 |
| 2014                    | 773   | 1,192,253            | 1,092,908                | 278,082                             | 3,983,580            | 3,651,646                 |
| 2015                    | 770   | 1,242,832            | 1,062,885                | 455,256                             | 5,351,734            | 4,576,870                 |
| 2016 (through April 22) | 769   | 1,276,836            | 1,112,372                | 361,995                             | 4,586,928            | 3,996,104                 |

Source: Korea Exchange

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

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

Not Applicable.

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

Not Applicable.

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

Not Applicable.

**Item 10. *ADDITIONAL INFORMATION*****Item 10.A. *Share Capital***

Not Applicable.

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

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

***General***

The name of our company is SK Telecom Co., Ltd. We are registered under the laws of Korea under the commercial registry number of 110111-0371346. As specified in Article 2 (Objectives) of our articles of incorporation, as amended and approved at our general shareholders meeting held on March 18, 2016, our objectives are the rational management of the telecommunications business, development of telecommunications technology, and contribution to public welfare and convenience. In order to achieve these objectives, we are engaged in the following:

information and communication business;

sale and lease of subscriber handsets;

new media business;

advertising business;

mail order sales business;

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

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

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

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

travel business;

electronic financial services business;

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

lifetime education and management of lifetime educational facilities;

electric engineering business;

information- and communication-related engineering business;

ubiquitous city construction and related service business;

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

construction business, including the machine and equipment business;

export/import business and export/import intermediation/agency business;

electrical business such as intelligent electrical grid business; and

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

Currently, our authorized share capital is 220,000,000 shares, which consists of shares of common stock, par value Won 500 per share, and shares of non-voting stock, par value Won 500 per share (common shares and non-voting shares together are referred to as shares). Under our articles of incorporation, we are authorized to issue up to 5,500,000 non-voting preferred shares. As of March 31, 2016, 80,745,711 common shares were issued, of which 10,136,551 shares were held by us in treasury. Pursuant to the Share Exchange in June 2015, we exchanged 1,692,824 treasury shares for the common shares of SK Broadband. In the fourth quarter of 2015, we acquired 2,020,000 treasury shares on the market through a share buy-back program to further increase shareholder value. We have never issued any non-voting preferred shares. All of the issued and outstanding common shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

***Board of Directors***

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

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

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

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

There are no specific shareholding requirements for director's qualification. Directors are elected at a general meeting of shareholders if the approval of the holders of the majority of the voting shares present at such meeting is obtained and if such majority also represents at least one-fourth of the total number of shares outstanding. Under the

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Korean Commercial Code, unless otherwise stated in the articles of incorporation, holders of an aggregate of 1.0% or more of the outstanding shares with voting rights may request cumulative voting in any election for two or more directors. Our articles of incorporation do not permit cumulative voting for the election of directors.

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

### ***Dividends***

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

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

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

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

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

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

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

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

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

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

as necessary;

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

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

at the request of our audit committee.

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

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

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

### ***Voting Rights***

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

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

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

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

reducing our capital; or

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



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

However, in case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases which affect the rights or interests of the non-voting preferred shares, approval of the holders of non-voting preferred shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the non-voting preferred shares present or represented at a class meeting of the holders of non-voting preferred shares, where the affirmative votes also represent at least one-third of our total issued and outstanding non-voting shares. In addition, if we are unable to pay dividends on non-voting preferred shares as provided in our articles of incorporation, the holders of non-voting shares will become enfranchised and will be entitled to exercise voting rights beginning at the next general meeting of shareholders to be held after the declaration of non-payment of dividends is made until such dividends are paid. The holders of enfranchised non-voting preferred shares will have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

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

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

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

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

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

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

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

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

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the registry of shareholders is closed for the period from January 1 to January 31 of the

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

### ***Annual Report***

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

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

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

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

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

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

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

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

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

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

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

**Table of Contents*****Liquidation Rights***

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

**Description of American Depositary Shares**

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

***American Depositary Receipts***

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

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

Notwithstanding the provisions described below, under the terms of the deposit agreement, the deposit of shares and issuance of ADSs may only be made if the total number of shares represented by ADSs after such deposit does not exceed a specified maximum, 24,321,893 shares as of March 31, 2016. This limit will be adjusted in certain circumstances, including (1) upon the cancellation of existing ADSs, (2) upon future offerings of ADSs by us or our shareholders, (3) rights offerings and (4) adjustments for share reclassifications. The limit also may be decreased in certain circumstances. As of March 31, 2016, the outstanding ADSs represented 9,259,552 shares of our common stock. Notwithstanding the foregoing, the ADR depository and the Custodian may not accept deposits of shares of common stock for issuance of ADSs if it has been notified by us in writing that we block deposits to prevent a violation of applicable Korean laws or regulations or a violation of our articles of incorporation. In addition, the ADR depository may not accept deposits of shares of common stock for issuance of ADSs from a person who identifies him-, her- or itself to the depository, and has been identified in writing by us, as a holder of at least 3.0% of our shares of common stock.

The shares of common stock underlying the ADSs are delivered to the ADR depository's Custodian in book-entry form. Accordingly, no share certificates will be issued but the ADR depository will hold the shares of common stock through the book-entry settlement system of the Custodian. The delivery of the shares of common stock pursuant to the deposit agreement will take place through the facilities of the Custodian in accordance with its applicable settlement procedures. The ADR depository will execute and deliver ADSs if you or your broker deposit shares or evidence of rights to receive shares of common stock with the Custodian. Upon payment of fees and expenses and any taxes or charges, such as stamp taxes or stock transfer taxes, the ADR depository will register the appropriate number of ADSs in the names you designate. The ADR depository and the ADR depository's Custodian will refuse to accept shares of common stock for deposit whenever we restrict transfer of shares of common stock to comply with ownership restrictions under applicable law or our articles of incorporation or whenever the deposit

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would cause the total number of shares of common stock deposited to exceed a level we determine from time to time. We may instruct the ADR depository to take certain actions with respect to a holder of ADSs who holds in excess of the ownership limitation set forth in the deposit agreement, including the mandatory sale or disposition of the shares represented by the ADSs in excess of such ownership limitations if, and to the extent, permitted by applicable law.

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

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

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

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

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

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

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

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

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

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

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

If the ADR depository can, in its judgment and pursuant to applicable law, convert Won (or any other foreign currency) into Dollars on a reasonable basis and transfer the resulting Dollars to the United States, the ADR



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

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

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

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

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

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

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

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

### ***Record Dates***

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

any cash dividend or other cash distribution becomes payable;

any distribution other than cash is made;

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

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

the ADR depositary receives notice of any shareholders' meeting.

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

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

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

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

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

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

Upon your written request received on or before the date set by the ADR depositary for this purpose, the ADR depositary will endeavor, in so far as practicable, to vote or cause to be voted the deposited shares of common stock in accordance with the instructions set forth in your written

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requests. The ADR depository may not itself exercise any voting discretion over any deposited shares of common stock. You may only exercise the voting rights in respect of nine ADSs or multiples of nine ADSs. ADR holders may not be entitled to give instruction to vote the shares represented by the ADSs if, and to the extent, the total number of shares represented by the ADSs of an ADR holder exceeds the limit set under applicable law. We can give no assurance to you, however, that we will notify the ADR depository sufficiently in advance of the scheduled date of a meeting or solicitation of consents or proxies to enable the ADR depository to make a timely mailing of notices to you, or that you will receive the notices sufficiently in advance of a meeting or solicitation of consents or proxies to give instructions to the ADR depository.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

taxes and other governmental charges;

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

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

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

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

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

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

### ***General***

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

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

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the shares of common stock or a holder of ADSs of a sum sufficient to reimburse the ADR depository for any tax or other governmental charge and any stock transfer or registration fee and payment of any applicable fees payable by the holders of ADSs.

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

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

***Governing Law***

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

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

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

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

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

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

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

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

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

We have not entered into any material contracts since January 1, 2015, other than in the ordinary course of our business. For information regarding our agreements and transactions with entities affiliated with the SK Group, see Item 7.B. Related Party Transactions and note 36 of the notes to our consolidated financial statements. For a description of certain agreements entered into during the past three years related to our capital commitments and obligations, see Item 5B. Liquidity and Capital Resources.

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

**Korean Foreign Exchange Controls and Securities Regulations**

***General***

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

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

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

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

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

**Table of Contents*****Government Review of Issuances of ADSs***

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

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

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

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

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

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

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

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

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### ***Restrictions Applicable to ADSs***

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

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

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

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

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

odd-lot trading of shares;

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

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

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

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

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

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

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

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

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

acquisition and disposal of shares through alternative trading systems.

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



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

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

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

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public

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corporations are subject to a 40.0% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3.0% of the total number of shares in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor of not less than 10.0% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Trade, Industry and Energy of Korea, which delegates its authority to foreign exchange banks or the Korea Trade-Investment Promotion Agency under the relevant regulations. The acquisition of our shares by a foreign investor is also subject to the restrictions prescribed in the Telecommunications Business Act. The Telecommunications Business Act generally limits the maximum aggregate foreign shareholdings in us to 49.0% of the outstanding shares. A foreigner who has acquired shares in excess of such restriction described above may not exercise the voting rights with respect to the shares exceeding such limitations and may be subject to corrective orders.

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

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

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

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

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

a dealer in securities or currencies;

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

a bank;

a life insurance company;



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a tax-exempt organization;

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

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

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

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

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

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

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

a citizen or resident of the United States;

a U.S. domestic corporation; or

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

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

***Dividends***

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

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at a maximum rate of 20.0% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) the ADSs are readily tradable on an established securities market in the United States and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes (PFIC). The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements, as well as relevant market and shareholder data, we believe that we were not a PFIC with respect to our 2015 taxable year. In addition, based on our audited financial statements and current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2016 taxable year.

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

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

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the

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common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

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

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

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

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

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

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

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

### ***Korean Taxation***

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

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

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

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

***Tax on Capital Gains***

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

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

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

***Inheritance Tax and Gift Tax***

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

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

***Securities Transaction Tax***

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

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

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

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### ***Tax Treaties***

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

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

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

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

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

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

Not applicable.

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

Not applicable.

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

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

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

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

Not applicable.





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

We have entered into floating-to-fixed cross currency swap contracts to hedge foreign currency and interest rate risks with respect to long-term borrowings of US\$300 million of bonds issued in March 2013, US\$300 million of bonds issued in October 2013 and US\$74.8 million of bonds issued in December 2013. In addition, we have entered into fixed-to-fixed cross currency swap contracts to hedge the foreign currency risks of US\$400 million of bonds issued in July 2007, CHF 300 million of bonds issued in June 2012, US\$700 million of bonds issued in November 2012 and AUD 300 million of bonds issued in January 2013. See note 23 of the notes to our consolidated financial statements. We may consider in the future entering into other such transactions solely for hedging purposes.

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

**Exchange Rate Risk**

Korea is our main market and, therefore, substantially all of our cash flow is denominated in Won. We are exposed to foreign exchange risk related to foreign currency denominated liabilities. These liabilities relate primarily to foreign currency denominated debt, primarily in Dollars, Franc and Australian Dollars. A 10.0% increase in the exchange rate between the Won and all foreign currencies would result in an increase in profit before income tax of approximately 0.6%, or Won 12.7 billion, with a decrease of 10.0% in the exchange rate having the opposite effect, as of December 31, 2015. For a further discussion of our exchange rate risk exposures, see note 35(1) of the notes to our consolidated financial statements.

**Interest Rate Risk**

We are also subject to market risk exposure arising from changing interest rates. The following table summarizes the carrying amounts and fair values, maturity and contract terms of our exchange rate and interest sensitive short-term and long-term liabilities as of December 31, 2015:

|                          | 2016   | 2017  | 2018    | 2019  | Maturities<br>2020 | Thereafter | Total   | Fair Value |
|--------------------------|--|-------|---------|-------|--------------------|------------|---------|------------|
|                          | (In billions of Won, except for percentage data) |       |         |       |                    |            |         |            |
| <b>Local currency:</b>   |  |       |         |       |                    |            |         |            |
| Fixed-rate               | 929.5  | 239.7 | 416.2   | 767.0 | 428.5              | 2,049.4    | 4,830.3 | 5,031.5    |
| Average weighted rate(1) | 4.08%  | 3.71% | 3.48%   | 3.02% | 2.39%              | 3.12%      |         |            |
| Sub-total                | 929.5  | 239.7 | 416.2   | 767.0 | 428.5              | 2,049.4    | 4,830.3 | 5,031.5    |
| <b>Foreign currency:</b> |  |       |         |       |                    |            |         |            |
| Fixed-rate               | 13.5   | 623.5 | 1,178.1 | 13.5  | 13.5               | 482.6      | 2,324.7 | 2,560.3    |
| Average weighted rate(1) | 1.70%  | 2.98% | 2.36%   | 1.70% | 1.70%              | 6.51%      |         |            |
| Variable rate            |  |       |         |       | 350.5              |            | 350.5   | 350.5      |
| Average weighted rate(1) |  |       |         |       | 1.49%              |            |         |            |
| Sub-total                | 13.5   | 623.5 | 1,178.1 | 13.5  | 364.0              | 482.6      | 2,675.2 | 2,910.8    |
| Total                    | 943.0  | 863.2 | 1,594.3 | 780.5 | 792.5              | 2,532.0    | 7,505.5 | 7,942.3    |

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

A 1.0% point increase in interest rates would result in a decrease in profit before income tax of approximately Won 0.2 billion with a 1.0% point decrease in interest rates having the opposite effect, as of December 31, 2015. For a further discussion of our interest rate risk exposures, see note 35(1) of the notes to our consolidated financial statements.



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**Table of Contents*****Equity Price Risk***

We are also subject to market risk exposure arising from changes in the equity securities market, which affect the fair value of our equity portfolio. As of December 31, 2015, 2014 and 2013, a 10.0% increase in the equity indices where our available-for-sale equity instruments are listed, with all other variables held constant, would have increased our total equity by Won 89.8 billion, Won 54.2 billion and Won 63.4 billion, respectively, with a 10.0% decrease in the equity index having the opposite effect. The foregoing sensitivity analysis assumes that all variables other than changes in the equity index are held constant, and that our available-for-sale equity instruments had moved according to the historical correlation to the index, and as such, does not reflect any correlation between the equity index and other variables. For a further discussion of our equity price risk exposures, see note 35(1) of the notes to our consolidated financial statements.

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

Not applicable.

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

Not applicable.

**Item 12.C. Other Securities**

Not applicable.

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

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

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

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

respectively.

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

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

**Payments made by ADS Depository**

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

|   | <b>Year Ended<br/>December 31,<br/>2015<br/>(In Dollars)</b> |
|---|--|
| Expenses for preparation of SEC filing and submission | US\$ 1,829,582   |
| Listing Fees  | 254,081  |
| Education/Training                                    | 278,103  |
| Corporate Action                                      | 153,088  |
| Miscellaneous   | 756,194  |
| <b>Total</b>  | <b>US\$ 3,271,047</b>  |

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**PART II**

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

None.

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

None.

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

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2015. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as of December 31, 2015. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS as issued by the IASB. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

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

The report of our independent registered public accounting firm, KPMG Samjong Accounting Corp. ( KPMG Samjong ), on the effectiveness of our internal control over financial reporting as of December 31, 2015 is included in Item 18 of this Form 20-F.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

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

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

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

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

The table sets forth the fees we paid to our independent registered public accounting firm KPMG Samjong and its affiliates for the years ended December 31, 2015 and 2014:

|                    | Year Ended December 31, |              |
|--------------------|-------------------------|--------------|
|                    | 2015                    | 2014         |
|                    | (In millions of Won)    |              |
| Audit Fees         | 3,325                   | 3,522        |
| Audit-Related Fees | 36                      | 12           |
| Tax Fees           | 289                     | 408          |
| All Other Fees     | 0                       | 50           |
| <b>Total</b>       | <b>3,650</b>            | <b>3,992</b> |

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

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

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

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

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



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

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

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

Not applicable.

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

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

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

Not applicable.

**Item 16G. CORPORATE GOVERNANCE**

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

**NYSE Corporate Governance Standards**

**Director Independence**

Listed companies must have a majority of independent directors.

**Executive Session**

Non-management directors must meet in regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year.

**Nomination/Corporate Governance Committee**

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.

**Compensation Committee**

Listed companies must have a compensation committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company's website. In addition, in accordance with the U.S. Securities and Exchange Commission rules adopted pursuant to Section 952 of the Dodd-Frank Act, the New York Stock Exchange listing standards were amended to expand the factors relevant in determining whether a committee member has a relationship with the company that will materially affect that member's duties to the compensation committee.

**Our Corporate Governance Practice**

Of the six members of our board of directors, four are independent directors.

Our audit committee, which is comprised solely of three independent directors, holds meetings whenever there are matters related to management directors, and such meetings are generally held once every month.

Although we do not have a separate nomination/ corporate governance committee, we maintain an independent director nomination committee composed of two independent directors and one management director.

We maintain a compensation review committee comprised of three independent directors.



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**NYSE Corporate Governance Standards**

**Audit Committee**

Listed companies must have an audit committee that satisfies the independence and other requirements of Rule 10A 3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available on the company's website.

**Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of at least three directors.

**Shareholder Approval of Equity Compensation Plan**

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers.

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

**Our Corporate Governance Practice**

We maintain an audit committee comprised solely of three independent directors.

Our audit committee has three independent directors.

We currently have two equity compensation plans: a stock option plan for officers and directors and employee stock ownership plan for employees ( ESOP ). We manage such compensation plans in compliance with the applicable laws and our articles of incorporation, provided that, under certain limited circumstances, the grant of stock options or matters relating to ESOP are not subject to shareholders' approval under Korean law.

Although we do not maintain separate corporate governance guidelines, we are in compliance with the Korean Commercial Code in connection with such matters, including the governance of the board of directors.

We have adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees, and such code is also available on our website at [www.sktelecom.com](http://www.sktelecom.com).

**PART III**

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**Item 19. EXHIBITS**

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

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**Report of Independent Registered Public Accounting Firm**

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of SK Telecom Co., Ltd. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of SK Telecom Co., Ltd. s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SK Telecom Co., Ltd. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of SK Telecom Co., Ltd. s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 28, 2016, expressed an unqualified opinion on SK Telecom Co., Ltd. s internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 28, 2016

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**Report of Independent Registered Public Accounting Firm**

To The Board of Directors and Shareholders

SK Telecom Co., Ltd.:

We have audited the internal control over financial reporting of SK Telecom Co., Ltd. as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. SK Telecom Co., Ltd. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on SK Telecom Co., Ltd. s internal control over financial reporting based on our audit.

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

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

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

In our opinion, SK Telecom Co., Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), consolidated statements of financial position of SK Telecom Co., Ltd. and its subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated April 28, 2016, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 28, 2016



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

As of December 31, 2015 and 2014

| <i>(In millions of won)</i>                  | <i>Note</i>   | <b>December<br/>31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|---------------|----------------------------------|------------------------------|
| <b>Assets</b>                                |               |                                  |                              |
| <b>Current Assets:</b>                       |               |                                  |                              |
| Cash and cash equivalents                    | 34,35         | 768,922                          | 834,429                      |
| Short-term financial instruments             | 6,34,35,36,37 | 691,090                          | 313,068                      |
| Short-term investment securities             | 9,34,35       | 92,262                           | 280,161                      |
| Accounts receivable trade, net               | 7,34,35,36    | 2,344,867                        | 2,392,150                    |
| Short-term loans, net                        | 7,34,35,36    | 53,895                           | 74,512                       |
| Accounts receivable other, net               | 7,34,35,36    | 673,739                          | 690,527                      |
| Prepaid expenses                             |               | 151,978                          | 134,404                      |
| Inventories, net                             | 8,37          | 273,556                          | 267,667                      |
| Assets classified as held for sale           | 10            |                                  | 10,510                       |
| Advanced payments and other                  | 7,9,34,35,36  | 109,933                          | 85,720                       |
| <b>Total Current Assets</b>                  |               | <b>5,160,242</b>                 | <b>5,083,148</b>             |
| <b>Non-Current Assets:</b>                   |               |                                  |                              |
| Long-term financial instruments              | 6,34,35,37    | 10,623                           | 631                          |
| Long-term investment securities              | 9,34,35       | 1,207,226                        | 956,280                      |
| Investments in associates and joint ventures | 13            | 6,896,293                        | 6,298,088                    |
| Property and equipment, net                  | 14,36,37      | 10,371,256                       | 10,567,701                   |
| Investment property, net                     | 15            | 15,071                           | 14,997                       |
| Goodwill                                     | 16            | 1,908,590                        | 1,917,595                    |
| Intangible assets, net                       | 17            | 2,304,784                        | 2,483,994                    |
| Long-term loans, net                         | 7,34,35,36    | 62,454                           | 55,728                       |
| Long-term accounts receivable other          | 7,34,35       | 2,420                            | 3,596                        |
| Long-term prepaid expenses                   | 37            | 76,034                           | 51,961                       |
| Guarantee deposits                           | 6,7,34,35,36  | 297,281                          | 285,144                      |
| Long-term derivative financial assets        | 23,34,35      | 166,399                          | 70,035                       |
| Deferred tax assets                          | 31            | 17,257                           | 25,083                       |
| Other non-current assets                     | 7,34,35       | 85,457                           | 127,252                      |
| <b>Total Non-Current Assets</b>              |               | <b>23,421,145</b>                | <b>22,858,085</b>            |
| <b>Total Assets</b>                          |               | <b>28,581,387</b>                | <b>27,941,233</b>            |

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*See accompanying notes to the consolidated financial statements.*

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

As of December 31, 2015 and 2014

| <i>(In millions of won)</i>                                | <i>Note</i>     | December<br>31,<br>2015 | December 31,<br>2014 |
|--|-----------------|-------------------------|----------------------|
| <b>Liabilities and Equity</b>                              |                 |                         |                      |
| <b>Current Liabilities:</b>                                |                 |                         |                      |
| Short-term borrowings                                      | <i>18,34,35</i> | 260,000                 | 366,600              |
| Current installments of long-term debt, net                | <i>18,34,35</i> | 703,087                 | 590,714              |
| Current installments of finance lease liabilities          | <i>21,34,35</i> | 26                      | 3,804                |
| Current installments of long-term payables other           | <i>19,34,35</i> | 120,185                 | 189,389              |
| Accounts payable trade                                     | <i>34,35,36</i> | 279,782                 | 275,495              |
| Accounts payable other                                     | <i>34,35,36</i> | 1,323,434               | 1,381,850            |
| Withholdings   | <i>34,35,36</i> | 865,327                 | 1,053,063            |
| Accrued expenses   | <i>34,35</i>    | 920,739                 | 952,418              |
| Income tax payable   | <i>31</i>       | 381,794                 | 99,236               |
| Unearned revenue   |                 | 224,233                 | 327,003              |
| Provisions   | <i>20</i>       | 40,988                  | 51,075               |
| Advanced receipts  |                 | 136,844                 | 129,255              |
| Liabilities classified as held for sale                    | <i>10</i>       |                         | 408                  |
| Other current liabilities                                  |                 | 54                      |                      |
| <b>Total Current Liabilities</b>                           |                 | <b>5,256,493</b>        | <b>5,420,310</b>     |
| <b>Non-Current Liabilities:</b>                            |                 |                         |                      |
| Debentures, excluding current installments, net            | <i>18,34,35</i> | 6,439,147               | 5,649,158            |
| Long-term borrowings, excluding current installments       | <i>18,34,35</i> | 121,553                 | 149,720              |
| Long-term payables other                                   | <i>19,34,35</i> | 581,697                 | 684,567              |
| Long-term unearned revenue                                 |                 | 2,842                   | 19,659               |
| Finance lease liabilities                                  | <i>21,34,35</i> |                         | 26                   |
| Defined benefit liabilities                                | <i>22</i>       | 98,856                  | 91,587               |
| Long-term derivative financial liabilities                 | <i>23,34,35</i> | 89,296                  | 130,889              |
| Long-term provisions                                       | <i>20</i>       | 29,217                  | 36,013               |
| Deferred tax liabilities                                   | <i>31</i>       | 538,114                 | 444,211              |
| Other non-current liabilities                              | <i>34,35</i>    | 50,076                  | 66,823               |
| <b>Total Non-Current Liabilities</b>                       |                 | <b>7,950,798</b>        | <b>7,272,653</b>     |
| <b>Total Liabilities</b>                                   |                 | <b>13,207,291</b>       | <b>12,692,963</b>    |
| <b>Equity</b>  |                 |                         |                      |
| Share capital  | <i>1,24</i>     | 44,639                  | 44,639               |
| Capital surplus (deficit) and other capital adjustments    | <i>24,25</i>    | (209,008)               | (120,520)            |
| Hybrid bonds   | <i>26</i>       | 398,518                 | 398,518              |
| Retained earnings  | <i>27</i>       | 15,007,627              | 14,188,591           |
| Reserves   | <i>28</i>       | 9,303                   | (4,489)              |
| <b>Equity attributable to owners of the Parent Company</b> |                 | <b>15,251,079</b>       | <b>14,506,739</b>    |
| <b>Non-controlling interests</b>                           |                 | <b>123,017</b>          | <b>741,531</b>       |

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| <b>Total Equity</b>                 | <b>15,374,096</b> | <b>15,248,270</b> |
| <b>Total Liabilities and Equity</b> | <b>28,581,387</b> | <b>27,941,233</b> |

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Income****For the years ended December 31, 2015, 2014 and 2013**

| <i>(In millions of won except for per share data)</i>                           | <i>Note</i>   | <b>2015</b>      | <b>2014</b>      | <b>2013</b>      |
|---|---------------|------------------|------------------|------------------|
| <b>Continuing operations</b>  |               |                  |                  |                  |
| <b>Operating revenue and other income:</b>                                      | <i>5,36</i>   |                  |                  |                  |
| Revenue   |               | 17,136,734       | 17,163,798       | 16,602,054       |
| Other income  | <i>29</i>     | 30,935           | 56,471           | 74,954           |
|   |               | 17,167,669       | 17,220,269       | 16,677,008       |
| <b>Operating expense:</b>   | <i>36</i>     |                  |                  |                  |
| Labor cost  | <i>22</i>     | 1,893,745        | 1,659,777        | 1,561,358        |
| Commissions paid  |               | 5,206,951        | 5,692,680        | 5,498,695        |
| Depreciation and amortization   | <i>5</i>      | 2,845,295        | 2,714,730        | 2,661,623        |
| Network interconnection   |               | 957,605          | 997,319          | 1,043,733        |
| Leased line   |               | 389,819          | 399,014          | 448,833          |
| Advertising   |               | 405,005          | 415,857          | 394,066          |
| Rent  |               | 493,586          | 460,309          | 443,639          |
| Cost of products that have been resold  |               | 1,955,861        | 1,680,110        | 1,300,375        |
| Other operating expenses  | <i>29</i>     | 1,524,377        | 1,592,647        | 1,746,283        |
|   |               | 15,672,244       | 15,612,443       | 15,098,605       |
| <b>Operating income</b>   | <i>5</i>      | <b>1,495,425</b> | <b>1,607,826</b> | <b>1,578,403</b> |
| Finance income  | <i>5,30</i>   | 103,900          | 126,337          | 113,392          |
| Finance costs   | <i>5,30</i>   | (350,100)        | (386,673)        | (571,203)        |
| Gain related to investments in subsidiaries, associates and joint ventures, net | <i>1,5,13</i> | 786,140          | 906,338          | 706,509          |
| <b>Profit before income tax</b>   |               | <b>2,035,365</b> | <b>2,253,828</b> | <b>1,827,101</b> |
| Income tax expense from continuing operations                                   | <i>31</i>     | 519,480          | 454,508          | 400,797          |
| <b>Profit from continuing operations</b>  |               | <b>1,515,885</b> | <b>1,799,320</b> | <b>1,426,304</b> |
| <b>Discontinued operation</b>   |               |                  |                  |                  |
| Profit from discontinued operations, net of income taxes                        | <i>38</i>     |                  |                  | 183,245          |
| <b>Profit for the year</b>  |               | <b>1,515,885</b> | <b>1,799,320</b> | <b>1,609,549</b> |
| Attributable to :   |               |                  |                  |                  |
| Owners of the Parent Company  |               | 1,518,604        | 1,801,178        | 1,638,964        |
| Non-controlling interests   |               | (2,719)          | (1,858)          | (29,415)         |
| <b>Earnings per share</b>   | <i>32</i>     |                  |                  |                  |
| Basic earnings per share (in Won)   |               | 20,988           | 25,154           | 23,211           |
| Diluted earnings per share (in Won)   |               | 20,988           | 25,154           | 23,211           |
| <b>Earnings per share - Continuing operations</b>                               | <i>32</i>     |                  |                  |                  |
| Basic earnings per share (in Won)   |               | 20,988           | 25,154           | 20,708           |

|                                     |        |        |        |
|-------------------------------------|--------|--------|--------|
| Diluted earnings per share (in Won) | 20,988 | 25,154 | 20,708 |
|-------------------------------------|--------|--------|--------|

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Comprehensive Income****For the years ended December 31, 2015, 2014 and 2013**

| <i>(In millions of won)</i>  | <i>Note</i> | <b>2015</b>      | <b>2014</b>      | <b>2013</b>      |
|--|-------------|------------------|------------------|------------------|
| <b>Profit for the year</b>   |             | <b>1,515,885</b> | <b>1,799,320</b> | <b>1,609,549</b> |
| <b>Other comprehensive income (loss)</b>   |             |                  |                  |                  |
| <b>Items that will never be reclassified to profit or loss, net of taxes:</b>              |             |                  |                  |                  |
| Remeasurement of defined benefit liabilities   | 22          | (14,489)         | (32,942)         | 5,946            |
| <b>Items that are or may be reclassified subsequently to profit or loss, net of taxes:</b> |             |                  |                  |                  |
| Net change in unrealized fair value of available-for-sale financial assets                 | 28,30       | (3,661)          | 27,267           | 2,009            |
| Net change in other comprehensive income of investments in associates and joint ventures   | 13,28       | (5,709)          | 8,187            | 3,034            |
| Net change in unrealized fair value of derivatives   | 23,28,30    | (1,271)          | (45,942)         | 11,222           |
| Foreign currency translation differences for foreign operations                            | 28          | 26,965           | 14,944           | (3,714)          |
| <b>Other comprehensive income (loss) for the year</b>                                      |             | <b>1,835</b>     | <b>(28,486)</b>  | <b>18,497</b>    |
| <b>Total comprehensive income</b>  |             | <b>1,517,720</b> | <b>1,770,834</b> | <b>1,628,046</b> |
| Total comprehensive income attributable to:  |             |                  |                  |                  |
| Owners of the Parent Company   |             | 1,522,280        | 1,777,519        | 1,655,570        |
| Non-controlling interests  |             | (4,560)          | (6,685)          | (27,524)         |

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Changes in Equity****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|  | Capital surplus<br>(deficit) and<br>other |                        | Controlling interest |                      |                 | Sub-total         | Non-<br>controlling<br>interests | Total equity      |
|--|---|------------------------|----------------------|----------------------|-----------------|-------------------|----------------------------------|-------------------|
|  | Share capital                             | capital<br>adjustments | Hybrid<br>bonds      | Retained<br>earnings | Reserves        |                   |                                  |                   |
| <b>Balance, January 1, 2013</b>              | <b>44,639</b>                             | <b>(288,883)</b>       |                      | <b>12,124,657</b>    | <b>(25,636)</b> | <b>11,854,777</b> | <b>1,000,005</b>                 | <b>12,854,782</b> |
| Cash dividends                               |   |                        |                      | (655,946)            |                 | (655,946)         | (2,242)                          | (658,188)         |
| Total comprehensive income                   |   |                        |                      |                      |                 |                   |                                  |                   |
| Profit (loss) for the year                   |   |                        |                      | 1,638,964            |                 | 1,638,964         | (29,415)                         | 1,609,549         |
| Other comprehensive income                   |   |                        |                      | 3,240                | 13,366          | 16,606            | 1,891                            | 18,497            |
|  |   |                        |                      | 1,642,204            | 13,366          | 1,655,570         | (27,524)                         | 1,628,046         |
| Issuance of hybrid bonds                     |   |                        | 398,518              |                      |                 | 398,518           |                                  | 398,518           |
| Interest on hybrid bonds                     |   |                        |                      | (8,420)              |                 | (8,420)           |                                  | (8,420)           |
| Treasury stock                               |   | 271,536                |                      |                      |                 | 271,536           |                                  | 271,536           |
| Business combination under<br>common control |   | (61,854)               |                      |                      |                 | (61,854)          |                                  | (61,854)          |
| Changes in ownership in<br>subsidiaries      |   | (1,809)                |                      |                      |                 | (1,809)           | (256,054)                        | (257,863)         |
| <b>Balance, December 31, 2013</b>            | <b>44,639</b>                             | <b>(81,010)</b>        | <b>398,518</b>       | <b>13,102,495</b>    | <b>(12,270)</b> | <b>13,452,372</b> | <b>714,185</b>                   | <b>14,166,557</b> |
| <b>Balance, January 1, 2014</b>              | <b>44,639</b>                             | <b>(81,010)</b>        | <b>398,518</b>       | <b>13,102,495</b>    | <b>(12,270)</b> | <b>13,452,372</b> | <b>714,185</b>                   | <b>14,166,557</b> |
| Cash dividends                               |   |                        |                      | (666,802)            |                 | (666,802)         | (170)                            | (666,972)         |
| Total comprehensive income                   |   |                        |                      |                      |                 |                   |                                  |                   |
| Profit (loss) for the year                   |   |                        |                      | 1,801,178            |                 | 1,801,178         | (1,858)                          | 1,799,320         |
| Other comprehensive income<br>(loss)         |   |                        |                      | (31,440)             | 7,781           | (23,659)          | (4,827)                          | (28,486)          |
|  |   |                        |                      | 1,769,738            | 7,781           | 1,777,519         | (6,685)                          | 1,770,834         |
| Interest on hybrid bonds                     |   |                        |                      | (16,840)             |                 | (16,840)          |                                  | (16,840)          |
| Changes in consolidation scope               |   |                        |                      |                      |                 |                   | 23,667                           | 23,667            |
| Business combination under<br>common control |   | (28,641)               |                      |                      |                 | (28,641)          |                                  | (28,641)          |
| Changes in ownership in<br>subsidiaries      |   | (10,869)               |                      |                      |                 | (10,869)          | 10,534                           | (335)             |
| <b>Balance, December 31, 2014</b>            | <b>44,639</b>                             | <b>(120,520)</b>       | <b>398,518</b>       | <b>14,188,591</b>    | <b>(4,489)</b>  | <b>14,506,739</b> | <b>741,531</b>                   | <b>15,248,270</b> |

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Changes in Equity (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|                                      | Controlling interest |   |                |                   |                | Sub-total         | Non-controlling interests | Total equity      |
|--------------------------------------|----------------------|---|----------------|-------------------|----------------|-------------------|---------------------------|-------------------|
|                                      | Share capital        | Capital surplus (deficit) and other capital adjustments | Hybrid bonds   | Retained earnings | Reserves       |                   |                           |                   |
| <b>Balance, January 1, 2015</b>      | <b>44,639</b>        | <b>(120,520)</b>  | <b>398,518</b> | <b>14,188,591</b> | <b>(4,489)</b> | <b>14,506,739</b> | <b>741,531</b>            | <b>15,248,270</b> |
| Cash dividends                       |                      |   |                | (668,494)         |                | (668,494)         | (143)                     | (668,637)         |
| Total comprehensive income           |                      |   |                |                   |                |                   |                           |                   |
| Profit (loss) for the year           |                      |   |                | 1,518,604         |                | 1,518,604         | (2,719)                   | 1,515,885         |
| Other comprehensive income (loss)    |                      |   |                | (13,402)          | 17,078         | 3,676             | (1,841)                   | 1,835             |
| Interest on hybrid bond              |                      |   |                | 1,505,202         | 17,078         | 1,522,280         | (4,560)                   | 1,517,720         |
|                                      |                      |   |                | (16,840)          |                | (16,840)          |                           | (16,840)          |
| Acquisition of treasury stock        |                      | (490,192)   |                |                   |                | (490,192)         |                           | (490,192)         |
| Disposal of treasury stock           |                      | 425,744   |                |                   |                | 425,744           |                           | 425,744           |
| Changes in consolidation scope       |                      |   |                |                   |                |                   | (5,226)                   | (5,226)           |
| Changes in ownership in subsidiaries |                      | (24,040)  |                | (832)             | (3,286)        | (28,158)          | (608,585)                 | (636,743)         |
| <b>Balance, December 31, 2015</b>    | <b>44,639</b>        | <b>(209,008)</b>  | <b>398,518</b> | <b>15,007,627</b> | <b>9,303</b>   | <b>15,251,079</b> | <b>123,017</b>            | <b>15,374,096</b> |

*See accompanying notes to the consolidated financial statements.*



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2015, 2014 and 2013**

| <i>(In millions of won)</i>   | <b>2015</b>      | <b>2014</b>      | <b>2013</b>      |
|---|------------------|------------------|------------------|
| <b>Cash flows from operating activities:</b>                                |                  |                  |                  |
| Cash generated from operating activities                                    |                  |                  |                  |
| Profit for the year   | 1,515,885        | 1,799,320        | 1,609,549        |
| Adjustments for income and expenses (Note 39)                               | 3,250,143        | 2,978,995        | 3,275,376        |
| Changes in assets and liabilities related to operating activities (Note 39) | (685,734)        | (707,333)        | (969,870)        |
| Sub-total   | 4,080,294        | 4,070,982        | 3,915,055        |
| Interest received   | 43,400           | 56,706           | 64,078           |
| Dividends received  | 62,973           | 13,048           | 10,197           |
| Interest paid   | (275,796)        | (280,847)        | (300,104)        |
| Income tax paid   | (132,742)        | (182,504)        | (130,656)        |
| <b>Net cash provided by operating activities</b>                            | <b>3,778,129</b> | <b>3,677,385</b> | <b>3,558,570</b> |
| <b>Cash flows from investing activities:</b>                                |                  |                  |                  |
| Cash inflows from investing activities:                                     |                  |                  |                  |
| Decrease in short-term financial instruments, net                           |                  | 5,627            | 186,425          |
| Decrease in short-term investment securities, net                           | 105,158          |                  |                  |
| Collection of short-term loans  | 398,308          | 207,439          | 290,856          |
| Decrease in long-term financial instruments                                 | 7,424            | 2,535            | 16               |
| Proceeds from disposals of long-term investment securities                  | 149,310          | 65,287           | 287,777          |
| Proceeds from disposals of investments in associates and joint ventures     | 185,094          | 7,333            | 43,249           |
| Proceeds from disposals of property and equipment                           | 36,586           | 25,143           | 12,579           |
| Proceeds from disposals of intangible assets                                | 3,769            | 10,917           | 2,256            |
| Proceeds from disposal of assets held for sale                              | 1,009            | 3,667            | 190,393          |
| Collection of long-term loans   | 2,132            | 4,454            | 13,104           |
| Decrease in deposits  | 14,635           | 8,891            | 8,509            |
| Proceeds from disposals of other non-current assets                         | 607              | 94               | 683              |
| Proceeds from disposals of subsidiaries                                     | 155              |                  | 215,939          |
| Increase in cash due to acquisitions of subsidiaries                        | 10,355           |                  |                  |
| Sub-total   | 914,542          | 341,387          | 1,251,786        |
| Cash outflows for investing activities:                                     |                  |                  |                  |
| Increase in short-term financial instruments, net                           | (385,612)        |                  |                  |
| Increase in short-term investment securities, net                           |                  | (174,209)        | (45,032)         |
| Increase in short-term loans  | (370,378)        | (202,501)        | (279,926)        |
| Increase in long-term loans   | (16,701)         | (4,341)          | (4,050)          |
| Increase in long-term financial instruments                                 | (10,008)         | (2,522)          | (7,510)          |
| Acquisitions of long-term investment securities                             | (312,261)        | (41,305)         | (22,141)         |
| Acquisitions of investments in associates and joint ventures                | (65,080)         | (60,020)         | (97,366)         |
| Acquisitions of property and equipment                                      | (2,478,778)      | (3,008,026)      | (2,879,126)      |
| Acquisitions of intangible assets   | (127,948)        | (130,667)        | (243,163)        |
| Cash held by disposal group classified as held for sale                     |                  | (552)            |                  |
| Increase in deposits  | (12,536)         | (6,903)          | (83,314)         |
| Increase in other non-current assets  | (2,542)          | (18,233)         | (1,830)          |
| Acquisitions of businesses, net of cash acquired                            | (13,197)         | (375,273)        | (94,805)         |

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|  |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| Sub-total                                    | (3,795,041)        | (4,024,552)        | (3,758,263)        |
| <b>Net cash used in investing activities</b> | <b>(2,880,499)</b> | <b>(3,683,165)</b> | <b>(2,506,477)</b> |

*See accompanying notes to the consolidated financial statements.*

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

For the years ended December 31, 2015, 2014 and 2013

| <i>(In millions of won)</i>                                   | 2015             | 2014             | 2013             |
|---|------------------|------------------|------------------|
| <b>Cash flows from financing activities:</b>                  |                  |                  |                  |
| Cash inflows from financing activities:                       |                  |                  |                  |
| Increase in short-term borrowings, net                        |                  | 102,868          |                  |
| Proceeds from issuance of debentures                          | 1,375,031        | 1,255,468        | 1,328,694        |
| Proceeds from long-term borrowings                            |                  | 62,552           | 105,055          |
| Proceeds from issuance of hybrid bonds                        |                  |                  | 398,518          |
| Cash inflows from settlement of derivatives                   | 175              | 200              | 19,970           |
| Sub-total   | 1,375,206        | 1,421,088        | 1,852,237        |
| Cash outflows for financing activities:                       |                  |                  |                  |
| Decrease in short-term borrowings, net                        | (106,600)        |                  | (340,245)        |
| Repayments of long-term account payables-other                | (191,436)        | (207,791)        | (161,575)        |
| Repayments of debentures                                      | (620,000)        | (1,039,938)      | (771,976)        |
| Repayments of long-term borrowings                            | (21,924)         | (23,284)         | (467,217)        |
| Cash outflows from settlement of derivatives                  | (655)            | (6,444)          |                  |
| Payments of finance lease liabilities                         | (3,206)          | (19,388)         | (20,342)         |
| Payments of dividends   | (668,494)        | (666,802)        | (655,946)        |
| Payments of interest on hybrid bonds                          | (16,840)         | (16,840)         |                  |
| Acquisitions of treasury stock                                | (490,192)        |                  |                  |
| Cash outflows related to equity interest transactions         | (220,442)        |                  | (8,093)          |
| Sub-total   | (2,339,789)      | (1,980,487)      | (2,425,394)      |
| <b>Net cash used in financing activities</b>                  | <b>(964,583)</b> | <b>(559,399)</b> | <b>(573,157)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | <b>(66,953)</b>  | <b>(565,179)</b> | <b>478,936</b>   |
| Cash and cash equivalents at beginning of the year            | 834,429          | 1,398,639        | 920,125          |
| Effects of exchange rate changes on cash and cash equivalents | 1,446            | 969              | (422)            |
| <b>Cash and cash equivalents at end of the year</b>           | <b>768,922</b>   | <b>834,429</b>   | <b>1,398,639</b> |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements****For the years ended December 31, 2015, 2014 and 2013****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, 2015, the Parent Company's total issued shares are held by the following:

|   | Number of<br>shares | Percentage of<br>total shares issued (%) |
|---|---------------------|--|
| SK Holdings Co., Ltd.(*)                                | 20,363,452          | 25.22                                    |
| National Pension Service                                | 6,963,591           | 8.63                                     |
| Institutional investors and other minority stockholders | 43,282,117          | 53.60                                    |
| Treasury stock  | 10,136,551          | 12.55                                    |
| <b>Total number of shares</b>                           | <b>80,745,711</b>   | <b>100.00</b>                            |

(\* ) During the year ended December 31, 2015, SK C&C Co., Ltd., the ultimate controlling entity's investee accounted using the equity method, merged SK Holdings Co., Ltd., the ultimate controlling entity of the Parent Company, and changed its name to SK Holdings Co., Ltd.

These consolidated financial statements comprise the Parent Company and its subsidiaries (together referred to as the Group and individuals 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, 2015 and 2014 is as follows:

| Subsidiary                              | Location | Primary business                       | Ownership (%)    |                  |
|---|----------|--|------------------|------------------|
|   |          |  | Dec. 31,<br>2015 | Dec. 31,<br>2014 |
| SK Telink Co., Ltd.                     | Korea    | Telecommunication and MVNO service     | 83.5             | 83.5             |
| M&Service Co., Ltd.                     | Korea    | Data base and internet website service | 100.0            | 100.0            |
| SK Communications Co., Ltd.             | Korea    | Internet website services              | 64.6             | 64.6             |
| Stonebridge Cinema Fund                 | Korea    | Investment association                 | 55.2             | 56.0             |
| Commerce Planet Co., Ltd.               | Korea    | Online shopping mall operation agency  | 100.0            | 100.0            |
| SK Broadband Co., Ltd.(*1,4)            | Korea    | Telecommunication services             | 100.0            | 50.6             |
| K-net Culture and Contents Venture Fund | Korea    | Investment association                 | 59.0             | 59.0             |
| Fitech Focus Limited Partnership II     | Korea    | Investment association                 | 66.7             | 66.7             |
| Open Innovation Fund                    | Korea    | Investment association                 | 98.9             | 98.9             |
| PS&Marketing Corporation                | Korea    | Communications device retail business  | 100.0            | 100.0            |
| Service Ace Co., Ltd.                   | Korea    | Customer center management service     | 100.0            | 100.0            |
| Service Top Co., Ltd.                   | Korea    | Customer center management service     | 100.0            | 100.0            |
| Network O&S Co., Ltd.                   | Korea    | Base station maintenance service       | 100.0            | 100.0            |

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|                             |       |                           |       |
|-----------------------------|-------|---------------------------|-------|
| BNCP Co., Ltd.(*5)          | Korea | Internet website services | 100.0 |
| Iconcube Holdings, Inc.(*5) | Korea | Investment association    | 100.0 |
| Iconcube, Inc.(*5)          | Korea | Internet website services | 100.0 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

| Subsidiary                                | Location  | Primary business  | Ownership (%) |               |
|---|-----------|---|---------------|---------------|
|   |           |   | Dec. 31, 2015 | Dec. 31, 2014 |
| SK Planet Co., Ltd.                       | Korea     | Telecommunication service   | 100.0         | 100.0         |
| Neosnetworks Co., Ltd.(*2)                | Korea     | Guarding of facilities  | 83.9          | 66.7          |
| IRIVER LIMITED(*3)                        | Korea     | Manufacturing digital audio players and other portable media devices. | 49.0          | 49.0          |
| Iriver CS Co., Ltd.(*5)                   | Korea     | After-sales service and logistics agency                              |               | 100.0         |
| iriver Enterprise Ltd.                    | Hong Kong | Management of Chinese subsidiary                                      | 100.0         | 100.0         |
| iriver America Inc.                       | USA       | Marketing and sales in North America                                  | 100.0         | 100.0         |
| iriver Inc.                               | USA       | Marketing and sales in North America                                  | 100.0         | 100.0         |
| iriver China Co., Ltd.                    | China     | Sales and manufacturing MP3,4 in China                                | 100.0         | 100.0         |
| Dongguan iriver Electronics Co., Ltd.     | China     | Sales and manufacturing e-book in China                               | 100.0         | 100.0         |
| Groovers JP Ltd.(*5)                      | Japan     | Digital music contents sourcing and distribution service              | 100.0         |               |
| SK Telecom China Holdings Co., Ltd.       | China     | Investment association  | 100.0         | 100.0         |
| Shenzhen E-eye High Tech Co., Ltd.(*5)    | China     | Manufacturing   |               | 65.5          |
| SK Global Healthcare Business Group, Ltd. | Hong Kong | Investment association  | 100.0         | 100.0         |
| SK Planet Japan, K. K.                    | Japan     | Digital contents sourcing service                                     | 100.0         | 100.0         |
| SKT Vietnam PTE. Ltd.                     | Singapore | Telecommunication service   | 73.3          | 73.3          |
| SK Planet Global PTE. Ltd.                | Singapore | Digital contents sourcing service                                     | 100.0         | 100.0         |
| SKP GLOBAL HOLDINGS PTE. LTD.             | Singapore | Investment association  | 100.0         | 100.0         |
| SKT Americas, Inc.                        | USA       | Information gathering and consulting                                  | 100.0         | 100.0         |
| SKP America LLC.                          | USA       | Digital contents sourcing service                                     | 100.0         | 100.0         |
| YTK Investment Ltd.                       | Cayman    | Investment association  | 100.0         | 100.0         |
| Atlas Investment                          | Cayman    | Investment association  | 100.0         | 100.0         |
| Technology Innovation Partners, L.P.      | USA       | Investment association  | 100.0         | 100.0         |
| SK Telecom China Fund I L.P.              | Cayman    | Investment association  | 100.0         | 100.0         |
| Entrix Co., Ltd.(*5)                      | Korea     | Cloud streaming services  | 100.0         |               |
| shopkick Management Company, Inc.         | USA       | Investment association  | 95.2          | 95.2          |
| shopkick, Inc.                            | USA       | Mileage-based online transaction app development                      | 100.0         | 100.0         |

(\*1) On March 20, 2015, the Board of Directors of the Parent Company decided to grant 0.0168936 share of its treasury stock in exchange for 1 share of SK Broadband Co., Ltd., a subsidiary of the Parent Company, to the shareholders of SK Broadband Co., Ltd. as of June 9, 2015. After the stock exchange, SK Broadband Co., Ltd. became a wholly-owned subsidiary of the Parent Company.

(\*2) Due to the shareholders' agreement which grants put option to the non-controlling shareholders, this entity is consolidated as a wholly owned subsidiary in the consolidated financial statements. The Parent Company newly acquired 50,377 and 326,748 shares of Neosnetworks Co., Ltd. by participating in the capital increase and capital increase without consideration, respectively during the year ended December 31, 2015.

(\*3)

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

- (\*4) On November 2, 2015, the board of directors of the Parent Company entered into a share purchase agreement to acquire 30%(23,234,060 shares) of the issued and outstanding common shares of CJ Hello Vision Co., Ltd. ( CJ Hello Vision ) from CJ O Shopping Co., Ltd. ( CJ O Shopping ) for an aggregate purchase price of

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

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

**For the years ended December 31, 2015, 2014 and 2013**

500 billion. According to the share purchase agreement, the Parent Company will grant put option (exercisable at a price of 26,994 during the two year period following the third anniversary of the transaction closing date) to CJ O Shopping and be granted call option (exercisable at a price of 26,994 during the five year period following the closing date) on CJ O Shopping's remaining shares in CJ Hello Vision. On November 2, 2015, the board of directors of SK Broadband Co., Ltd. (SK Broadband), a subsidiary of the Parent Company, held a meeting to resolve the merger of SK Broadband into CJ Hello Vision, and SK Broadband entered into a merger agreement with CJ Hello Vision. Under the agreement, SK Broadband will be merged into CJ Hello Vision on or after the transaction closing date through an exchange of shares, after which the Parent Company will have a 78.3% equity interest in the merged company. As of December 31, 2015, the approval of relevant government agencies for the share purchase and the merger has not been completed, and the transaction closing date is subject to be changed depending on various conditions including the approval of government agencies.

(\*5) 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****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****(3) Condensed financial information of subsidiaries**

Condensed financial information of subsidiaries as of and for the year ended December 31, 2015 is as follows:

(In millions of won)

| <b>Subsidiary</b>                         | <b>Total assets</b> | <b>Total liabilities</b> | <b>Total equity (deficit)</b> | <b>Revenue</b> | <b>Profit (loss)</b> |
|---|---------------------|--------------------------|-------------------------------|----------------|----------------------|
| SK Telink Co., Ltd.                       | 309,955             | 113,878                  | 196,077                       | 431,368        | 55,781               |
| M&Service Co., Ltd.                       | 89,452              | 42,414                   | 47,038                        | 143,255        | 5,549                |
| SK Communications Co., Ltd.               | 152,496             | 35,014                   | 117,482                       | 80,147         | (14,826)             |
| Stonebridge Cinema Fund                   | 7,797               | 523                      | 7,274                         |                | 3,290                |
| Commerce Planet Co., Ltd.                 | 26,291              | 33,660                   | (7,369)                       | 78,647         | (3,003)              |
| SK Broadband Co., Ltd.                    | 3,291,707           | 2,170,484                | 1,121,223                     | 2,731,344      | 10,832               |
| K-net Culture and Contents Venture Fund   | 13,169              |                          | 13,169                        |                | (421)                |
| Fitech Focus Limited Partnership II       | 18,249              |                          | 18,249                        |                | (1,085)              |
| Open Innovation Fund                      | 19,455              |                          | 19,455                        |                | (2,348)              |
| PS&Marketing Corporation                  | 509,580             | 300,364                  | 209,216                       | 1,791,944      | 4,835                |
| Service Ace Co., Ltd.                     | 65,424              | 34,240                   | 31,184                        | 206,338        | 2,778                |
| Service Top Co., Ltd.                     | 61,897              | 38,482                   | 23,415                        | 197,092        | 4,396                |
| Network O&S Co., Ltd.                     | 77,426              | 48,069                   | 29,357                        | 210,676        | 6,466                |
| SK Planet Co., Ltd.                       | 2,406,988           | 784,631                  | 1,622,357                     | 1,624,630      | (75,111)             |
| Neosnetworks Co., Ltd.                    | 68,361              | 15,583                   | 52,778                        | 61,092         | (5,615)              |
| IRIVER LIMITED(*1)                        | 60,434              | 12,377                   | 48,057                        | 55,637         | 635                  |
| SK Telecom China Holdings Co., Ltd.       | 37,748              | 2,111                    | 35,637                        | 10,764         | (10,124)             |
| SK Global Healthcare Business Group, Ltd. | 25,768              |                          | 25,768                        |                | (106)                |
| SK Planet Japan, K. K.                    | 5,068               | 1,021                    | 4,047                         | 699            | (4,988)              |
| SKT Vietnam PTE. Ltd.                     | 4,523               | 1,371                    | 3,152                         |                |                      |
| SK Planet Global PTE. Ltd.                | 1,570               | 218                      | 1,352                         | 1              | (4,069)              |
| SKP GLOBAL HOLDINGS PTE. LTD.             | 28,320              | 16                       | 28,304                        |                | (23,918)             |
| SKT Americas, Inc.                        | 51,138              | 837                      | 50,301                        | 9,132          | (3,204)              |
| SKP America LLC.                          | 380,141             |                          | 380,141                       |                | 791                  |
| YTK Investment Ltd.                       | 16,318              |                          | 16,318                        |                | (3,210)              |
| Atlas Investment(*2)                      | 77,750              | 199                      | 77,551                        |                | (2,429)              |
| Entrix Co., Ltd.                          | 30,876              | 3,186                    | 27,690                        | 4,895          | (1,826)              |
| shopkick Management Company, Inc.         | 306,248             | 7                        | 306,241                       | 7              | (2,455)              |
| shopkick, Inc.                            | 25,388              | 32,243                   | (6,855)                       | 33,851         | (52,390)             |

(\*1) The condensed financial information of IRIVER LIMITED includes financial information of iriver Enterprise Ltd., iriver America Inc., iriver Inc., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd. and Groovers JP Ltd., subsidiaries of IRIVER LIMITED.

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

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

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

(In millions of won)

| <b>Subsidiary</b>                         | <b>Total assets</b> | <b>Total liabilities</b> | <b>Total equity (deficit)</b> | <b>Revenue</b> | <b>Profit (loss)</b> |
|---|---------------------|--------------------------|-------------------------------|----------------|----------------------|
| SK Telink Co., Ltd.                       | 324,028             | 184,074                  | 139,954                       | 465,463        | 13,073               |
| M&Service Co., Ltd.                       | 78,826              | 36,817                   | 42,009                        | 133,789        | 7,458                |
| SK Communications Co., Ltd.               | 176,168             | 41,987                   | 134,181                       | 93,910         | (18,386)             |
| Stonebridge Cinema Fund                   | 11,137              | 320                      | 10,817                        |                | 383                  |
| Commerce Planet Co., Ltd.                 | 26,078              | 27,259                   | (1,181)                       | 64,509         | 933                  |
| SK Broadband Co., Ltd.                    | 3,109,991           | 1,988,379                | 1,121,612                     | 2,654,381      | 4,307                |
| K-net Culture and Contents Venture Fund   | 21,094              | 4                        | 21,090                        |                | 4,920                |
| Fitech Focus Limited Partnership II       | 19,301              |                          | 19,301                        |                | (2,055)              |
| Open Innovation Fund                      | 21,765              |                          | 21,765                        |                | (6,266)              |
| PS&Marketing Corporation                  | 544,292             | 336,221                  | 208,071                       | 1,627,217      | 2,817                |
| Service Ace Co., Ltd.                     | 66,336              | 37,770                   | 28,566                        | 207,427        | 3,570                |
| Service Top Co., Ltd.                     | 57,032              | 36,723                   | 20,309                        | 188,835        | 3,503                |
| Network O&S Co., Ltd.                     | 71,348              | 45,770                   | 25,578                        | 211,916        | 3,823                |
| BNCP Co., Ltd.                            | 6,785               | 5,887                    | 898                           | 12,869         | (1,505)              |
| Iconcube Holdings, Inc.(*1)               | 1,415               | 515                      | 900                           | 630            | (2,284)              |
| SK Planet Co., Ltd.                       | 2,579,286           | 746,832                  | 1,832,454                     | 1,512,492      | 1,593                |
| Neosnetworks Co., Ltd.                    | 31,633              | 13,251                   | 18,382                        | 33,302         | (1,989)              |
| IRIVER LIMITED(*2)                        | 61,945              | 14,392                   | 47,553                        | 53,192         | 2,345                |
| SK Telecom China Holdings Co., Ltd.       | 37,877              | 2,335                    | 35,542                        | 12,420         | 1,058                |
| Shenzhen E-eye High Tech Co., Ltd.        | 15,566              | 408                      | 15,158                        | 3,637          | (1,143)              |
| SK Global Healthcare Business Group, Ltd. | 25,874              |                          | 25,874                        |                | (689)                |
| SK Planet Japan, K. K.                    | 5,222               | 1,638                    | 3,584                         | 93             | (4,561)              |
| SKT Vietnam PTE. Ltd.                     | 4,242               | 1,286                    | 2,956                         |                | (73)                 |
| SK Planet Global PTE. Ltd.                | 4,215               | 64                       | 4,151                         | 87             | (2,543)              |
| SKP GLOBAL HOLDINGS PTE. LTD.             | 29,529              | 11                       | 29,518                        |                | (9,716)              |
| SKT Americas, Inc.                        | 42,159              | 554                      | 41,605                        | 9,100          | (5)                  |
| SKP America LLC.                          | 297,981             | 67                       | 297,914                       |                | (2,370)              |
| YTK Investment Ltd.                       | 27,944              |                          | 27,944                        |                | (15,259)             |
| Atlas Investment(*3)                      | 66,825              | 94                       | 66,731                        |                | (6,626)              |
| shopkick Management Company, Inc.         | 230,925             |                          | 230,925                       |                |                      |
| shopkick, Inc.                            | 28,216              | 13,698                   | 14,518                        |                |                      |

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

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

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

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

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

**(4) Changes in subsidiaries**

The list of subsidiaries that were newly included in consolidation during the year ended December 31, 2015 is as follows:

| <b>Subsidiary</b> | <b>Reason</b> |
|-------------------|---------------|
|-------------------|---------------|

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Groovers JP Ltd.

Established by IRIVER LIMITED, a subsidiary of the Parent Company during the year ended December 31, 2015.

Entrix Co., Ltd

Established by spin-off from SK Planet Co., Ltd., a subsidiary of the Parent Company.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

The list of subsidiaries that were excluded from subsidiaries during the year ended December 31, 2015 is as follows:

| <b>Subsidiary</b>                  | <b>Reason</b>   |
|------------------------------------|---|
| BNCP Co., Ltd.                     | Disposed during the year ended December 31, 2015.   |
| Iconcube Holdings, Inc.            | Disposed during the year ended December 31, 2015.   |
| Iconcube, Inc.                     | Disposed during the year ended December 31, 2015.   |
| Iriver CS Co., Ltd.                | Merged into IRIVER LIMITED, a subsidiary of the Parent Company during the year ended December 31, 2015. |
| Shenzhen E-eye High Tech Co., Ltd. | Disposed during the year ended December 31, 2015.   |

*(5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2015, 2014 and 2013 are as follows. There were no dividends paid during the years ended December 31, 2015, 2014 and 2013 by subsidiaries of which non-controlling interests are significant.*

*(In millions of won)*

|  | <b>December 31, 2015</b><br><b>SK Communications Co.,</b><br><b>Ltd.</b> |
|--|--|
| Ownership of non-controlling interests (%)     | 35.4   |
| Current assets                                 | 95,662   |
| Non-current assets                             | 56,834   |
| Current liabilities                            | (33,306)   |
| Non-current liabilities                        | (1,708)  |
| Net assets                                     | 117,482  |
| Net assets of consolidated entities            | 117,482  |
| Carrying amount of non-controlling interests   | 41,659   |
| Revenue  | 80,147   |
| Loss for the period                            | (14,826)   |
| Loss of the consolidated entities              | (14,826)   |
| Total comprehensive loss                       | (16,698)   |
| Loss attributable to non-controlling interests | (5,254)  |
| Net cash used in operating activities          | (2,706)  |
| Net cash provided by investing activities      | 8,723  |
| Net cash provided by financing activities      |  |
| Net increase in cash and cash equivalents      | 6,017  |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|   | <b>December 31, 2014</b>                   |                                       |
|---|--|---------------------------------------|
|   | <b>SK<br/>Communications<br/>Co., Ltd.</b> | <b>SK<br/>Broadband<br/>Co., Ltd.</b> |
| Ownership of non-controlling interests (%)              | 35.4                                       | 49.4                                  |
| Current assets  | 89,135                                     | 463,764                               |
| Non-current assets                                      | 87,033                                     | 2,646,227                             |
| Current liabilities                                     | (41,252)                                   | (881,886)                             |
| Non-current liabilities                                 | (735)                                      | (1,106,493)                           |
| Net assets  | 134,181                                    | 1,121,612                             |
| Adjustment for fair value                               |  | 111,561                               |
| Net assets of consolidated entities                     | 134,181                                    | 1,233,173                             |
| Carrying amount of non-controlling interests            | 47,577                                     | 609,638                               |
| Revenue   | 93,910                                     | 2,654,381                             |
| Profit (loss) for the period                            | (18,386)                                   | 4,307                                 |
| Amortization of fair value adjustment                   |  | (1,916)                               |
| Profit (loss) of the consolidated entities              | (18,386)                                   | 2,391                                 |
| Total comprehensive income (loss)                       | 530  | (10,324)                              |
| Profit (loss) attributable to non-controlling interests | (6,519)                                    | 1,182                                 |
| Net cash provided by (used in) operating activities     | (5,962)                                    | 431,760                               |
| Net cash used in investing activities                   | (17,927)                                   | (599,016)                             |
| Net cash provided by financing activities               |  | 119,484                               |
| Net decrease in cash and cash equivalents               | (23,889)                                   | (47,772)                              |

*(In millions of won)*

|  | <b>December 31, 2013</b>                   |                                       |
|--|--|---------------------------------------|
|  | <b>SK<br/>Communications<br/>Co., Ltd.</b> | <b>SK<br/>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                               |
| Revenue  | 128,272                                    | 2,539,366                             |
| Profit (loss) for the period                         | (41,893)                                   | 12,306                                |
| Amortization of fair value adjustment                |  | (30,977)                              |
| Loss of the consolidated entities                    | (41,893)                                   | (18,671)                              |
| Total comprehensive loss                             | (43,318)                                   | (13,059)                              |
| Loss attributable to non-controlling interests       | (14,853)                                   | (9,231)                               |
| Net cash provided by (used in) operating activities  | (22,867)                                   | 440,036                               |
| Net cash provided by (used in) investing activities  | 41,788                                     | (329,346)                             |
| Net cash provided by (used in) financing activities  | 19   | (129,181)                             |
| Net increase (decrease) in cash and cash equivalents | 18,940                                     | (18,491)                              |





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

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

**For the years ended December 31, 2015, 2014 and 2013**

**2. Basis of Presentation**

**(1) Statement of compliance**

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

The consolidated financial statements were authorized for issuance by the Board of Directors on February 3, 2016.

**(2) Basis of measurement**

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

derivative financial instruments are measured at fair value

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

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

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

**(3) Functional and presentation currency**

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

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

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

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

**1) Critical judgments**

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in Note 4 for the following areas: revenue, consolidation: whether the Group has de facto control

over an investee, and classification of lease.

2) *Assumptions and estimation uncertainties*

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

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

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

**For the years ended December 31, 2015, 2014 and 2013**

3) *Fair value measurement*

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

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

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

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

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

(5) *Common control transactions*

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

**3. Changes in Accounting Policies**

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

The Group has adopted the following amendments to standards with a date of initial application of January 1, 2015.

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### 1) IAS 19 Employee Benefits Employee contributions

Amendments to IAS 19 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

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

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****4. Significant Accounting Policies**

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

**(1) Operating segments**

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

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

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

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

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

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

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

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



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**For the years ended December 31, 2015, 2014 and 2013**

*(ii) Non-controlling interests*

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

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

*(iii) Subsidiaries*

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

*(iv) Loss of control*

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

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

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

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

*(vi) Intra-group transactions*

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

*(vii) Business combinations under common control*

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

**(3) Cash and cash equivalents**

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





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**(4) Inventories**

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

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

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

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

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

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

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

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

**(iii) Loans and receivables**

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

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

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

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

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which

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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.

***(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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*(ii) Separable embedded derivatives*

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

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

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

*(iii) Other derivative financial instruments*

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

**(7) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes following loss events:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

*(i) Financial assets measured at amortized cost*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group

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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.

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

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

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

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





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

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

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

**(9) Borrowing costs**

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

**(10) Intangible assets**

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

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

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

|                       | Useful lives (years) |
|-----------------------|----------------------|
| Frequency use rights  | 6.3 ~ 13.1           |
| Land use rights       | 5                    |
| Industrial rights     | 5,10                 |
| Development costs     | 5                    |
| Facility usage rights | 10,20                |

Customer relations  
Other

3 ~ 7  
3 ~ 20

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

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

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

**(11) Government grants**

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

*(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**

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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

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to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(14) Leases**

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

**(i) Finance leases**

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

**(ii) Operating leases**

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



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*(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 IAS 36, Impairment of Assets.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

*(16) Non-derivative financial liabilities*

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

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

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

*(ii) Other financial liabilities*

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

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





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

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

**For the years ended December 31, 2015, 2014 and 2013**

**(17) Employee benefits**

*(i) Short-term employee benefits*

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

*(ii) Other long-term employee benefits*

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

*(iii) Retirement benefits: defined contribution plans*

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

*(iv) Retirement benefits: defined benefit plans*

As of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized as present value of defined benefit obligations net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligations, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

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

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

*(v) Termination benefits*

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



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

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

**For the years ended December 31, 2015, 2014 and 2013**

**(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.

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.

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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

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

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

**For the years ended December 31, 2015, 2014 and 2013**

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.

**(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

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

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

**For the years ended December 31, 2015, 2014 and 2013**

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.

*(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





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

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

**For the years ended December 31, 2015, 2014 and 2013**

enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if (a) there is a legally enforceable right to offset the related current tax liabilities and assets, (b) they relate to income taxes levied by the same tax authority and (c) they intend to settle current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

**(25) *Earnings per share***

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

**(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 accounting standards are issued and will be effective for annual periods beginning after January 1, 2016, and have not been adopted early in preparing these consolidated financial statements.

As of December 31, 2015, management is in the process of evaluating the impact of applying these standards on its financial position and results of operations.

**1) *IFRS 9 Financial Instruments***

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

**2) *IFRS 15 Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**3) *IFRS 16 Leases*

IFRS 16, published in January 2016, replaces the existing guidance in IAS 17, Leases. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

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 wireless voice and data transmission services, sales of wireless devices, IoT solutions platform services, and 2) fixed-line telecommunication services, which include fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV) and business communications services. All other operating segments, which include commerce business and hardware business, do not meet the quantitative thresholds to be considered reportable segments and are presented as Others.

(1) Segment information as of and for the years ended December 31, 2015, 2014 and 2013 is as follows:

(In millions of won)

|  | 2015                 |  |           |                   |                              |                        |
|--|----------------------|--|-----------|-------------------|------------------------------|------------------------|
|  | Cellular<br>services | Fixed-line<br>telecommu-<br>nication<br>services | Others    | Total<br>segments | Consolidation<br>adjustments | Consolidated<br>amount |
| Total revenue  | 14,962,689           | 3,162,712  | 2,113,543 | 20,238,944        | (3,102,210)                  | 17,136,734             |
| Internal revenue   | 1,693,411            | 668,139  | 740,660   | 3,102,210         | (3,102,210)                  |                        |
| External revenue   | 13,269,278           | 2,494,573  | 1,372,883 | 17,136,734        |                              | 17,136,734             |
| Depreciation and amortization  | 2,174,819            | 531,106  | 139,370   | 2,845,295         |                              | 2,845,295              |
| Operating income (loss)  | 1,678,339            | 108,252  | (78,585)  | 1,708,006         | (212,581)                    | 1,495,425              |
| Gain related to investments in subsidiaries,<br>associates and joint ventures, net |                      |  |           |                   |                              | 786,140                |
| Finance income   |                      |  |           |                   |                              | 103,900                |
| Finance costs  |                      |  |           |                   |                              | (350,100)              |
| Profit from continuing operations before income tax                                |                      |  |           |                   |                              | 2,035,365              |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|  | <b>2014</b>                  |  |               |                           |                                      |                                |
|--|------------------------------|--|---------------|---------------------------|--------------------------------------|--------------------------------|
|  | <b>Cellular<br/>services</b> | <b>Fixed-line<br/>telecommu-<br/>nication<br/>services</b> | <b>Others</b> | <b>Total<br/>segments</b> | <b>Consolidation<br/>adjustments</b> | <b>Consolidated<br/>amount</b> |
| Total revenue  | 15,248,039                   | 3,119,845  | 1,884,784     | 20,252,668                | (3,088,870)                          | 17,163,798                     |
| Internal revenue   | 1,720,158                    | 669,925  | 698,787       | 3,088,870                 | (3,088,870)                          |                                |
| External revenue   | 13,527,881                   | 2,449,920  | 1,185,997     | 17,163,798                |                                      | 17,163,798                     |
| Depreciation and amortization  | 2,113,510                    | 501,623  | 99,597        | 2,714,730                 |                                      | 2,714,730                      |
| Operating income (loss)  | 1,754,433                    | 80,423   | (9,751)       | 1,825,105                 | (217,279)                            | 1,607,826                      |
| Gain related to investments in subsidiaries,<br>associates and joint ventures, net |                              |  |               |                           |                                      | 906,338                        |
| Finance income   |                              |  |               |                           |                                      | 126,337                        |
| Finance costs  |                              |  |               |                           |                                      | (386,673)                      |
| <b>Profit from continuing operations before income tax</b>                         |                              |  |               |                           |                                      | <b>2,253,828</b>               |

*(In millions of won)*

|  | <b>2013</b>                  |  |               |                           |                                      |                                |
|--|------------------------------|--|---------------|---------------------------|--------------------------------------|--------------------------------|
|  | <b>Cellular<br/>services</b> | <b>Fixed-line<br/>telecommu-<br/>nication<br/>services</b> | <b>Others</b> | <b>Total<br/>segments</b> | <b>Consolidation<br/>adjustments</b> | <b>Consolidated<br/>amount</b> |
| Total revenue  | 14,501,829                   | 2,972,642  | 1,741,599     | 19,216,070                | (2,614,016)                          | 16,602,054                     |
| Internal revenue   | 1,186,297                    | 648,253  | 779,466       | 2,614,016                 | (2,614,016)                          |                                |
| External revenue   | 13,315,532                   | 2,324,389  | 962,133       | 16,602,054                |                                      | 16,602,054                     |
| Depreciation and amortization  | 2,019,531                    | 522,155  | 119,937       | 2,661,623                 |                                      | 2,661,623                      |
| Operating income (loss)  | 1,986,106                    | 55,625   | (30,622)      | 2,011,109                 | (432,706)                            | 1,578,403                      |
| Gain related to investments in subsidiaries,<br>associates and joint ventures, net |                              |  |               |                           |                                      | 706,509                        |
| Finance income   |                              |  |               |                           |                                      | 113,392                        |
| Finance costs  |                              |  |               |                           |                                      | (571,203)                      |
| <b>Profit from continuing operations before income tax</b>                         |                              |  |               |                           |                                      | <b>1,827,101</b>               |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

Reconciliation of total segment operating income to consolidated operating income from continuing operations for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In millions of won)

|  | 2015      | 2014      | 2013      |
|--|-----------|-----------|-----------|
| Total segment operating income                                   | 1,708,006 | 1,825,105 | 2,011,109 |
| Other operating income:  |           |           |           |
| Fees revenues  |           | 8,199     | 7,303     |
| Gain on disposal of property and equipment and intangible assets | 7,140     | 8,792     | 7,991     |
| Others(*1)   | 23,795    | 39,480    | 59,660    |
|  | 30,935    | 56,471    | 74,954    |
| Other operating expenses:  |           |           |           |
| Impairment loss on property and equipment and intangible assets  | (35,845)  | (47,489)  | (13,770)  |
| Loss on disposal of property and equipment and intangible assets | (21,392)  | (32,950)  | (267,468) |
| Donations  | (72,454)  | (67,823)  | (82,057)  |
| Bad debt for accounts receivable other                           | (15,323)  | (17,943)  | (22,155)  |
| Others(*2)   | (98,502)  | (107,545) | (122,210) |
|  | (243,516) | (273,750) | (507,660) |
| Consolidated operating income from continuing operations         | 1,495,425 | 1,607,826 | 1,578,403 |

(\*1) Others for the years ended December 31, 2015, 2014 and 2013 include 2.1 billion, 8.1 billion and 10.3 billion of VAT refund, respectively, and various other incomes with inconsequential amounts.

(\*2) Others for the years ended December 31, 2015, 2014 and 2013 include 29.5 billion, 54.7 billion and 96.5 billion of penalties, respectively, and various other expenses with inconsequential amounts.

Intersegment sales and purchases are conducted on an arms-length basis and eliminated on consolidation. Since there are no intersegment sales of inventory, there is no unrealized intersegment profit to be eliminated on consolidation. Domestic revenue for the years ended December 31, 2015, 2014 and 2013 amounts to 17,083 billion, 17,073 billion and 16,557 billion, respectively. Domestic non-current assets (excluding financial assets, investments in associates and joint ventures and deferred tax assets) as of December 31, 2015, 2014 and 2013 amount to 14,474 billion, 14,817 billion and 14,762 billion, and non-current assets outside of Korea amount to 287 billion, 278 billion and 1 billion, respectively.

No single customer contributed 10% or more to the Group's total sales for the years ended December 31, 2015, 2014 and 2013.

Though the Group is expanding into new geographic regions, as of December 31, 2015, the Group still principally operates in its domestic market in Korea.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

The Group's operating revenue by service type is as follows:

(In millions of won)

|  | 2015              | 2014              | 2013              |
|--|-------------------|-------------------|-------------------|
| <b>Cellular revenue</b>  |                   |                   |                   |
| Wireless service(*1)   | 10,720,518        | 11,010,639        | 11,001,123        |
| Cellular interconnection                                       | 710,026           | 817,038           | 844,977           |
| Wireless device sales  | 963,354           | 761,629           | 645,914           |
| Miscellaneous(*2)  | 875,380           | 938,575           | 823,518           |
|  | 13,269,278        | 13,527,881        | 13,315,532        |
| <b>Fixed-line telecommunication services revenue</b>           |                   |                   |                   |
| Fixed line telephone service                                   | 420,611           | 467,333           | 474,430           |
| Fixed line interconnection                                     | 57,130            | 57,401            | 78,731            |
| Broadband internet service and advanced media platform service | 1,308,789         | 1,152,708         | 1,023,156         |
| International calling service                                  | 99,106            | 111,983           | 127,005           |
| Miscellaneous(*3)  | 608,937           | 660,495           | 621,067           |
|  | 2,494,573         | 2,449,920         | 2,324,389         |
| <b>Others revenue</b>  |                   |                   |                   |
| Commerce service(*4)   | 988,524           | 911,487           | 742,616           |
| Portal service(*5)   | 63,880            | 72,984            | 92,153            |
| Miscellaneous(*6)  | 320,479           | 201,526           | 127,364           |
|  | 1,372,883         | 1,185,997         | 962,133           |
| <b>Consolidated operating revenue</b>                          | <b>17,136,734</b> | <b>17,163,798</b> | <b>16,602,054</b> |

(\*1) Wireless service revenue includes revenue from wireless voice and data transmission services principally derived through monthly plan-based fees, usage charges for outgoing voice calls, usage charges for wireless data services and value-added service fees.

(\*2) Miscellaneous cellular services revenue includes revenue from IoT solutions platform services as well as other miscellaneous cellular services.

(\*3) Miscellaneous fixed-line telecommunication services revenue includes revenues from business communications services (other than fixed-line telephone service) provided by SK Broadband and VoIP services provided by SK Telink.



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- (\*4) Commerce service revenue includes revenues from 11st, an online open marketplace platform, and O2O commerce solutions.
  
- (\*5) Portal service revenue includes revenues from Nate, and online portal service operated by SK Communications, and Cyworld, a social networking service formerly operated by SK Communications. In March 2014, the Cyworld business was spun-off into an unaffiliated company.
  
- (\*6) Miscellaneous others revenue includes revenues from hardware business, security business operated by one of the Group's subsidiaries, Neosnetworks, and an online open marketplace for mobile applications, among other operations.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****6. Restricted Deposits**

Deposits which are restricted in use as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

|                                  | December 31, 2015 | December 31, 2014 |
|----------------------------------|-------------------|-------------------|
| Short-term financial instruments |                   |                   |
| Charitable fund(*)               | 79,500            | 86,000            |
| Other                            | 2,969             | 4,321             |
| Long-term financial instruments  | 10,596            | 612               |
| Guarantee deposits               | 280               | 280               |
|                                  | 93,345            | 91,213            |

(\*) The Group established a trust fund for charitable purposes. Profits from the fund are donated to charitable institutions. As of December 31, 2015, the funds cannot be withdrawn.

**7. Trade and Other Receivables**

(1) Details of trade and other receivables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                                     | December 31, 2015 |                           |                 |
|-------------------------------------|-------------------|---------------------------|-----------------|
|                                     | Gross amount      | Allowances for impairment | Carrying amount |
| Current assets:                     |                   |                           |                 |
| Accounts receivable trade           | 2,583,558         | (238,691)                 | 2,344,867       |
| Short-term loans                    | 54,377            | (482)                     | 53,895          |
| Accounts receivable other           | 752,731           | (78,992)                  | 673,739         |
| Accrued income                      | 10,753            |                           | 10,753          |
| Others                              | 1,861             |                           | 1,861           |
|                                     | 3,403,280         | (318,165)                 | 3,085,115       |
| Non-current assets:                 |                   |                           |                 |
| Long-term loans                     | 87,501            | (25,047)                  | 62,454          |
| Long-term accounts receivable other | 2,420             |                           | 2,420           |
| Guarantee deposits                  | 297,281           |                           | 297,281         |
| Long-term accounts receivable trade | 46,047            | (804)                     | 45,243          |

|           |           |           |
|-----------|-----------|-----------|
| 433,249   | (25,851)  | 407,398   |
| 3,836,529 | (344,016) | 3,492,513 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|                                     |                     | <b>December 31, 2014</b>         |                        |
|-------------------------------------|---------------------|----------------------------------|------------------------|
|                                     | <b>Gross amount</b> | <b>Allowances for impairment</b> | <b>Carrying amount</b> |
| <b>Current assets:</b>              |                     |                                  |                        |
| Accounts receivable trade           | 2,614,059           | (221,909)                        | 2,392,150              |
| Short-term loans                    | 75,199              | (687)                            | 74,512                 |
| Accounts receivable other           | 769,115             | (78,588)                         | 690,527                |
| Accrued income                      | 10,134              |                                  | 10,134                 |
| Others                              | 3,865               |                                  | 3,865                  |
|                                     | <b>3,472,372</b>    | <b>(301,184)</b>                 | <b>3,171,188</b>       |
| <b>Non-current assets:</b>          |                     |                                  |                        |
| Long-term loans                     | 82,735              | (27,007)                         | 55,728                 |
| Long-term accounts receivable other | 3,596               |                                  | 3,596                  |
| Guarantee deposits                  | 285,144             |                                  | 285,144                |
| Long-term accounts receivable trade | 68,536              |                                  | 68,536                 |
|                                     | <b>440,011</b>      | <b>(27,007)</b>                  | <b>413,004</b>         |
|                                     | <b>3,912,383</b>    | <b>(328,191)</b>                 | <b>3,584,192</b>       |

(2) The movements in allowances for doubtful accounts of trade and other receivables during the years ended December 31, 2015 and 2014 were as follows:

*(In millions of won)*

|   | <b>2015</b>    | <b>2014</b>    |
|---|----------------|----------------|
| <b>Balance at January 1</b>                                 | 328,191        | 323,984        |
| Increase of bad debt allowances                             | 75,773         | 63,697         |
| Write-offs  | (87,798)       | (89,529)       |
| Collection of receivables previously written-off            | 27,364         | 29,213         |
| Net exchange differences and changes in consolidation scope | 486            | 826            |
| <b>Balance at December 31</b>                               | <b>344,016</b> | <b>328,191</b> |

(3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|                              | <b>December 31, 2015</b>   |                                | <b>December 31, 2014</b>   |                                |
|------------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
|                              | <b>Accounts receivable</b> | <b>Other trade receivables</b> | <b>Accounts receivable</b> | <b>Other trade receivables</b> |
| Neither overdue nor impaired | 1,841,442                  | 1,053,096                      | 1,831,243                  | 1,089,001                      |

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|                                  |           |           |           |           |
|----------------------------------|-----------|-----------|-----------|-----------|
| Overdue but not impaired         | 77,008    | 5,155     | 76,671    | 3,481     |
| Impaired                         | 711,155   | 148,673   | 774,681   | 137,306   |
|                                  | 2,629,605 | 1,206,924 | 2,682,595 | 1,229,788 |
| Allowances for doubtful accounts | (239,495) | (104,521) | (221,909) | (106,282) |
|                                  | 2,390,110 | 1,102,403 | 2,460,686 | 1,123,506 |

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****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(4) The aging of overdue but not impaired accounts receivable as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                    | December 31, 2015   |                         | December 31, 2014   |                         |
|--------------------|---------------------|-------------------------|---------------------|-------------------------|
|                    | Accounts receivable | Other trade receivables | Accounts receivable | Other trade receivables |
| Less than 1 month  | 20,908              | 2,770                   | 25,254              | 1,795                   |
| 1 ~ 3 months       | 21,941              | 924                     | 26,469              | 213                     |
| 3 ~ 6 months       | 7,043               | 265                     | 11,641              | 608                     |
| More than 6 months | 27,116              | 1,196                   | 13,307              | 865                     |
|                    | 77,008              | 5,155                   | 76,671              | 3,481                   |

**8. Inventories**

Details of inventories as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                            | December 31, 2015 |                         |                 | December 31, 2014 |                         |                 |
|----------------------------|-------------------|-------------------------|-----------------|-------------------|-------------------------|-----------------|
|                            | Acquisition cost  | Write-down of inventory | Carrying amount | Acquisition cost  | Write-down of inventory | Carrying amount |
| Merchandise                | 247,294           | (5,064)                 | 242,230         | 252,063           | (5,325)                 | 246,738         |
| Finished goods             | 3,530             | (179)                   | 3,351           | 1,930             | (216)                   | 1,714           |
| Work in process            | 1,976             | (149)                   | 1,827           | 1,144             | (131)                   | 1,013           |
| Raw materials and supplies | 27,296            | (1,148)                 | 26,148          | 19,242            | (1,040)                 | 18,202          |
|                            | 280,096           | (6,540)                 | 273,556         | 274,379           | (6,712)                 | 267,667         |

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

(In millions of won)

|   | 2015    | 2014    | 2013  |
|---|---------|---------|-------|
| Charged to cost of products that have been resold | 1,983   | 2,052   | 1,498 |
| Write-off upon sale                               | (2,095) | (1,326) | (95)  |

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

**9. Investment Securities**

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(1) Details of short-term investment securities as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|  | <b>December 31, 2015</b> | <b>December 31, 2014</b> |
|--|--------------------------|--------------------------|
| Beneficiary certificates(*)                        | 92,262                   | 277,003                  |
| Current portion of long-term investment securities |                          | 3,158                    |
|  | 92,262                   | 280,161                  |

(\*) The distributions arising from beneficiary certificates as of December 31, 2015 were accounted for as accrued income.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(2) Details of long-term investment securities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|   | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|
| <b>Equity securities:</b>                               |                   |                   |
| Marketable equity securities                            | 897,958           | 657,286           |
| Unlisted equity securities(*1)                          | 96,899            | 56,236            |
| Equity investments(*2)                                  | 207,916           | 209,120           |
|   | 1,202,773         | 922,642           |
| <b>Debt securities:</b>                                 |                   |                   |
| Public bonds(*3)  |                   | 158               |
| Investment bonds(*4)                                    | 4,453             | 36,638            |
|   | 4,453             | 36,796            |
| <b>Total</b>  | 1,207,226         | 959,438           |
| Less current portion of long-term investment securities |                   | (3,158)           |
| <b>Long-term investment securities</b>                  | 1,207,226         | 956,280           |

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

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

(\*3) Details of maturity for the public bonds as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                  | December 31, 2015 | December 31, 2014 |
|------------------|-------------------|-------------------|
| Less than 1 year |                   | 158               |

(\*4) During the year ended December 31, 2015, the Parent Company exercised the conversion right for the convertible bonds of Health Connect Co., Ltd., which were classified as available-for-sale financial assets. Health Connect Co., Ltd. has been classified as investments in associates ( 5,900 million) as the Parent Company obtained significant influence over the company. As a result of this transaction, investments in associates have increased by 5,900 million and the remaining convertible bonds of 560 million was fully



redeemed.

**10. Assets and Liabilities Classified as Held for Sale**

During the year ended December 31, 2014, the Group entered into a disposal contract regarding the Group's ownership interests in Shenzhen E-eye High Tech Co., Ltd., the Parent Company's subsidiary. Assets and liabilities of the subsidiary amounting to 10,510 million and 408 million, were reclassified to assets and liabilities held for sale, respectively, and the carrying amount in excess of the fair value less cost to sell was recognized as impairment loss. The ownership interests of Shenzhen E-eye High Tech Co., Ltd. were disposed during the year ended December 31, 2015.

**11. Business Combination**

(1) 2015

1) General information

On April 1, 2015, Neosnetworks Co., Ltd., a subsidiary of the Parent Company, acquired an unmanned machine security business of Joeun Safe Co., Ltd., which manages facility guarding services, in order to expand infrastructure and enhance competitiveness of its security business.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

The Group recognized the acquired assets and liabilities at fair value and the difference between the consideration and fair value of net assets as goodwill.

- 2) Consideration paid and identifiable assets and liabilities transferred  
Consideration paid and assets in succession recognized at the acquisition date are as follows:

*(In millions of won)*

|                           | <b>2015</b> |
|---------------------------|-------------|
| <b>Consideration paid</b> |             |
| Cash and cash equivalents | 13,197      |
| Accounts payable other    | 1,858       |
|                           | 15,055      |
| <b>Assets transferred</b> |             |
| Property and equipment    | 3,208       |
| Intangible assets         | 8,486       |
| Other assets              | 1,603       |
|                           | 13,297      |

(2) 2014

1) General information

The Parent Company acquired the ownership interests of Neosnetworks Co., Ltd., IRIVER LIMITED and shopkick, Inc. and they were newly included in the list of subsidiaries during the year ended December 31, 2014.

i) Neosnetworks Co., Ltd.

On April 2, 2014, the Parent Company acquired the ownership interest of 66.7% of Neosnetworks Co., Ltd., which manages facility guarding services, in order to secure new growth engine in physical security market and obtained the control over Neosnetworks Co., Ltd.

Neosnetworks Co., Ltd. recognized revenue of 25,743 million and loss of 2,277 million, respectively, from the acquisition date to December 31, 2014.

ii) IRIVER LIMITED

On August 13, 2014, the Parent Company obtained ownership interests of 39.3% by acquiring 10,241,722 shares of IRIVER LIMITED from investment companies in order to develop smart phone applications and media devices such as Bluetooth speakers and ear phones for future growth and additionally acquired 4,960,317 shares by participating in the capital increase. As of the end of December 31, 2014, the Parent Company has the ownership interest of 49% of IRIVER LIMITED. After the Group acquired control over IRIVER LIMITED, IRIVER LIMITED has recognized revenue of 16,311 million and a net profit of 4,066 million.

iii) shopkick, Inc.

On October 10, 2014, shopkick Management Company, Inc., of which SKP America LLC., a subsidiary of the Parent Company, has the ownership interest of 95.2%, obtained control over shopkick, Inc. by purchasing the ownership interest of 100% of shopkick, Inc. for the purpose of acquiring the platform of its mobile commerce business in the United States and expansion of the Group's global market position.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

## 2) Consideration paid and identifiable assets and liabilities transferred

Consideration paid and identifiable assets acquired and liabilities assumed recognized at the acquisition date are as follows:

(In millions of won)

|   | Neosnetworks<br>Co., Ltd. | IRIVER<br>LIMITED | shopkick,<br>Inc. |
|---|---------------------------|-------------------|-------------------|
| Consideration paid                                    |                           |                   |                   |
| Cash and cash equivalents                             | 23,968                    | 29,503            | 230,925           |
| Other current liabilities                             |                           |                   | 18,686            |
| Long-term payables other (*)                          | 14,500                    |                   |                   |
|   | 38,468                    | 29,503            | 249,611           |
| Fair value of assets acquired and liabilities assumed |                           |                   |                   |
| Cash and cash equivalents                             | 16,631                    | 3,098             | 13,881            |
| Accounts receivable trade, net                        | 111                       | 11,687            | 6,541             |
| Inventories, net                                      |                           | 11,780            | 727               |
| Property, equipment and intangible assets             | 11,489                    | 3,153             | 81,972            |
| Other assets  | 1,289                     | 6,824             | 6,236             |
| Accounts payable trade                                | (3,411)                   | (7,113)           | (796)             |
| Borrowings and debentures                             | (2,150)                   | (2,293)           |                   |
| Other liabilities                                     | (3,305)                   | (6,268)           | (13,008)          |
|   | 20,654                    | 20,868            | 95,553            |
| Controlling interests                                 | 20,654                    | 8,193             | 91,006            |
| Non-controlling interests                             |                           | 12,675            | 4,547             |

(\*) During the year ended December 31, 2014, the Parent Company acquired 31,310 shares of Neosnetworks Co., Ltd. (the ownership interest of 66.7%) by purchasing old shares from the pre-existing shareholders and participating in the capital increase. The Parent Company entered into a shareholders' agreement which granted put options to the pre-existing shareholders for the remaining equity interest of Neosnetworks Co., Ltd. and call options to the Parent Company for those shares if certain conditions are met. In accordance with this shareholders' agreement, the Group deemed that it assumed the residual equity of the pre-existing shareholders on the acquisition date, and the amount to be paid to the pre-existing shareholders for this acquisition in the future was recorded as long-term payables-other.

**12. Business Combinations under Common Control**

## (1) 2015

During the year ended December 31, 2015, hoppin service division of SK Planet Co., Ltd., a subsidiary of the Parent Company, was spun off from SK Planet Co., Ltd. and was merged into SK Broadband, Co., Ltd., a subsidiary of the Parent Company. There is no impact on the

consolidated financial statements as it is a business combination under common control.

(2) 2014

1) General information

PS&Marketing Corporation, a subsidiary of the Parent Company, acquired the retail distribution business of IT service department of SK Networks Co., Ltd. on April 30, 2014 in order to strengthen the mid/long-term distribution competitiveness by expanding the retail infrastructure and enlarging the direct management network.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

Revenues and profit or loss recognized after the acquisition date by the acquired businesses of PS&Marketing Corporation are not disclosed as the estimate is practically impossible.

As the business combination which occurred during the years ended December 31, 2014 was a business combination between entities under common control, the difference between the consideration and book value of net assets was recognized as a capital deficit and other capital adjustments.

## 2) Consideration paid and assets and liabilities transferred

Consideration paid and assets and liabilities transferred as of the acquisition date are as follows:

*(In millions of won)*

|  | <b>2014</b> |
|--|-------------|
| Consideration paid   |             |
| Cash and cash equivalents  | 111,330     |
| Investments in associates (carrying value)                       |             |
| Accounts payables other  | 13,156      |
|  | 124,486     |
| Assets and liabilities transferred                               |             |
| Cash and cash equivalents  |             |
| Accounts receivable trade  | 57,760      |
| Inventories  | 94,441      |
| Property and equipment, and intangible assets                    | 13,010      |
| Other assets   | 23,281      |
| Accounts payable trade and other                                 | (78,821)    |
| Other liabilities  | (13,826)    |
|  | 95,845      |
| Amount recorded in capital surplus and other capital adjustments | 28,641      |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****13. Investments in Associates and Joint Ventures**

(1) Investments in associates and joint ventures accounted for using the equity method as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|   | Country          | December 31, 2015<br>Ownership<br>percentage | December 31, 2015<br>Carrying<br>amount | December 31, 2014<br>Ownership<br>percentage | December 31, 2014<br>Carrying<br>amount |
|---|------------------|--|---|--|---|
| <b>Investments in associates</b>                |                  |  |   |  |   |
| SK China Company Ltd.(*1)                       | China            | 9.6  | 43,814                                  | 9.6  | 35,817                                  |
| Korea IT Fund(*2)                               | Korea            | 63.3   | 260,456                                 | 63.3   | 240,676                                 |
| KEB HanaCard Co., Ltd.(*1,3)                    | Korea            | 15.0   | 254,177                                 | 25.4   | 425,140                                 |
| Candle Media Co., Ltd.                          | Korea            | 35.1   | 20,144                                  | 35.1   | 19,486                                  |
| NanoEnTek, Inc. (*4)                            | Korea            | 28.6   | 45,008                                  | 26.0   | 36,527                                  |
| SK Industrial Development China Co., Ltd.       | Hong Kong        | 21.0   | 86,324                                  | 21.0   | 79,394                                  |
| Packet One Network(*5)                          | Malaysia         |  |   | 13.6   | 53,670                                  |
| SK Technology Innovation Company                | Cayman           | 49.0   | 45,891                                  | 49.0   | 44,052                                  |
| HappyNarae Co., Ltd.                            | Korea            | 42.5   | 17,095                                  | 42.5   | 15,551                                  |
| SK hynix Inc.                                   | Korea            | 20.1   | 5,624,493                               | 20.1   | 4,849,159                               |
| SK MENA Investment B.V.                         | Netherlands      | 32.1   | 14,929                                  | 32.1   | 14,015                                  |
| SKY Property Mgmt. Ltd.                         | Virgin<br>Island | 33.0   | 251,166                                 | 33.0   | 248,534                                 |
| Xinan Tianlong Science and Technology Co., Ltd. | China            | 49.0   | 25,767                                  | 49.0   | 25,874                                  |
| Daehan Kangun BcN Co., Ltd. and others          |                  |  | 161,058                                 |  | 158,725                                 |
| Sub-total                                       |                  |  | 6,850,322                               |  | 6,246,620                               |
| <b>Investments in joint ventures</b>            |                  |  |   |  |   |
| Dogus Planet, Inc.(*6)                          | Turkey           | 50.0   | 15,118                                  | 50.0   | 11,441                                  |
| PT. Melon Indonesia                             | Indonesia        | 49.0   | 4,339                                   | 49.0   | 3,564                                   |
| Television Media Korea Ltd.(*7)                 | Korea            |  |   | 51.0   | 6,944                                   |
| Celcom Planet                                   | Malaysia         | 51.0   | 3,406                                   | 51.0   | 16,605                                  |
| PT XL Planet Digital(*6)                        | Indonesia        | 50.0   | 23,108                                  | 50.0   | 12,914                                  |
| Sub-total                                       |                  |  | 45,971                                  |  | 51,468                                  |
| Total   |                  |  | 6,896,293                               |  | 6,298,088                               |

(\*1) 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.

(\*2) Investment in Korea IT Fund was classified as investment in associates as the Group has less than 50% of voting rights, and therefore does not have control over Korea IT Fund under the agreement.

- (\*3) During the year ended December 31, 2015, the Group disposed of 27,725,264 shares of KEB HanaCard Co., Ltd.
  
- (\*4) During the year ended December 31, 2015, the Group newly acquired 1,090,155 shares of NanoEnTek, Inc. by participating in paid in capital increase allocation of third parties.
  
- (\*5) Reclassified from investment in associates to available-for-sale financial assets during the year ended December 31, 2015, as the Group lost the right to appoint directors of this investee and consequently no longer has significant influence.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(\*6) There were additional investments in associates and joint ventures during the year ended December 31, 2015.

(\*7) During the year ended December 31, 2015, the Group disposed of all shares of Television Media Korea Ltd.

(2) The market price of investments in listed associates as of December 31, 2015 and 2014 are as follows:

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

|                        | December 31, 2015     |             |           | December 31, 2014 |             |           |
|------------------------|-----------------------|-------------|-----------|-------------------|-------------|-----------|
|                        | Market value          | Number of   | Market    | Market value      | Number of   | Market    |
|                        | per share<br>(In won) |             |           | share<br>(In won) |             |           |
| Candle Media Co., Ltd. | 1,170                 | 21,620,360  | 25,296    | 734               | 21,620,360  | 15,869    |
| NanoEnTek, Inc.        | 7,300                 | 6,960,445   | 50,811    | 5,710             | 5,870,290   | 33,519    |
| SK hynix Inc.          | 30,750                | 146,100,000 | 4,492,575 | 47,750            | 146,100,000 | 6,976,275 |

(3) The financial information of the significant investees as of and for the years ended December 31, 2015 and 2014 is as follows:

| (In millions of won)              | As of and for the year ended<br>December 31, 2015 |                       |
|-----------------------------------|---|-----------------------|
|                                   | KEB   |                       |
|                                   | SK hynix<br>Inc.                                  | HanaCard<br>Co., Ltd. |
| Current assets                    | 9,760,030   | 6,228,076             |
| Non-current assets                | 19,917,876  | 509,579               |
| Current liabilities               | 4,840,698   | 1,103,873             |
| Non-current liabilities           | 3,449,505   | 4,297,289             |
| Revenue                           | 18,797,998  | 1,472,830             |
| Profit from continuing operations | 4,323,595   | 10,119                |
| Other comprehensive income (loss) | 40,215  | (547)                 |
| Total comprehensive income        | 4,363,810   | 9,572                 |

| (In millions of won)    | As of and for the year ended<br>December 31, 2014 |                           |
|-------------------------|---|---------------------------|
|                         | KEB   |                           |
|                         | SK hynix<br>Inc.                                  | HanaCard<br>Co., Ltd.(*). |
| Current assets          | 10,363,514  | 6,716,612                 |
| Non-current assets      | 16,519,764  | 568,065                   |
| Current liabilities     | 5,765,304   | 848,140                   |
| Non-current liabilities | 3,081,671   | 5,109,888                 |

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|  |            |          |
|--|------------|----------|
| Revenue                                  | 17,125,566 | 305,756  |
| Profit (loss) from continuing operations | 4,195,169  | (11,196) |
| Other comprehensive income (loss)        | (52,360)   | (734)    |
| Total comprehensive income (loss)        | 4,142,809  | (11,930) |

(\*) Pre-merger(the date of the merger: December 1, 2014) revenue and net profit of KEB HanaCard Co., Ltd., amounting to 853,506 million and 3,521 million, respectively, were not included.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(4) The condensed financial information of joint ventures as of and for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

|  | As of and for the year ended December 31, 2015 |                     |                      |               |
|--|--|---------------------|----------------------|---------------|
|  | Dogus Planet, Inc.                             | PT. Melon Indonesia | PT XL Planet Digital | Celcom Planet |
| Current assets                                 | 46,248   | 12,805              | 9,500                | 21,416        |
| Cash and cash equivalents                      | 8,091  | 4,027               | 5,034                | 19,371        |
| Non-current assets                             | 18,088   | 2,657               | 46,013               | 5,519         |
| Current liabilities                            | 34,022   | 6,416               | 8,583                | 20,257        |
| Account payable, other payables and provision  | 4,317  | 3,396               | 3,648                | 5,889         |
| Non-current liabilities                        | 78   | 140                 | 714                  |               |
| Account payable, other payables and provisions |  |                     |                      |               |
| Revenue  | 38,944   | 17,094              | 5,536                | 1,647         |
| Depreciation and amortization                  | (5,318)  | (132)               | (2,746)              | (1,332)       |
| Interest income                                | 465  | 288                 | 525                  | 345           |
| Interest expense                               |  |                     |                      |               |
| Income tax benefit                             |  |                     | 7,025                |               |
| Profit (loss) from continuing operations       | (32,713)                                       | 1,853               | (21,381)             | (25,881)      |
| Total comprehensive income(loss)               | (32,713)                                       | 1,853               | (21,381)             | (25,881)      |

(In millions of won)

|  | As of and for the year ended December 31, 2014 |                    |                     |                      |               |
|--|--|--------------------|---------------------|----------------------|---------------|
|  | Television Media Korea Ltd.                    | Dogus Planet, Inc. | PT. Melon Indonesia | PT XL Planet Digital | Celcom Planet |
| Current assets                                 | 16,252   | 38,641             | 10,022              | 9,241                | 30,407        |
| Cash and cash equivalents                      | 5,104  | 6                  | 4,763               | 6,710                | 30,400        |
| Non-current assets                             | 4,543  | 13,011             | 3,094               | 14,589               | 3,343         |
| Current liabilities                            | 7,188  | 28,406             | 5,689               | 4,198                | 1,182         |
| Account payable, other payables and provisions | 265  | 3,648              |                     |                      |               |
| Non-current liabilities                        | 464  | 377                | 102                 | 124                  |               |
| Account payable, other payables and provisions | 464  | 377                |                     | 124                  |               |
| Revenue  | 16,403   | 23,897             | 11,826              | 1,019                |               |
| Depreciation and amortization                  | (3,732)  | (2,402)            | (928)               | (1,452)              | (1)           |
| Interest income                                | 254  | 1,154              | 268                 |                      |               |
| Interest expense                               |  | (6)                |                     |                      |               |
| Income tax benefit                             |  |                    |                     | 5,334                |               |
| Profit (loss) from continuing operations       | (3,361)  | (37,146)           | 523                 | (15,596)             | (1,479)       |
| Total comprehensive income (loss)              | (3,361)  | (37,146)           | 523                 | (15,596)             | (1,479)       |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(5) Reconciliations of financial information of significant associates to carrying amounts of investments in associates in the consolidated financial statements as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                             |            |                         | December 31, 2015                                  |                               |                 |
|-----------------------------|------------|-------------------------|--|-------------------------------|-----------------|
|                             | Net assets | Ownership interests (%) | Net assets attributable to the ownership interests | Cost-book value differentials | Carrying amount |
| <b>Associates:</b>          |            |                         |  |                               |                 |
| SK hynix Inc.(*1,2)         | 21,386,863 | 20.1                    | 4,425,794  | 1,198,699                     | 5,624,493       |
| KEB HanaCard Co., Ltd.      | 1,336,493  | 15.0                    | 200,474  | 53,703                        | 254,177         |
| SKY Property Mgmt. Ltd.(*1) | 537,847    | 33.0                    | 177,490  | 73,676                        | 251,166         |
| Korea IT Fund               | 411,246    | 63.3                    | 260,456  |                               | 260,456         |

(\*1) Net assets of these entities represent net assets excluding their non-controlling interests.

(\*2) The ownership interest is based on the number of shares owned by the Parent Company for the total listed shares of the investee company. The Group applied the equity method using the effective ownership interest of 20.69% which is based on the number of shares owned by the Parent Company for the total issued shares outstanding not including the shares held by the investee as treasury shares.

(In millions of won)

|                            |            |                         | December 31, 2014                                  |                               |                 |
|----------------------------|------------|-------------------------|--|-------------------------------|-----------------|
|                            | Net assets | Ownership interests (%) | Net assets attributable to the ownership interests | Cost-book value differentials | Carrying amount |
| <b>Associates:</b>         |            |                         |  |                               |                 |
| SK hynix Inc.(*)           | 18,036,453 | 20.1                    | 3,619,666  | 1,229,493                     | 4,849,159       |
| KEB HanaCard Co., Ltd.     | 1,326,649  | 25.4                    | 337,266  | 87,874                        | 425,140         |
| SKY Property Mgmt. Ltd.(*) | 527,479    | 33.0                    | 174,068  | 74,466                        | 248,534         |
| Korea IT Fund              | 380,170    | 63.3                    | 240,676  |                               | 240,676         |

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

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(6) Details of changes in investments in associates and joint ventures accounted for using the equity method for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

|  | Beginning<br>balance | Acquisition<br>and<br>disposition | Share of<br>profits<br>(losses) | 2015<br>Other<br>compre-<br>hensive<br>income<br>(loss) | Impair-<br>ment<br>loss | Other<br>increase<br>(decrease) | Ending<br>balance |
|--|----------------------|-----------------------------------|---------------------------------|---|-------------------------|---------------------------------|-------------------|
| <b>Investments in associates</b>                   |                      |                                   |                                 |   |                         |                                 |                   |
| SK China Company Ltd.                              | 35,817               |                                   | 4,361                           | 3,636   |                         |                                 | 43,814            |
| Korea IT Fund(*)                                   | 240,676              |                                   | 11,971                          | 9,912   |                         | (2,103)                         | 260,456           |
| KEB HanaCard Co., Ltd.                             | 425,140              | (174,475)                         | 3,275                           | 237   |                         |                                 | 254,177           |
| Candle Media Co., Ltd.                             | 19,486               |                                   | 550                             | 70  |                         | 38                              | 20,144            |
| NanoEnTek, Inc.                                    | 36,527               | 10,000                            | (1,649)                         | 130   |                         |                                 | 45,008            |
| SK Industrial Development China Co., Ltd.          | 79,394               |                                   | 3,380                           | 3,550   |                         |                                 | 86,324            |
| Packet One Network                                 | 53,670               |                                   | (8,714)                         | (3,030)   |                         | (41,926)                        |                   |
| SK Technology Innovation Company                   | 44,052               |                                   | (2,907)                         | 4,746   |                         |                                 | 45,891            |
| HappyNarae Co., Ltd.                               | 15,551               |                                   | 1,589                           | (45)  |                         |                                 | 17,095            |
| SK hynix Inc.(*)                                   | 4,849,159            |                                   | 842,086                         | (22,922)  |                         | (43,830)                        | 5,624,493         |
| SK MENA Investment B.V.                            | 14,015               |                                   | 3                               | 911   |                         |                                 | 14,929            |
| SKY Property Mgmt. Ltd.                            | 248,534              |                                   | 6,408                           | (3,776)   |                         |                                 | 251,166           |
| Xinan Tianlong Science and Technology Co.,<br>Ltd. | 25,874               |                                   | (107)                           |   |                         |                                 | 25,767            |
| Daehan Kanggun BcN Co., Ltd. and<br>others(*)      | 158,725              | 12,320                            | (15,726)                        | 1,689   | (1,305)                 | 5,355                           | 161,058           |
| Sub-total  | 6,246,620            | (152,155)                         | 844,520                         | (4,892)   | (1,305)                 | (82,466)                        | 6,850,322         |
| <b>Investments in joint ventures</b>               |                      |                                   |                                 |   |                         |                                 |                   |
| Dogus Planet, Inc.                                 | 11,441               | 16,419                            | (16,357)                        | 3,615   |                         |                                 | 15,118            |
| PT. Melon Indonesia                                | 3,564                |                                   | 908                             | (133)   |                         |                                 | 4,339             |
| Television Media Korea Ltd.                        | 6,944                | (6,712)                           | (232)                           |   |                         |                                 |                   |
| Celcom Planet                                      | 16,605               |                                   | (13,199)                        |   |                         |                                 | 3,406             |
| PT XL Planet Digital                               | 12,914               | 20,884                            | (10,690)                        |   |                         |                                 | 23,108            |
| Sub-total  | 51,468               | 30,591                            | (39,570)                        | 3,482   |                         |                                 | 45,971            |
| Total  | 6,298,088            | (121,564)                         | 804,950                         | (1,410)   | (1,305)                 | (82,466)                        | 6,896,293         |

(\*) Dividends paid by the associate are deducted from the carrying amount during the year ended December 31, 2015.



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|   | Beginning<br>balance | Acquisition<br>and<br>disposition | Share of<br>profits<br>(losses) | 2014<br>Other<br>compre-<br>hensive<br>income<br>(loss) | Impair-<br>ment<br>loss | Other<br>increase<br>(decrease) | Ending<br>balance |
|---|----------------------|-----------------------------------|---------------------------------|---|-------------------------|---------------------------------|-------------------|
| <b>Investments in associates</b>                |                      |                                   |                                 |   |                         |                                 |                   |
| SK China Company Ltd.                           | 37,434               |                                   | (365)                           | (1,252)   |                         |                                 | 35,817            |
| Korea IT Fund                                   | 231,402              |                                   | 3,243                           | 6,031   |                         |                                 | 240,676           |
| Etoos Co., Ltd.                                 | 12,029               |                                   | 346                             |   |                         | (12,375)                        |                   |
| KEB HanaCard Co., Ltd.                          | 378,616              |                                   | (739)                           | (2,031)   |                         | 49,294                          | 425,140           |
| Candle Media Co., Ltd.                          | 21,241               |                                   | (1,701)                         | (54)  |                         |                                 | 19,486            |
| NanoEnTek, Inc.                                 | 9,312                | 7,778                             | 284                             | (27)  |                         | 19,180                          | 36,527            |
| SK Industrial Development China Co., Ltd.       | 77,517               |                                   | (791)                           | 2,668   |                         |                                 | 79,394            |
| Packet One Network                              | 60,706               |                                   | (11,845)                        | 4,809   |                         |                                 | 53,670            |
| SK Technology Innovation Company                | 53,874               |                                   | (9,822)                         |   |                         |                                 | 44,052            |
| HappyNarae Co., Ltd.                            | 13,935               |                                   | 1,688                           | (72)  |                         |                                 | 15,551            |
| SK hynix Inc.                                   | 3,943,232            |                                   | 916,486                         | (10,559)  |                         |                                 | 4,849,159         |
| SK MENA Investment B.V.                         | 13,477               |                                   | (4)                             | 542   |                         |                                 | 14,015            |
| SKY Property Mgmt. Ltd.                         | 238,278              |                                   | 3,438                           | 6,818   |                         |                                 | 248,534           |
| Xinan Tianlong Science and Technology Co., Ltd. | 26,562               |                                   | (688)                           |   |                         |                                 | 25,874            |
| Daehan Kanggun BcN Co., Ltd. and others         | 164,976              | 14,172                            | (18,126)                        | 1,324   | (2,363)                 | (1,258)                         | 158,725           |
| Sub-total                                       | 5,282,591            | 21,950                            | 881,404                         | 8,197   | (2,363)                 | 54,841                          | 6,246,620         |
| <b>Investments in joint ventures</b>            |                      |                                   |                                 |   |                         |                                 |                   |
| Dogus Planet, Inc.                              | 10,105               | 19,677                            | (18,573)                        | 232   |                         |                                 | 11,441            |
| PT. Melon Indonesia                             | 3,230                |                                   | 256                             | 78  |                         |                                 | 3,564             |
| Television Media Korea Ltd.                     | 8,659                |                                   | (1,715)                         |   |                         |                                 | 6,944             |
| Celcom Planet                                   |                      | 17,433                            | (656)                           |   |                         | (172)                           | 16,605            |
| PT XL Planet Digital                            | 20,712               |                                   | (7,798)                         |   |                         |                                 | 12,914            |
| Sub-total                                       | 42,706               | 37,110                            | (28,486)                        | 310   |                         | (172)                           | 51,468            |
| Total   | 5,325,297            | 59,060                            | 852,918                         | 8,507   | (2,363)                 | 54,669                          | 6,298,088         |

(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, 2015 are as follows:

*(In millions of won)*

| Year ended<br>December 31,<br>2015 | Unrealized loss<br>Accumulated | Year ended<br>December 31,<br>2015 | Unrealized change in<br>equity<br>Accumulated |
|------------------------------------|--------------------------------|------------------------------------|---|
|                                    |                                |                                    |   |

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|                                 |       |        |     |
|---------------------------------|-------|--------|-----|
| Wave City Development Co., Ltd. | 2,894 | 4,538  |     |
| SK Wyverns Co., Ltd. and others | 1,193 | 6,510  | 365 |
|                                 | 4,087 | 11,048 | 365 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****14. Property and Equipment**

(1) Property and equipment as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                          | December 31, 2015 |                          |                             | Carrying amount |
|--------------------------|-------------------|--------------------------|-----------------------------|-----------------|
|                          | Acquisition cost  | Accumulated depreciation | Accumulated impairment loss |                 |
| Land                     | 812,947           |                          |                             | 812,947         |
| Buildings                | 1,563,069         | (651,940)                |                             | 911,129         |
| Structures               | 763,122           | (418,901)                |                             | 344,221         |
| Machinery                | 28,624,842        | (21,281,400)             | (1,433)                     | 7,342,009       |
| Other                    | 1,511,304         | (1,036,780)              | (1,086)                     | 473,438         |
| Construction in progress | 487,512           |                          |                             | 487,512         |
|                          | 33,762,796        | (23,389,021)             | (2,519)                     | 10,371,256      |

(In millions of won)

|                          | December 31, 2014 |                          |                             | Carrying amount |
|--------------------------|-------------------|--------------------------|-----------------------------|-----------------|
|                          | Acquisition cost  | Accumulated depreciation | Accumulated impairment loss |                 |
| Land                     | 766,780           |                          |                             | 766,780         |
| Buildings                | 1,537,042         | (603,175)                |                             | 933,867         |
| Structures               | 737,494           | (384,705)                |                             | 352,789         |
| Machinery                | 27,088,067        | (19,775,784)             | (1,468)                     | 7,310,815       |
| Other                    | 1,461,201         | (960,450)                | (1,701)                     | 499,050         |
| Construction in progress | 704,400           |                          |                             | 704,400         |
|                          | 32,294,984        | (21,724,114)             | (3,169)                     | 10,567,701      |

(2) Changes in property and equipment for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

|           | 2015              |             |          |          |              | Change of Business consolidation scope | Ending balance |
|-----------|-------------------|-------------|----------|----------|--------------|--|----------------|
|           | Beginning balance | Acquisition | Disposal | Transfer | Depreciation |  |                |
| Land      | 766,780           | 6,629       | (2,031)  | 41,569   |              |  | 812,947        |
| Buildings | 933,867           | 6,042       | (6,839)  | 27,500   | (49,441)     |  | 911,129        |

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|                          |            |           |          |             |             |         |       |       |            |
|--------------------------|------------|-----------|----------|-------------|-------------|---------|-------|-------|------------|
| Structures               | 352,789    | 9,776     | (57)     | 16,104      | (34,391)    |         |       |       | 344,221    |
| Machinery                | 7,310,815  | 645,986   | (22,518) | 1,538,235   | (2,133,193) | (524)   | 3,208 |       | 7,342,009  |
| Other                    | 499,050    | 786,531   | (16,721) | (652,022)   | (143,288)   | (4)     |       | (108) | 473,438    |
| Construction in progress | 704,400    | 1,063,169 | (1,522)  | (1,271,762) |             | (6,773) |       |       | 487,512    |
|                          | 10,567,701 | 2,518,133 | (49,688) | (300,376)   | (2,360,313) | (7,301) | 3,208 | (108) | 10,371,256 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|                             | Beginning<br>balance | Acquisition | Disposal | Transfer    | 2014         |            |                                   | Change of<br>consolidation<br>scope | Ending<br>balance |
|-----------------------------|----------------------|-------------|----------|-------------|--------------|------------|-----------------------------------|-------------------------------------|-------------------|
|                             |                      |             |          |             | Depreciation | Impairment | Classified<br>as held<br>for sale |                                     |                   |
| Land                        | 732,206              | 8,306       | (12)     | 24,178      |              |            |                                   | 2,102                               | 766,780           |
| Buildings                   | 956,691              | 5,862       | (451)    | 16,885      | (48,745)     |            |                                   | 3,625                               | 933,867           |
| Structures                  | 364,951              | 8,909       | (39)     | 11,919      | (32,951)     |            |                                   |                                     | 352,789           |
| Machinery                   | 6,847,059            | 572,764     | (28,101) | 1,979,590   | (2,065,368)  | (2,879)    | (6)                               | 7,756                               | 7,310,815         |
| Other                       | 533,181              | 1,124,067   | (6,188)  | (1,022,999) | (135,213)    | (49)       | (245)                             | 6,496                               | 499,050           |
| Construction in<br>progress | 762,519              | 1,101,691   | (11,277) | (1,147,666) |              | (691)      | (176)                             |                                     | 704,400           |
|                             | 10,196,607           | 2,821,599   | (46,068) | (138,093)   | (2,282,277)  | (3,619)    | (427)                             | 19,979                              | 10,567,701        |

**15. Investment Property**

(1) Investment property as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|           | Acquisition<br>cost | December 31, 2015           |                    |
|-----------|---------------------|-----------------------------|--------------------|
|           |                     | Accumulated<br>depreciation | Carrying<br>amount |
| Land      | 10,634              |                             | 10,634             |
| Buildings | 7,531               | (3,094)                     | 4,437              |
|           | 18,165              | (3,094)                     | 15,071             |

*(In millions of won)*

|           | Acquisition<br>cost | December 31, 2014           |                    |
|-----------|---------------------|-----------------------------|--------------------|
|           |                     | Accumulated<br>depreciation | Carrying<br>amount |
| Land      | 10,418              |                             | 10,418             |
| Buildings | 7,379               | (2,800)                     | 4,579              |
|           | 17,797              | (2,800)                     | 14,997             |

(2) Changes in investment property for the years ended December 31, 2015 and 2014 are as follows:

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(In millions of won)

|           | <b>Beginning<br/>balance</b> | <b>Transfer</b> | <b>2015<br/>Depreciation</b> | <b>Ending<br/>balance</b> |
|-----------|------------------------------|-----------------|------------------------------|---------------------------|
| Land      | 10,418                       | 216             |                              | 10,634                    |
| Buildings | 4,579                        | 98              | (240)                        | 4,437                     |
|           | 14,997                       | 314             | (240)                        | 15,071                    |

(In millions of won)

|           | <b>Beginning<br/>balance</b> | <b>Transfer</b> | <b>2014<br/>Depreciation</b> | <b>Ending<br/>balance</b> |
|-----------|------------------------------|-----------------|------------------------------|---------------------------|
| Land      | 10,822                       | (404)           |                              | 10,418                    |
| Buildings | 4,989                        | (172)           | (238)                        | 4,579                     |
|           | 15,811                       | (576)           | (238)                        | 14,997                    |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(3) Fair value of investment property as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|           | December 31, 2015 |            | December 31, 2014 |            |
|-----------|-------------------|------------|-------------------|------------|
|           | Carrying amount   | Fair value | Carrying amount   | Fair value |
| Land      | 10,634            | 6,009      | 10,418            | 6,056      |
| Buildings | 4,437             | 4,261      | 4,579             | 4,288      |
|           | 15,071            | 10,270     | 14,997            | 10,344     |

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

(4) Income (expense) from investment property for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In millions of won)

|                   | 2015  | 2014  | 2013  |
|-------------------|-------|-------|-------|
| Rent revenue      | 850   | 896   | 1,373 |
| Operating expense | (240) | (239) | (476) |

**16. Goodwill**

(1) Goodwill as of December 31, 2015 and 2014 is as follows:

(In millions of won)

|   | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|
| 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  | 243,911           | 252,916           |
|   | 1,908,590         | 1,917,595         |

Goodwill is allocated to the following CGUs for the purpose of the impairment testing.

Shinsegi Telecom, Inc.(\*1): cellular services

SK Broadband Co., Ltd.(\*2): fixed-line telecommunication services

Other: other

(\*1) Shinsegi Telecom, Inc.

The recoverable amount of the CGU is based on its value in use calculated by applying the annual discount rate of 4.9% to the estimated future cash flows based on financial budgets for the next five years. An annual growth rate of 0.62% was applied for the cash flows expected to be incurred after five years and is not expected to exceed the Group's long-term wireless telecommunication business growth rate. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to 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 5.4% to the estimated future cash flows based on financial budgets for the next five years. An annual growth

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

rate of 1.0%, the Group's long-term fixed-line telecommunication business growth rate, was applied for the cash flows expected to be incurred after five years. Management of the Group does not expect the total carrying amount of the CGU will exceed the total recoverable amount due to reasonably possible changes from the major assumptions used to estimate the recoverable amount.

(2) Details of changes in goodwill for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

|                                      | 2015      | 2014      |
|--------------------------------------|-----------|-----------|
| Beginning balance                    | 1,917,595 | 1,733,261 |
| Increase due to business acquisition | 1,758     | 193,202   |
| Impairment loss                      | (19,245)  | (8,868)   |
| Other                                | 8,482     |           |
|                                      | 1,908,590 | 1,917,595 |

Accumulated impairment losses as of December 31, 2015 and 2014 are 17,269 million and 18,849 million, respectively.

**17. Intangible Assets**

(1) Intangible assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                       | Acquisition<br>cost | December 31, 2015           |                           | Carrying<br>amount |
|-----------------------|---------------------|-----------------------------|---------------------------|--------------------|
|                       |                     | Accumulated<br>depreciation | Accumulated<br>impairment |                    |
| Frequency use rights  | 3,033,879           | (1,930,362)                 |                           | 1,103,517          |
| Land use rights       | 74,217              | (47,641)                    |                           | 26,576             |
| Industrial rights     | 159,926             | (43,384)                    |                           | 116,542            |
| Development costs     | 140,226             | (132,754)                   |                           | 7,472              |
| Facility usage rights | 149,841             | (101,822)                   |                           | 48,019             |
| Customer relations    | 16,528              | (9,353)                     |                           | 7,175              |
| Memberships(*1)       | 126,622             |                             | (35,115)                  | 91,507             |
| Other(*2)             | 3,101,622           | (2,197,646)                 |                           | 903,976            |
|                       | 6,802,861           | (4,462,962)                 | (35,115)                  | 2,304,784          |

(In millions of won)

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|                       |                  | December 31, 2014        |                        |                 |
|-----------------------|------------------|--------------------------|------------------------|-----------------|
|                       | Acquisition cost | Accumulated depreciation | Accumulated impairment | Carrying amount |
| Frequency use rights  | 3,033,879        | (1,649,835)              |                        | 1,384,044       |
| Land use rights       | 64,136           | (38,783)                 |                        | 25,353          |
| Industrial rights     | 144,497          | (36,737)                 |                        | 107,760         |
| Development costs     | 162,493          | (144,215)                | (9,947)                | 8,331           |
| Facility usage rights | 146,112          | (93,476)                 |                        | 52,636          |
| Customer relations    | 17,147           | (10,743)                 |                        | 6,404           |
| Memberships(*1)       | 128,274          |                          | (34,155)               | 94,119          |
| Other(*2)             | 3,029,590        | (2,223,627)              | (616)                  | 805,347         |
|                       | 6,726,128        | (4,197,416)              | (44,718)               | 2,483,994       |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

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

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

(2) Details of changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

|                       | 2015              |             |          |          |              |               |                      | Change of consolidation scope | Ending balance |
|-----------------------|-------------------|-------------|----------|----------|--------------|---------------|----------------------|-------------------------------|----------------|
|                       | Beginning balance | Acquisition | Disposal | Transfer | Amortization | Impairment(*) | Business combination |                               |                |
| Frequency use rights  | 1,384,044         |             |          |          | (280,527)    |               |                      |                               | 1,103,517      |
| Land use rights       | 25,353            | 11,956      | (1,314)  |          | (9,419)      |               |                      |                               | 26,576         |
| Industrial rights     | 107,760           | 5,878       | (22)     | 8,935    | (6,009)      |               |                      |                               | 116,542        |
| Development costs     | 8,331             | 3,737       |          | 23       | (4,563)      | (56)          |                      |                               | 7,472          |
| Facility usage rights | 52,636            | 2,721       | (23)     | 1,177    | (8,492)      |               |                      |                               | 48,019         |
| Customer relations    | 6,404             |             |          |          | (4,689)      |               | 8,486                | (3,026)                       | 7,175          |
| Memberships           | 94,119            | 1,137       | (1,802)  | 68       |              | (2,015)       |                      |                               | 91,507         |
| Other                 | 805,347           | 103,137     | (1,772)  | 323,933  | (319,234)    | (7,228)       |                      | (207)                         | 903,976        |
|                       | 2,483,994         | 128,566     | (4,933)  | 334,136  | (632,933)    | (9,299)       | 8,486                | (3,233)                       | 2,304,784      |

(\* ) The Group recognized the difference between recoverable amount and the carrying amount of memberships, computer software and development costs, amounting to 9,299 million as impairment loss during for the year ended December 31, 2015.

(In millions of won)

|                      | 2014              |             |          |          |              |            | Change of consolidation scope | Ending balance |
|----------------------|-------------------|-------------|----------|----------|--------------|------------|-------------------------------|----------------|
|                      | Beginning balance | Acquisition | Disposal | Transfer | Amortization | Impairment |                               |                |
| Frequency use rights | 1,664,571         |             |          |          | (280,527)    |            |                               | 1,384,044      |
| Land use rights      | 16,590            | 15,560      | (573)    |          | (8,483)      |            | 2,259                         | 25,353         |
| Industrial rights    | 58,763            | 5,048       | (180)    |          | (4,584)      |            | 48,713                        | 107,760        |

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|                       |           |         |          |         |           |          |        |           |
|-----------------------|-----------|---------|----------|---------|-----------|----------|--------|-----------|
| Development costs     | 10,127    | 1,253   | (25)     | 63      | (4,048)   | (398)    | 1,359  | 8,331     |
| Facility usage rights | 58,828    | 1,890   | (30)     | 382     | (8,434)   |          |        | 52,636    |
| Customer relations    | 6,333     | 779     |          | (39)    | (3,063)   |          | 2,394  | 6,404     |
| Memberships(*)        | 128,452   | 5,629   | (5,810)  | (264)   |           | (34,155) | 267    | 94,119    |
| Other                 | 807,118   | 102,322 | (9,919)  | 171,858 | (300,216) | (449)    | 34,633 | 805,347   |
|                       | 2,750,782 | 132,481 | (16,537) | 172,000 | (609,355) | (35,002) | 89,625 | 2,483,994 |

(\*) The Group recognized the difference between recoverable amount and the carrying amount of memberships, amounting to 34,155 million as impairment loss for the year ended December 31, 2014.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(3) Research and development expenditure recognized as expense for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015    | 2014    | 2013    |
|---|---------|---------|---------|
| Research and development costs expensed as incurred | 315,790 | 390,943 | 352,385 |

(4) The carrying amount and residual useful lives of frequency usage rights as of December 31, 2015 are as follows, all of which are amortized on a straight-line basis:

*(In millions of won)*

|                | Amount    | Description   | Commencement<br>of depreciation | Completion of<br>depreciation |
|----------------|-----------|---|---------------------------------|-------------------------------|
| W-CDMA license | 102,839   | Frequency use rights relating to W-CDMA service       | Dec. 2003                       | Dec. 2016                     |
| W-CDMA license | 16,311    | Frequency use rights relating to W-CDMA service       | Oct. 2010                       | Dec. 2016                     |
| 800MHz license | 222,992   | Frequency use rights relating to CDMA and LTE service | Jul. 2011                       | Jun. 2021                     |
| 1.8GHz license | 753,720   | Frequency use rights relating to LTE service          | Sep. 2013                       | Dec. 2021                     |
| WiBro license  | 7,655     | WiBro service   | Mar. 2012                       | Mar. 2019                     |
|                | 1,103,517 |   |                                 |                               |

**18. Borrowings and Debentures**

(1) Short-term borrowings as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|                       | Lender  | Annual<br>interest<br>rate (%) | December 31,<br>2015 | December 31,<br>2014 |
|-----------------------|---|--------------------------------|----------------------|----------------------|
| Commercial Paper      | KTB Investment and Securities Co., Ltd., etc. | 1.76~1.84                      | 220,000              | 206,000              |
| Short-term borrowings | Kookmin Bank, etc.                            | 2.47                           | 40,000               | 160,600              |
|                       |   |                                | 260,000              | 366,600              |



**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(2) Long-term borrowings as of December 31, 2015 and 2014 are as follows:

(In millions of won, thousands of U.S. dollars)

| <b>Lender</b>                                       | <b>Annual interest rate (%)</b> | <b>Maturity</b> | <b>December 31, 2015</b> | <b>December 31, 2014</b> |
|---|---------------------------------|-----------------|--------------------------|--------------------------|
| Shinhan Bank  | 2.39                            | Jun. 15, 2015   |                          | 1,712                    |
| Kookmin Bank  | 1.98                            | Jun. 15, 2016   | 1,625                    | 4,874                    |
| Kookmin Bank  | 1.98                            | Mar. 15, 2017   | 2,498                    | 4,496                    |
| Kookmin Bank  | 1.98                            | Mar. 15, 2018   | 6,450                    | 8,600                    |
| Shinhan Bank(*1)                                    | 6M bank debenture rate+1.58     | Apr. 30, 2016   | 10,000                   | 10,000                   |
| Korea Finance Corporation                           | 3.32                            | Jul. 30 ,2019   | 39,000                   | 39,000                   |
| Korea Finance Corporation                           | 2.94                            | Jul. 30 ,2019   | 10,000                   | 10,000                   |
| Export Kreditnamnden(*2)                            | 1.7                             | Apr. 29, 2022   | 87,685                   | 94,903                   |
|   |                                 |                 | (USD 74,817)             | (USD 86,338)             |
| Sub-total   |                                 |                 | 157,258                  | 173,585                  |
| Less present value discount on long-term borrowings |                                 |                 | (2,124)                  | (2,623)                  |
|   |                                 |                 | 155,134                  | 170,962                  |
| Less current portion of long-term borrowings        |                                 |                 | (33,581)                 | (21,242)                 |
| Long-term borrowings                                |                                 |                 | 121,553                  | 149,720                  |

(\*1) As of December 31, 2015, the 6M bank debenture rate of Shinhan Bank is 1.69%.

(\*2) For the years ended December 31, 2014 and 2013, the Group obtained long-term borrowings from Export Kreditnamnden, an export credit agency. The long-term borrowings are redeemed by installment on an annual basis from 2014 to 2022.

(\*3) Convenient translation was provided for the borrowings repayable in other currencies.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(3) Debentures as of December 31, 2015 and 2014 are as follows:

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

|                               | Purpose          | Maturity | Annual interest rate (%) | December 31, 2015 | December 31, 2014 |
|-------------------------------|------------------|----------|--------------------------|-------------------|-------------------|
| Unsecured private bonds       | Refinancing fund | 2016     | 5.00                     | 200,000           | 200,000           |
| Unsecured private bonds       | Other fund       | 2015     | 5.00                     |                   | 200,000           |
| Unsecured private bonds       |                  | 2018     | 5.00                     | 200,000           | 200,000           |
| Unsecured private bonds       |                  | 2016     | 5.54                     | 40,000            | 40,000            |
| Unsecured private bonds       |                  | 2016     | 5.92                     | 230,000           | 230,000           |
| Unsecured private bonds       | Operating fund   | 2016     | 3.95                     | 110,000           | 110,000           |
| Unsecured private bonds       |                  | 2021     | 4.22                     | 190,000           | 190,000           |
| Unsecured private bonds       | Operating and    | 2019     | 3.24                     | 170,000           | 170,000           |
| Unsecured private bonds       | refinancing fund | 2022     | 3.30                     | 140,000           | 140,000           |
| Unsecured private bonds       |                  | 2032     | 3.45                     | 90,000            | 90,000            |
| Unsecured private bonds       | Operating fund   | 2023     | 3.03                     | 230,000           | 230,000           |
| Unsecured private bonds       |                  | 2033     | 3.22                     | 130,000           | 130,000           |
| Unsecured private bonds       |                  | 2019     | 3.30                     | 50,000            | 50,000            |
| Unsecured private bonds       |                  | 2024     | 3.64                     | 150,000           | 150,000           |
| Unsecured private bonds(*5,6) |                  | 2029     | 4.73                     |                   | 55,188            |
| Unsecured private bonds(*5)   |                  | 2029     | 4.72                     | 54,695            | 55,177            |
| Unsecured private bonds       | Refinancing fund | 2019     | 2.53                     | 160,000           | 160,000           |
| Unsecured private bonds       |                  | 2021     | 2.66                     | 150,000           | 150,000           |
| Unsecured private bonds       |                  | 2024     | 2.82                     | 190,000           | 190,000           |
| Unsecured private bonds       | Operating and    | 2022     | 2.40                     | 100,000           |                   |
| Unsecured private bonds       | refinancing fund | 2025     | 2.49                     | 150,000           |                   |
| Unsecured private bonds       |                  | 2030     | 2.61                     | 50,000            |                   |
| Unsecured private bonds       | Operating fund   | 2018     | 1.89                     | 90,000            |                   |
| Unsecured private bonds       |                  | 2025     | 2.66                     | 70,000            |                   |
| Unsecured private bonds       |                  | 2030     | 2.82                     | 90,000            |                   |
| Unsecured private bonds(*5)   |                  | 2030     | 3.40                     | 50,485            |                   |
| Unsecured private bonds       | Operating and    | 2018     | 2.07                     | 80,000            |                   |
| Unsecured private bonds       | refinancing fund | 2025     | 2.55                     | 100,000           |                   |
| Unsecured private bonds       |                  | 2035     | 2.75                     | 70,000            |                   |
| Unsecured private bonds(*5)   |                  | 2030     | 3.10                     | 50,524            |                   |
| Unsecured private bonds(*1)   | Operating fund   | 2015     | 4.62                     |                   | 10,000            |
| Unsecured private bonds(*2)   |                  | 2015     | 4.09                     |                   | 110,000           |
| Unsecured private bonds(*2)   |                  | 2015     | 4.14                     |                   | 110,000           |
| Unsecured private bonds(*2)   |                  | 2017     | 4.28                     | 100,000           | 100,000           |
| Unsecured private bonds(*2)   |                  | 2015     | 3.14                     |                   | 130,000           |
| Unsecured private bonds(*2)   |                  | 2017     | 3.27                     | 120,000           | 120,000           |
| Unsecured private bonds(*2)   |                  | 2016     | 3.05                     | 80,000            | 80,000            |
| Unsecured private bonds(*2)   |                  | 2019     | 3.49                     | 210,000           | 210,000           |
| Unsecured private bonds(*2)   |                  | 2019     | 2.76                     | 130,000           | 130,000           |
| Unsecured private bonds(*2)   |                  | 2018     | 2.23                     | 50,000            |                   |
| Unsecured private bonds(*2)   |                  | 2020     | 2.49                     | 160,000           |                   |
| Unsecured private bonds(*2)   |                  | 2020     | 2.43                     | 140,000           |                   |
| Unsecured private bonds(*2)   |                  | 2020     | 2.18                     | 130,000           |                   |

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|                               |      |      |               |               |
|-------------------------------|------|------|---------------|---------------|
| Unsecured private bonds(*3)   | 2015 | 3.12 |               | 10,000        |
| Unsecured private bonds(*3)   | 2016 | 3.24 | 10,000        | 10,000        |
| Unsecured private bonds(*3)   | 2017 | 3.48 | 20,000        | 20,000        |
| Foreign global bonds          | 2027 | 6.63 | 468,800       | 439,680       |
|                               |      |      | (USD 400,000) | (USD 400,000) |
| Swiss unsecured private bonds | 2017 | 1.75 | 355,617       | 333,429       |
|                               |      |      | (CHF 300,000) | (CHF 300,000) |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(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, 2015</b> | <b>December 31, 2014</b> |
|-------------------------------|----------------|-----------------|---------------------------------|--------------------------|--------------------------|
| Foreign global bonds          | Operating fund | 2018            | 2.13                            | 820,400<br>(USD 700,000) | 769,440<br>(USD 700,000) |
| Australia unsecured private   |                | 2017            | 4.75                            | 255,930<br>(AUD 300,000) | 269,727<br>(AUD 300,000) |
| Floating rate notes(*4)       |                | 2020            | 3M Libor + 0.88                 | 351,600<br>(USD 300,000) | 329,760<br>(USD 300,000) |
| Foreign global bonds(*2)      |                | 2018            | 2.88                            | 351,600<br>(USD 300,000) | 329,760<br>(USD 300,000) |
| <b>Sub-total</b>              |                |                 |                                 | <b>7,139,651</b>         | <b>6,252,161</b>         |
| Less discounts on bonds       |                |                 |                                 | (30,998)                 | (33,531)                 |
|                               |                |                 |                                 | <b>7,108,653</b>         | <b>6,218,630</b>         |
| Less current portion of bonds |                |                 |                                 | (669,506)                | (569,472)                |
|                               |                |                 |                                 | <b>6,439,147</b>         | <b>5,649,158</b>         |

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

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

(\*3) Unsecured private bonds were issued by PS&Marketing Corporation, a subsidiary of the Parent Company.

(\*4) As of December 31, 2015, 3M Libor rate is 0.61%.

(\*5) The Group settled the difference of the measurement bases of accounting profit or loss between the bonds and related derivatives by designating the structured bonds as financial liabilities at fair value through profit or loss.

The difference between the carrying amount of the designated financial liabilities at fair value through profit or loss and the amount required to pay at maturity is 5,704 million as of December 31, 2015.

(\*6) As of December 31, 2014, the principal amount and the fair value of the structured bonds were 50,000 million and 55,188 million, respectively. The entire bonds were early redeemed during the year ended December 31, 2015.



(\*7) Convenient translation was provided for the bonds repayable in other currencies.

**19. Long-term Payables Other**

(1) Long-term payables other as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|  | <b>December 31, 2015</b> | <b>December 31, 2014</b> |
|--|--------------------------|--------------------------|
| Payables related to acquisition of W-CDMA licenses | 550,964                  | 657,001                  |
| Other(*)   | 30,733                   | 27,566                   |
|  | <b>581,697</b>           | <b>684,567</b>           |

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

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

- (2) As of December 31, 2015 and 2014, long-term payables other consist of payables related to the acquisition of W-CDMA licenses for 800MHz, 2.3GHz and 1.8GHz frequencies as follows:

(In millions of won)

|  | Period of<br>repayment | Coupon rate | Annual effective<br>interest rate(*) | December<br>31, 2015 | December 31,<br>2014 |
|--|------------------------|-------------|--------------------------------------|----------------------|----------------------|
| 800MHz   | 2013~2015              | 3.51%       | 5.69%                                |                      | 69,416               |
| 2.3GHz   | 2014~2016              | 3.00%       | 5.80%                                | 2,882                | 5,766                |
| 1.8GHz   | 2012~2021              | 2.43~3.00%  | 4.84~5.25%                           | 707,006              | 824,841              |
|  |                        |             |                                      | 709,888              | 900,023              |
| Present value discount on long-term payables other |                        |             |                                      | (38,739)             | (53,633)             |
|  |                        |             |                                      | 671,149              | 846,390              |
| Current portion of long-term payables other        |                        |             |                                      | (120,185)            | (189,389)            |
| Carrying amount at December 31                     |                        |             |                                      | 550,964              | 657,001              |

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

- (3) The repayment schedule of long-term payables other related to acquisition of W-CDMA licenses as of December 31, 2015 is as follows:

(In millions of won)

|                   | Amount  |
|-------------------|---------|
| Less than 1 year  | 120,718 |
| 1~3 years         | 235,669 |
| 3~5 years         | 235,669 |
| More than 5 years | 117,832 |
|                   | 709,888 |

**20. Provisions**

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(1) Changes in provisions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

|                                   | For the year ended December 31, 2015 |          |             |          |       |                               | As of December 31, 2015 |         |             |
|-----------------------------------|--------------------------------------|----------|-------------|----------|-------|-------------------------------|-------------------------|---------|-------------|
|                                   | Beginning balance                    | Increase | Utilization | Reversal | Other | Change of consolidation scope | Ending balance          | Current | Non-current |
| Provision for handset subsidy(*1) | 26,799                               | 1,641    | (5,004)     | (17,766) |       |                               | 5,670                   | 2,232   | 3,438       |
| Provision for restoration(*2)     | 59,727                               | 4,983    | (1,135)     | (5,433)  | 1,812 |                               | 59,954                  | 34,336  | 25,618      |
| Emission allowance(*3)            |                                      | 1,477    |             |          |       |                               | 1,477                   | 1,477   |             |
| Other provisions                  | 562                                  | 3,795    | (510)       | (472)    |       | (271)                         | 3,104                   | 2,943   | 161         |
|                                   | 87,088                               | 11,896   | (6,649)     | (23,671) | 1,812 | (271)                         | 70,205                  | 40,988  | 29,217      |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|                                   | For the year ended December 31, 2014 |          |             |          |       | As of December 31, 2014 |         |             |
|-----------------------------------|--------------------------------------|----------|-------------|----------|-------|-------------------------|---------|-------------|
|                                   | Beginning balance                    | Increase | Utilization | Reversal | Other | Ending balance          | Current | Non-current |
| Provision for handset subsidy(*1) | 53,923                               | 41,802   | (68,926)    |          |       | 26,799                  | 14,844  | 11,955      |
| Provision for restoration(*2)     | 40,507                               | 20,098   | (702)       | (34)     | (142) | 59,727                  | 35,865  | 23,862      |
| Other provisions                  | 451                                  | 155      | (225)       |          | 181   | 562                     | 366     | 196         |
|                                   | 94,881                               | 62,055   | (69,853)    | (34)     | 39    | 87,088                  | 51,075  | 36,013      |

(\*1) The Group recognizes a provision for handset subsidies given to the subscribers who purchase handsets on an installment basis. During the years ended December 31, 2015 and 2014, the Group's provision for handset subsidies significantly decreased as it gradually ceased providing handset subsidies to subscribers.

The amount recognized as a provision for handset subsidies is the Group's best estimate of the expenditure required to settle the current obligations to the relevant subscribers at the end of the reporting period, which is calculated as the sum of the present values of the monthly balances for handset subsidies over the relevant service periods, taking into account the customer retention rate for the relevant subscribers. The discount rate used in calculating the present values is based on AAA-rated corporate bonds with a two-year maturity. The customer retention rate is based on the Group's historical retention rate.

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

(\*3) The Group recognizes estimated future payment for the number of emission certificates required to settle the Group's obligation exceeding the actual number of certificates on hand as emission allowances according to the Act on Allocation and Trading of Greenhouse Gas Emission Permits.

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

**Key assumptions**

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Provision for handset subsidy  
Provision for restoration

estimation based on historical service retention period data  
estimation based on inflation assuming demolition of the relevant assets after six years

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****21. Lease****(1) Finance Leases**

The Group has leased telecommunication equipment under finance lease agreements with Cisco Systems Capital Korea Ltd. Finance lease liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|  | December 31,<br>2015 | December 31,<br>2014 |
|--|----------------------|----------------------|
| <b>Finance Lease Liabilities</b>                       |                      |                      |
| Current portion of long-term finance lease liabilities | 26                   | 3,804                |
| Long-term finance lease liabilities                    |                      | 26                   |
|  | 26                   | 3,830                |

The Group's related interest and principal as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|  | December 31,<br>2015        |                  | December 31, 2014           |                  |
|--|-----------------------------|------------------|-----------------------------|------------------|
|  | Minimum<br>lease<br>payment | Present<br>value | Minimum<br>lease<br>payment | Present<br>value |
| Less than 1 year                                       | 26                          | 26               | 3,909                       | 3,804            |
| 1~5 years  |                             |                  | 26                          | 26               |
| <b>Sub-total</b>                                       | <b>26</b>                   | <b>26</b>        | <b>3,935</b>                | <b>3,830</b>     |
| Current portion of long-term finance lease liabilities |                             | (26)             |                             | (3,804)          |
| Long-term finance lease liabilities                    |                             |                  |                             | 26               |

**(2) Operating Leases**

The Group entered into operating leases and sublease agreements in relation to rented office space and the expected future lease payments and lease revenues as of December 31, 2015 and 2014 (included in other non-operating income in the accompanying consolidated statements of income) are as follows:

(In millions of won)

2015

2014

|                   | Lease<br>payments | Lease<br>revenues | Lease<br>payments | Lease<br>revenues |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| Less than 1 year  | 32,416            | 1,876             | 29,233            | 3,496             |
| 1~5 years         | 75,568            | 1,026             | 76,306            | 1,390             |
| More than 5 years | 33,602            | 577               | 49,582            | 1,043             |
|                   | 141,586           | 3,479             | 155,121           | 5,929             |

**(3) Sale and Leaseback Transaction**

During the year ended December 31, 2012, the Group disposed a portion of its property and equipment and investment property, and entered into lease agreements with respect to those assets. This sale and leaseback transaction is considered as an operating lease. The Group recognized 14,539 million and 14,075 million of lease payments in relation to the operating lease agreement for the years ended December 31, 2015 and 2014, respectively, and 2,393 million and 2,469 million of lease revenues in relation to the sublease agreement for the years ended December 31, 2015 and 2014, respectively. Expected future lease payments and lease revenues are included in Note 21-(2).

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****22. Defined Benefit Liabilities**

(1) Details of defined benefit liabilities as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|  | December 31, 2015 | December 31, 2014 |
|--|-------------------|-------------------|
| Present value of defined benefit obligations | 525,269           | 437,844           |
| Fair value of plan assets                    | (426,413)         | (346,257)         |
|  | 98,856            | 91,587            |

(2) Principal actuarial assumptions as of December 31, 2015 and 2014 are as follows:

|   | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|
| Discount rate for defined benefit obligations | 1.90%~2.93%       | 2.23%~3.70%       |
| Expected rate of salary increase              | 2.51%~7.04%       | 2.51%~7.39%       |

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

(3) Changes in defined benefit obligations for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|                                  | 2015     | 2014     |
|----------------------------------|----------|----------|
| Beginning balance                | 437,844  | 312,494  |
| Current service cost             | 106,764  | 109,625  |
| Interest cost                    | 12,292   | 12,630   |
| Remeasurement                    |          |          |
| - Demographic assumption         | 732      | 2,859    |
| - Financial assumption           | 5,900    | 28,287   |
| - Adjustment based on experience | 15,100   | 9,932    |
| Benefit paid                     | (58,513) | (46,531) |
| Others(*)                        | 5,150    | 8,548    |
| Ending balance                   | 525,269  | 437,844  |



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(\*) Others for the year ended December 31, 2015 include liabilities of 3,470 million succeeded due to transfer of employees from associates and transfer to construction in progress, etc. Others for the year ended December 31, 2014 include the effect of changes in the consolidation scope of 2,939 million, liabilities of 4,433 million succeeded due to transfer of employees from associates, and transfer to construction in progress, etc.

(4) Changes in plan assets for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
| Beginning balance                                 | 346,257     | 238,293     |
| Interest income                                   | 9,035       | 9,538       |
| Actuarial gain                                    | 3,146       | 50          |
| Contributions by employer directly to plan assets | 115,640     | 117,558     |
| Benefits paid                                     | (47,809)    | (20,711)    |
| Others(*)   | 144         | 1,529       |
| Ending balance                                    | 426,413     | 346,257     |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(\*) Others for the year ended December 31, 2014 include the effect of changes in the consolidation scope of 1,221 million. The Group expects to make a contribution of 82,220 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, 2015, 2014 and 2013 are as follows:

*(In millions of won)*

|                      | <b>2015</b> | <b>2014</b> | <b>2013</b> |
|----------------------|-------------|-------------|-------------|
| Current service cost | 106,764     | 109,625     | 89,802      |
| Net interest cost    | 3,257       | 3,092       | 3,038       |
|                      | 110,021     | 112,717     | 92,840      |

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, 2015 and 2014 are as follows:

*(In millions of won)*

|  | <b>December 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|------------------------------|------------------------------|
| Equity instruments                     | 1,086                        | 1,746                        |
| Debt instruments                       | 81,867                       | 70,778                       |
| Short-term financial instruments, etc. | 343,460                      | 273,733                      |
|  | 426,413                      | 346,257                      |

Actual return on plan assets for the years ended December 31, 2015 and 2014 amounted to 12,181 million and 9,588 million, respectively.

(7) As of December 31, 2015, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

*(In millions of won)*

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|  | Increase | Decrease |
|--|----------|----------|
| Discount rate (if changed by 0.5%)                 | (20,669) | 22,690   |
| Expected salary increase rate (if changed by 0.5%) | 22,604   | (20,851) |

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

Weighted average durations of defined benefit obligations as of December 31, 2015 and 2014 are 9.35 years and 9.10 years, respectively.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****23. Derivative Instruments**

(1) Currency swap contracts under cash flow hedge accounting as of December 31, 2015 are as follows:

*(In thousands of foreign currencies)*

| <b>Borrowing date</b> | <b>Hedged item</b>  | <b>Hedged risk</b>                               | <b>Contract type</b>        | <b>Financial institution</b>                | <b>Duration of contract</b>   |
|-----------------------|---|--|-----------------------------|---|-------------------------------|
| Jul. 20, 2007         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)                  | Foreign currency risk                            | Currency swap               | Morgan Stanley and five other banks         | Jul. 20, 2007 ~ Jul. 20, 2027 |
| Jun. 12, 2012         | Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds face value of CHF 300,000)                  | Foreign currency risk                            | Currency swap               | Citibank and four other banks               | Jun. 12, 2012 ~ Jun. 12, 2017 |
| Nov. 1, 2012          | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)                  | Foreign currency risk                            | Currency swap               | Barclays and eight other banks              | Nov. 1, 2012 ~ May. 1, 2018   |
| Jan. 17, 2013         | Fixed-to-fixed cross currency swap (Australia dollar denominated bonds face value of AUD 300,000)             | Foreign currency risk                            | Currency swap               | BNP Paribas and three other banks           | Jan. 17, 2013 ~ Nov. 17, 2017 |
| Mar. 7, 2013          | Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000) | Foreign currency risk and the interest rate risk | Currency interest rate swap | DBS bank                                    | Mar. 7, 2013 ~ Mar. 7, 2020   |
| Oct. 29, 2013         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)                  | Foreign currency risk                            | Currency swap               | Korea Development Bank and four other banks | Oct. 29, 2013 ~ Oct. 26, 2018 |
| Dec. 16, 2013         | Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 74,817)                   | Foreign currency risk                            | Currency swap               | Deutsche bank                               | Dec. 16, 2013 ~ Apr. 29, 2022 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(2) As of December 31, 2015, fair values of the above derivatives recorded in assets or liabilities and details of derivative instruments are as follows:

(In millions of won and thousands of foreign currencies)

| Hedged item   | Accumulated gain (loss) on valuation of derivatives | Fair value      |            |  | Held for trading purpose | Total    |
|---|---|-----------------|------------|--|--------------------------|----------|
|   |   | Cash flow hedge | Others (*) | Accumulated foreign currency translation (gain) loss |                          |          |
| <b>Non-current assets:</b>  |   |                 |            |  |                          |          |
| Structured bond (face value of KRW 150,000)   |   |                 |            |  | 6,277                    | 6,277    |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 400,000)                  | (46,616)  | (14,883)        | 11,180     | 129,806  |                          | 79,487   |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 700,000)                  | (18,705)  | (5,971)         | 56,738     |  |                          | 32,062   |
| Floating-to-fixed cross currency interest rate swap (U.S. dollar denominated bonds face value of USD 300,000) | (5,748)   | (1,835)         | 26,439     |  |                          | 18,856   |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of USD 300,000)                  | (6,394)   |                 | 32,870     |  |                          | 26,476   |
| Fixed-to-fixed long-term borrowings (U.S. dollar denominated bonds face value of USD 74,817)                  | (4,072)   | (1,300)         | 8,613      |  |                          | 3,241    |
| <b>Total assets</b>   |   |                 |            |  |                          | 166,399  |
| <b>Non-current liabilities:</b>   |   |                 |            |  |                          |          |
| Fixed-to-fixed cross currency swap (Swiss Franc denominated bonds face value of CHF 300,000)                  | (3,678)   | (1,174)         | (7,851)    |  |                          | (12,703) |
| Fixed-to-fixed cross currency swap (U.S. dollar denominated bonds face value of AUD 300,000)                  | 2,013   | 642             | (79,248)   |  |                          | (76,593) |
| <b>Total liabilities</b>  |   |                 |            |  |                          | (89,296) |

(\*) Cash flow hedge accounting has been applied to the relevant contracts from May 12, 2010. Others represent gain on valuation of currency swap incurred prior to the application of hedge accounting and was recognized through profit or loss prior to the year ended December 31, 2013.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****24. Share Capital and Capital Surplus (Deficit) and Other Capital Adjustments**

The Parent Company's outstanding share capital consists entirely of common stock with a par value of 500. The number of authorized, issued and outstanding common shares and capital surplus and other capital adjustments as of December 31, 2015 and 2014 are as follows:

(In millions of won, except for share data)

|  | December 31, 2015 | December 31, 2014 |
|--|-------------------|-------------------|
| Authorized shares                              | 220,000,000       | 220,000,000       |
| Issued shares(*1)                              | 80,745,711        | 80,745,711        |
| Share capital                                  |                   |                   |
| Common stock                                   | 44,639            | 44,639            |
| Capital surplus and other capital adjustments: |                   |                   |
| Paid-in surplus                                | 2,915,887         | 2,915,887         |
| Treasury stock (Note 25)                       | (2,260,626)       | (2,139,683)       |
| Loss on disposal of treasury stock             |                   | (18,087)          |
| Others(*2)                                     | (864,269)         | (878,637)         |
|  | (209,008)         | (120,520)         |

(\*1) During 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 Act. As a result, the Parent Company's outstanding shares have decreased without change in the share capital.

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

There were no changes in share capital for the years ended December 31, 2015 and 2014. Changes in number of shares outstanding for the years ended December 31, 2015 and 2014 as follows:

(In shares)

|                               | 2015             |                   |                       | 2014             |                   |                       |
|-------------------------------|------------------|-------------------|-----------------------|------------------|-------------------|-----------------------|
|                               | Issued<br>shares | Treasury<br>stock | Outstanding<br>shares | Issued<br>shares | Treasury<br>stock | Outstanding<br>shares |
| Beginning issued shares       | 80,745,711       | 9,809,375         | 70,936,336            | 80,745,711       | 9,809,375         | 70,936,336            |
| Disposal of treasury stock    |                  | (1,692,824)       | 1,692,824             |                  |                   |                       |
| Acquisition of treasury stock |                  | 2,020,000         | (2,020,000)           |                  |                   |                       |
| Ending issued shares          | 80,745,711       | 10,136,551        | 70,609,160            | 80,745,711       | 9,809,375         | 70,936,336            |

**25. Treasury Stock**

The Parent Company acquired treasury stock to provide stock dividends, merge with Shinsegi Telecom, Inc. and SK IMT Co, Ltd., increase shareholder value and to stabilize its stock prices when needed.

Treasury stock as of December 31, 2015 and 2014 are as follows:

*(In millions of won, shares)*

|                  | <b>December 31, 2015</b> | <b>December 31, 2014</b> |
|------------------|--------------------------|--------------------------|
| Number of shares | 10,136,551               | 9,809,375                |
| Amount           | 2,260,626                | 2,139,683                |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

On June 9, 2015, the Parent Company granted 1,692,824 shares of its treasury stock (acquisition cost: 369,249 million) in order to acquire shares of SK Broadband Co., Ltd. In addition, from September 30, 2015 to December 11, 2015, the Parent Company newly acquired 2,020,000 shares of its treasury stock amounting to 490,192 million in order to stabilize stock price.

**26. Hybrid Bonds**

Hybrid bonds classified as equity as of December 31, 2015 are as follows:

*(In millions of won)*

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

Hybrid bonds issued by the Parent Company is classified as equity as there is no contractual obligation for delivery of financial assets to the bond holders. These are subordinated bonds which rank before common shareholders in the event of a liquidation or reorganization of the Parent Company.

(\*1) The Parent Company has a right to extend the maturity under the same issuance terms without any notice or announcement. The Parent Company also has the right to defer interest payment at its sole discretion.

(\*2) Annual interest rate is adjusted after five years from the issuance date.

**27. Retained Earnings**

(1) Retained earnings as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

**December 31, 2015**

**December 31, 2014**



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|   |            |            |
|---|------------|------------|
| Appropriated:                               |            |            |
| Legal reserve                               | 22,320     | 22,320     |
| Reserve for research & manpower development | 87,301     | 151,533    |
| Reserve for business expansion              | 9,671,138  | 9,476,138  |
| Reserve for technology development          | 2,616,300  | 2,416,300  |
|   | 12,397,059 | 12,066,291 |
| Unappropriated                              | 2,610,568  | 2,122,300  |
|   | 15,007,627 | 14,188,591 |

(2) Legal reserve

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

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

## (3) Reserve for research &amp; 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.

**28. Reserves**

(1) Details of reserves, net of taxes, as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|   | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|
| Unrealized fair value of available-for-sale financial assets    | 232,316           | 235,385           |
| Other comprehensive loss of investments in associates           | (169,520)         | (163,808)         |
| Unrealized fair value of derivatives                            | (83,200)          | (77,531)          |
| Foreign currency translation differences for foreign operations | 29,707            | 1,465             |
|   | 9,303             | (4,489)           |

(2) Changes in reserves for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

|                              | 2015   |   |                                      |   | Total   |
|------------------------------|--|---|--------------------------------------|---|---------|
|                              | Unrealized fair value of available-for-sale financial assets | Other comprehensive loss of investments in associates | Unrealized fair value of derivatives | Foreign currency translation differences for foreign operations |         |
| Balance at January 1, 2015   | 235,385  | (163,808)   | (77,531)                             | 1,465   | (4,489) |
| Changes                      | (5,530)  | (5,649)   | (5,221)                              | 28,242  | 11,842  |
| Tax effect                   | 2,461  | (63)  | (448)                                |   | 1,950   |
| Balance at December 31, 2015 | 232,316  | (169,520)   | (83,200)                             | 29,707  | 9,303   |

(In millions of won)

|  | 2014                     |                          |                          | Total |
|--|--------------------------|--------------------------|--------------------------|-------|
|  | Unrealized fair value of | Other comprehensive loss | Unrealized fair value of |       |

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|                              | available-for-<br>sale<br>financial<br>assets | of investments in<br>associates | derivatives | differences for<br>foreign<br>operations |          |
|------------------------------|---|---------------------------------|-------------|--|----------|
| Balance at January 1, 2014   | 208,529                                       | (172,117)                       | (35,429)    | (13,253)                                 | (12,270) |
| Changes                      | 30,945  | 8,381                           | (54,290)    | 14,718                                   | (246)    |
| Tax effect                   | (4,089)                                       | (72)                            | 12,188      |  | 8,027    |
| Balance at December 31, 2014 | 235,385                                       | (163,808)                       | (77,531)    | 1,465                                    | (4,489)  |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

- (3) Details of changes in unrealized fair value of available-for-sale financial assets for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|   | <b>2015</b>             |                          |                    |
|---|-------------------------|--------------------------|--------------------|
|   | <b>Before<br/>taxes</b> | <b>Income tax effect</b> | <b>After taxes</b> |
| Balance at January 1, 2015                                    | 306,608                 | (71,223)                 | 235,385            |
| Amount recognized as other comprehensive loss during the year | (3,902)                 | 2,067                    | (1,835)            |
| Amount reclassified to profit or loss                         | (1,628)                 | 394                      | (1,234)            |
| Balance at December 31, 2015                                  | 301,078                 | (68,762)                 | 232,316            |

*(In millions of won)*

|   | <b>2014</b>             |                          |                    |
|---|-------------------------|--------------------------|--------------------|
|   | <b>Before<br/>taxes</b> | <b>Income tax effect</b> | <b>After taxes</b> |
| Balance at January 1, 2014                                      | 275,663                 | (67,134)                 | 208,529            |
| Amount recognized as other comprehensive income during the year | 40,785                  | (6,470)                  | 34,315             |
| Amount reclassified to profit or loss                           | (9,840)                 | 2,381                    | (7,459)            |
| Balance at December 31, 2014                                    | 306,608                 | (71,223)                 | 235,385            |

- (4) Details of changes in unrealized fair value of derivatives for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

|   | <b>2015</b>             |                          |                    |
|---|-------------------------|--------------------------|--------------------|
|   | <b>Before<br/>taxes</b> | <b>Income tax effect</b> | <b>After taxes</b> |
| Balance at January 1, 2015                                    | (102,501)               | 24,970                   | (77,531)           |
| Amount recognized as other comprehensive loss during the year | (4,714)                 | (570)                    | (5,284)            |
| Amount reclassified to profit or loss                         | (507)                   | 122                      | (385)              |
| Balance at December 31, 2015                                  | (107,722)               | 24,522                   | (83,200)           |

*(In millions of won)*

|  | <b>2014</b>             |                          |                    |
|--|-------------------------|--------------------------|--------------------|
|  | <b>Before<br/>taxes</b> | <b>Income tax effect</b> | <b>After taxes</b> |

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|   |           |        |          |
|---|-----------|--------|----------|
| Balance at January 1, 2014                                    | (48,211)  | 12,782 | (35,429) |
| Amount recognized as other comprehensive loss during the year | (46,535)  | 10,311 | (36,224) |
| Amount reclassified to profit or loss                         | (7,755)   | 1,877  | (5,878)  |
| Balance at December 31, 2014                                  | (102,501) | 24,970 | (77,531) |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****29. Other Operating Income and Expenses**

Details of other operating income and expenses for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In millions of won)

|  | 2015      | 2014      | 2013      |
|--|-----------|-----------|-----------|
| <b>Other Operating Income:</b>                                   |           |           |           |
| Reversal of allowance for doubtful accounts                      |           |           | 359       |
| Gain on disposal of property and equipment and intangible assets | 7,140     | 8,792     | 7,991     |
| Others(*1)   | 23,795    | 47,679    | 66,604    |
|  | 30,935    | 56,471    | 74,954    |
| <b>Other Operating Expenses:</b>                                 |           |           |           |
| Communication expenses   | 43,979    | 58,622    | 62,193    |
| Utilities  | 270,621   | 247,919   | 227,593   |
| Taxes and dues   | 36,118    | 33,500    | 29,873    |
| Repair   | 312,517   | 260,533   | 252,344   |
| Research and development   | 315,790   | 390,943   | 352,385   |
| Training   | 37,278    | 42,781    | 40,446    |
| Bad debt for accounts receivables trade                          | 60,450    | 45,754    | 53,344    |
| Travel   | 27,860    | 28,912    | 31,762    |
| Supplies and other   | 176,248   | 209,933   | 189,224   |
| Loss on disposal of property and equipment and intangible assets | 21,392    | 32,950    | 267,468   |
| Impairment loss on other investment securities                   | 42,966    | 22,749    | 6,137     |
| Impairment loss on property and equipment and intangible assets  | 35,845    | 47,489    | 13,770    |
| Donations  | 72,454    | 67,823    | 82,057    |
| Bad debt for accounts receivable other                           | 15,323    | 17,943    | 22,155    |
| Others(*2)   | 55,536    | 84,796    | 115,532   |
|  | 1,524,377 | 1,592,647 | 1,746,283 |

(\*1) Others for the year ended December 31, 2015, 2014 and 2013, primarily consist of 2.1 billion, 8.1 billion and 10.3 billion of VAT refund, respectively.

(\*2) Others for the years ended December 31, 2015, 2014 and 2013 primarily consist of 29.5 billion, 54.7 billion, and 96.5 billion of penalties.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****30. Finance Income and Costs**

(1) Details of finance income and costs for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In millions of won)

|   | 2015    | 2014    | 2013    |
|---|---------|---------|---------|
| <b>Finance Income:</b>  |         |         |         |
| Interest income   | 45,884  | 60,006  | 65,560  |
| Dividends   | 16,102  | 13,048  | 10,197  |
| Gain on foreign currency transactions   | 18,923  | 16,301  | 11,041  |
| Gain on foreign currency translations   | 5,090   | 6,277   | 4,401   |
| Gain on disposal of long-term investment securities                           | 10,786  | 13,994  | 9,300   |
| Gain on valuation of derivatives  | 1,927   | 8,713   |         |
| Gain on settlement of derivatives   |         | 7,998   | 7,716   |
| Gain relating to financial asset at fair value through profit or loss         |         |         | 5,177   |
| Gain relating to financial liability at fair value through profit or loss     | 5,188   |         |         |
|   | 103,900 | 126,337 | 113,392 |
| <b>Finance Costs:</b>   |         |         |         |
| Interest expense  | 297,662 | 323,910 | 331,834 |
| Loss on foreign currency transactions   | 17,931  | 18,053  | 16,430  |
| Loss on foreign currency translations   | 4,750   | 5,079   | 2,634   |
| Loss on disposal of long-term investment securities                           | 2,599   | 2,694   | 31,909  |
| Loss on valuation of derivatives  |         | 10      | 2,106   |
| Loss on settlement of derivatives   | 4,845   | 672     |         |
| Loss relating to financial asset at fair value through profit or loss         |         | 1,352   |         |
| Loss relating to financial liability at fair value through profit or loss(*1) | 526     | 10,370  | 134,232 |
| Other finance costs(*2)   | 21,787  | 24,533  | 52,058  |
|   | 350,100 | 386,673 | 571,203 |

(\*1) Loss relating to financial liability at fair value through profit or loss for the year ended December 31, 2013 represents 1) valuation loss related to exchangeable bond (issue price of USD 326,397,463) as a result of increase in stock price of the Parent Company and increase in foreign exchange rate, and 2) loss on repayment of debentures upon the claim for exchange.

(\*2) See Note 30-(5)

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(2) Details of interest income included in finance income for the years ended December 31, 2015, 2014 and 2013 are as follows:

*(In millions of won)*

|   | <b>2015</b> | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|-------------|
| Interest income on cash equivalents and deposits      | 20,009      | 33,417      | 41,907      |
| Interest income on installment receivables and others | 25,875      | 26,589      | 23,653      |
|   | 45,884      | 60,006      | 65,560      |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(3) Details of interest expense included in finance costs for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In millions of won)

|  | 2015    | 2014    | 2013    |
|--|---------|---------|---------|
| Interest expense on bank overdrafts and borrowings | 19,577  | 26,360  | 28,600  |
| Interest expense on debentures                     | 238,450 | 247,972 | 258,962 |
| Interest on finance lease liabilities              | 58      | 504     | 1,333   |
| Others   | 39,577  | 49,074  | 42,939  |
|  | 297,662 | 323,910 | 331,834 |

(4) Finance income and costs by categories of financial instruments for the years ended December 31, 2015, 2014 and 2013 are as follows. Bad debt expenses (reversal of allowance for doubtful accounts) for accounts receivable trade, loans and receivables are excluded and are explained in Note 7 :

**(i) Finance income**

(In millions of won)

|  | 2015    | 2014    | 2013    |
|--|---------|---------|---------|
| <b>Financial Assets:</b>                                   |         |         |         |
| Financial assets at fair value through profit or loss      | 1,927   | 8,713   | 5,177   |
| Available-for-sale financial assets                        | 31,220  | 32,227  | 23,311  |
| Loans and receivables                                      | 64,749  | 57,685  | 62,211  |
| Derivative financial instruments designated as hedged item |         | 7,998   | 7,716   |
|  | 97,896  | 106,623 | 98,415  |
| <b>Financial Liabilities:</b>                              |         |         |         |
| Financial liabilities at fair value through profit or loss | 5,188   |         |         |
| Financial liabilities measured at amortized cost           | 816     | 19,714  | 14,977  |
|  | 6,004   | 19,714  | 14,977  |
|  | 103,900 | 126,337 | 113,392 |

**(ii) Finance costs**

(In millions of won)

|                          | 2015 | 2014 | 2013 |
|--------------------------|------|------|------|
| <b>Financial Assets:</b> |      |      |      |

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|  |         |         |         |
|--|---------|---------|---------|
| Financial assets at fair value through profit or loss      | 4,188   | 1,361   | 276     |
| Available-for-sale financial assets                        | 24,386  | 27,227  | 83,967  |
| Loans and receivables                                      | 15,861  | 18,182  | 16,479  |
| Derivative financial instruments designated as hedged item | 657     | 672     | 1,830   |
|  | 45,092  | 47,442  | 102,552 |
| <b>Financial Liabilities:</b>                              |         |         |         |
| Financial liabilities at fair value through profit or loss | 526     | 10,370  | 134,232 |
| Financial liabilities measured at amortized cost           | 304,482 | 328,861 | 334,419 |
|  | 305,008 | 339,231 | 468,651 |
|  | 350,100 | 386,673 | 571,203 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****(iii) Other comprehensive income***(In millions of won)*

|  | 2015    | 2014     | 2013    |
|--|---------|----------|---------|
| <b>Financial Assets:</b>                                   |         |          |         |
| Available-for-sale financial assets                        | (3,661) | 26,856   | 2,009   |
| Derivative financial instruments designated as hedged item | (3,248) | (20,301) | 12,240  |
|  | (6,909) | 6,555    | 14,249  |
| <b>Financial Liabilities:</b>                              |         |          |         |
| Derivative financial instruments designated as hedged item | 1,977   | (21,801) | (1,018) |
|  | 1,977   | (21,801) | (1,018) |
|  | (4,932) | (15,246) | 13,231  |

(5) Details of impairment losses for financial assets for the years ended December 31, 2015, 2014 and 2013 are as follows :

*(In millions of won)*

|  | 2015   | 2014   | 2013    |
|--|--------|--------|---------|
| Available-for-sale financial assets(*) | 21,787 | 24,533 | 52,058  |
| Bad debt for accounts receivable trade | 60,450 | 45,754 | 53,344  |
| Bad debt for accounts receivable other | 15,323 | 17,943 | 22,167  |
|  | 97,560 | 88,230 | 127,569 |

(\*) This is included in other finance costs (See Note 30-(1)).

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

(1) Income tax expenses for continuing operations for the years ended December 31, 2015, 2014 and 2013 consist of the following:

*(In millions of won)*

| 2015 | 2014 | 2013 |
|------|------|------|
|------|------|------|

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|   |                |                |                |
|---|----------------|----------------|----------------|
| <b>Current tax expense</b>  |                |                |                |
| Current tax payable   | 417,022        | 181,273        | 145,457        |
| Adjustments recognized in the period for current tax of prior periods | (4,124)        | (19,938)       | (16,696)       |
|   | 412,898        | 161,335        | 128,761        |
| <b>Deferred tax expense</b>   |                |                |                |
| Changes in net deferred tax assets                                    | 102,305        | 276,049        | 266,601        |
| Tax directly charged to equity  | 4,669          | 16,929         | (3,584)        |
| Changes in scope of consolidation                                     | (575)          |                | 8,919          |
| Others (exchange rate differences, etc.)                              | 183            | 195            | 100            |
|   | 106,582        | 293,173        | 272,036        |
| <b>Income tax for continuing operation</b>                            | <b>519,480</b> | <b>454,508</b> | <b>400,797</b> |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

- (2) The difference between income taxes computed using the statutory corporate income tax rates and the actual income tax expense from continuing operations for the years ended December 31, 2015, 2014 and 2013 is attributable to the following:

*(In millions of won)*

|   | <b>2015</b> | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|-------------|
| Income taxes at statutory income tax rate                             | 492,096     | 544,964     | 441,697     |
| Non-taxable income  | (85,589)    | (32,277)    | (35,632)    |
| Non-deductible expenses   | 44,770      | 61,580      | 74,311      |
| Tax credit and tax reduction  | (25,756)    | (33,581)    | (37,893)    |
| Changes in unrealizable deferred taxes                                | 83,623      | (43,820)    | (13,285)    |
| Additional income tax payable (refund) for prior periods              | 8,131       | (44,459)    | (23,162)    |
| Deferred tax effect from statutory tax rate change for future periods | 2,205       | 2,101       | (5,239)     |
| Income tax for continuing operation                                   | 519,480     | 454,508     | 400,797     |

- (3) Deferred taxes directly charged to (credited to) equity for the years ended December 31, 2015, 2014 and 2013 are as follows:

*(In millions of won)*

|   | <b>2015</b> | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|-------------|
| Net change in fair value of available-for-sale financial assets | 2,461       | (4,089)     | (1,281)     |
| Share of other comprehensive income of associates               | (63)        | (72)        | 1,673       |
| Gain or loss on valuation of derivatives                        | (448)       | 12,188      | (3,265)     |
| Remeasurement of defined benefit liabilities                    | 2,719       | 8,902       | (466)       |
| Loss on disposal of treasury stock                              |             |             | (245)       |
|   | 4,669       | 16,929      | (3,584)     |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(4) Details of changes in deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

|  | Beginning | Changes in<br>scope of<br>consolidation | 2015<br>Deferred tax<br>expense<br>(income) | Directly added<br>to (deducted<br>from) equity | Other | Ending    |
|--|-----------|---|---|--|-------|-----------|
| Deferred tax assets (liabilities) related to temporary differences                               |           |   |   |  |       |           |
| Allowance for doubtful accounts  | 53,578    |   | 6,379                                       |  |       | 59,957    |
| Accrued interest income  | (2,450)   |   | (117)                                       |  |       | (2,567)   |
| Available-for-sale financial assets  | (4,824)   |   | 32,728                                      | 2,461  |       | 30,365    |
| Investments in subsidiaries and associates   | (211,043) |   | (144,167)                                   | (63)   |       | (355,273) |
| Property and equipment (depreciation)  | (372,332) |   | 44,760                                      |  |       | (327,572) |
| Provisions   | 7,587     |   | (5,102)                                     |  |       | 2,485     |
| Retirement benefit obligation  | 27,361    |   | (1,753)                                     | 2,719  |       | 28,327    |
| Gain or loss on valuation of derivatives   | 24,969    |   |   | (448)  |       | 24,521    |
| Gain or loss on foreign currency translation   | 19,324    |   | 193   |  |       | 19,517    |
| Tax free reserve for research and manpower development   | (7,162)   |   |   |  |       | (7,162)   |
| Goodwill relevant to leased line   | 4,433     |   | (720)                                       |  |       | 3,713     |
| Unearned revenue (activation fees)   | 25,977    |   | (23,912)                                    |  |       | 2,065     |
| Others   | (15,682)  | (575)                                   | (7,708)                                     |  | 183   | (23,782)  |
|  | (450,264) | (575)                                   | (99,419)                                    | 4,669  | 183   | (545,406) |
| Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards |           |   |   |  |       |           |
| Tax loss carryforwards   | 31,712    |   | (7,163)                                     |  |       | 24,549    |
|  | (418,552) | (575)                                   | (106,582)                                   | 4,669  | 183   | (520,857) |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

|   | Beginning | Deferred tax<br>expense<br>(benefit) | 2014<br>Directly added<br>to (deducted<br>from) equity | Other | Ending    |
|---|-----------|--------------------------------------|--|-------|-----------|
| Deferred tax assets (liabilities) related to temporary differences                                  |           |                                      |  |       |           |
| Allowance for doubtful accounts   | 56,427    | (2,700)                              |  | (149) | 53,578    |
| Accrued interest income   | (2,831)   | 381                                  |  |       | (2,450)   |
| Available-for-sale financial assets   | (589)     | (146)                                | (4,089)  |       | (4,824)   |
| Investments in subsidiaries and associates  | (44,844)  | (165,663)                            | (72)   | (464) | (211,043) |
| Property and equipment (depreciation)   | (333,633) | (38,690)                             |  | (9)   | (372,332) |
| Provisions  | 14,303    | (6,699)                              |  | (17)  | 7,587     |
| Retirement benefit obligation   | 16,089    | 2,390                                | 8,902  | (20)  | 27,361    |
| Gain or loss on valuation of derivatives  | 12,779    | 2                                    | 12,188   |       | 24,969    |
| Gain or loss on foreign currency translation  | 19,572    | (248)                                |  |       | 19,324    |
| Tax free reserve for research and manpower development  | (40,011)  | 32,849                               |  |       | (7,162)   |
| Goodwill relevant to leased line  | 31,025    | (26,592)                             |  |       | 4,433     |
| Unearned revenue (activation fees)  | 53,412    | (27,435)                             |  |       | 25,977    |
| Others  | 44,738    | (61,274)                             |  | 854   | (15,682)  |
|   | (173,563) | (293,825)                            | 16,929   | 195   | (450,264) |
| Deferred tax assets related to unused tax loss carryforwards and<br>unused tax credit carryforwards |           |                                      |  |       |           |
| Tax loss carryforwards  | 31,060    | 652                                  |  |       | 31,712    |
|   | (142,503) | (293,173)                            | 16,929   | 195   | (418,552) |

- (5) Details of temporary differences, unused tax loss carryforwards and unused tax credits carryforwards 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, 2015 and 2014 are as follows:

*(In millions of won)*

|  | December 31, 2015 | December 31, 2014 |
|--|-------------------|-------------------|
| Allowance for doubtful accounts            | 182,266           | 155,634           |
| Investments in subsidiaries and associates | 281,719           | 422,033           |
| Other temporary differences                | 285,845           | 314,188           |
| Unused tax loss carryforwards              | 1,034,070         | 729,570           |
| Unused tax credit carryforwards            | 2,271             | 2,438             |
|  | 1,786,171         | 1,623,863         |

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(6) The expirations of unused tax loss carryforwards and unused tax credit carryforwards which are not recognized as deferred tax assets as of December 31, 2015 are as follows:

*(In millions of won)*

|                   | <b>Unused tax loss carryforwards</b> | <b>Unused tax credit carryforwards</b> |
|-------------------|--------------------------------------|--|
| Less than 1 year  | 4,894                                | 1,041                                  |
| 1 ~ 2 years       |                                      | 155                                    |
| 2 ~ 3 years       |                                      | 870                                    |
| More than 3 years | 1,029,176                            | 205                                    |
|                   | 1,034,070                            | 2,271                                  |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****32. Earnings per Share****(1) Basic earnings per share**

1) Basic earnings per share for the years ended December 31, 2015, 2014 and 2013 are calculated as follows:

*(In millions of won, shares)*

|   | 2015       | 2014       | 2013       |
|---|------------|------------|------------|
| <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                          | 1,518,604  | 1,801,178  | 1,463,097  |
| Interest on hybrid bonds  | (16,840)   | (16,840)   | (8,420)    |
| Profit attributable to owners of the Parent Company from continuing operations on common shares         | 1,501,764  | 1,784,338  | 1,454,677  |
| Weighted average number of common shares outstanding  | 71,551,966 | 70,936,336 | 70,247,592 |
| Basic earnings per share from continuing operations (In won)  | 20,988     | 25,154     | 20,708     |
| <b>Basic earnings per share attributable to owners of the Parent Company:</b>                           |            |            |            |
| Profit attributable to owners of the Parent Company   | 1,518,604  | 1,801,178  | 1,638,964  |
| Interest on hybrid bond   | (16,840)   | (16,840)   | (8,420)    |
| Profit attributable to owners of the Parent Company on common shares                                    | 1,501,764  | 1,784,338  | 1,630,544  |
| Weighted average number of common shares outstanding  | 71,551,966 | 70,936,336 | 70,247,592 |
| Basic earnings per share (In won)   | 20,988     | 25,154     | 23,211     |

2) Profit attributable to owners of the Parent Company from continuing operation for the years ended December 31, 2015, 2014 and 2013 are calculated as follows:

*(In millions of won)*

|  | 2015      | 2014      | 2013      |
|--|-----------|-----------|-----------|
| Profit attributable to owners of the Parent Company                            | 1,518,604 | 1,801,178 | 1,638,964 |
| Results of discontinued operation attributable to owners of the Parent Company |           |           | (175,867) |
| Profit attributable to owners of the Parent Company from continuing operation  | 1,518,604 | 1,801,178 | 1,463,097 |

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- 3) The weighted average number of common shares outstanding for the years ended December 31, 2015, 2014 and 2013 are calculated as follows:

*(In shares)*

|  | <b>2015</b> | <b>2014</b> | <b>2013</b>  |
|--|-------------|-------------|--------------|
| Outstanding common shares                            | 80,745,711  | 80,745,711  | 80,745,711   |
| Weighted number of treasury stocks                   | (9,193,745) | (9,809,375) | (10,498,119) |
| Weighted average number of common shares outstanding | 71,551,966  | 70,936,336  | 70,247,592   |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****(2) Diluted earnings per share**

For the years ended December 31, 2015 and 2014, there were no potentially dilutive shares. The number of common shares outstanding in respect of the exchangeable common shares of exchangeable bonds is excluded from the diluted earnings per share calculation for the year ended December 31, 2013 as the effect would have been anti-dilutive (diluted shares of 688,744). Therefore, diluted earnings per share for the years ended December 31, 2015, 2014 and 2013 are the same as basic earnings per share.

**(3) Basic earnings per share from discontinued operation**

(In millions of won, shares)

|  | 2015       | 2014       | 2013       |
|--|------------|------------|------------|
| Results of discontinued operation attributable to owners of the Parent Company |            |            | 175,867    |
| Weighted average number of common shares outstanding                           | 71,551,966 | 70,936,336 | 70,247,592 |
| Basic earnings per share (In won)  |            |            | 2,503      |

Diluted earnings per share from discontinued operation is the same as basic loss per share from discontinued operation.

**33. Dividends****(1) Details of dividends declared**

Details of dividend declared for the years ended December 31, 2015, 2014 and 2013 are as follows:

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

| Year | Dividend type             | Number of shares outstanding | Face value (In won) | Dividend ratio | Dividends |
|------|---------------------------|------------------------------|---------------------|----------------|-----------|
| 2015 | Cash dividends (Interim)  | 72,629,160                   | 500                 | 200%           | 72,629    |
|      | Cash dividends (Year-end) | 70,609,160                   | 500                 | 1800%          | 635,482   |
|      |                           |                              |                     |                | 708,111   |
| 2014 | Cash dividends (Interim)  | 70,936,336                   | 500                 | 200%           | 70,937    |
|      | Cash dividends (Year-end) | 70,936,336                   | 500                 | 1,680%         | 595,865   |
|      |                           |                              |                     |                | 666,802   |
| 2013 | Cash dividends (Interim)  | 70,508,482                   | 500                 | 200%           | 70,508    |
|      | Cash dividends (Year-end) | 70,936,336                   | 500                 | 1,680%         | 595,865   |

666,373

**(2) Dividends payout ratio**

Dividends payout ratios for the years ended December 31, 2015, 2014 and 2013 are as follows:

*(In millions of won)*

| <b>Year</b> | <b>Dividends<br/>calculated</b> | <b>Profit</b> | <b>Dividends payout ratio</b> |
|-------------|---------------------------------|---------------|-------------------------------|
| 2015        | 708,111                         | 1,518,604     | 46.63%                        |
| 2014        | 666,802                         | 1,801,178     | 37.02%                        |
| 2013        | 666,373                         | 1,638,964     | 40.66%                        |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****(3) Dividends yield ratio**

Dividends yield ratios for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In won)

| Year | Dividend type | Dividend per share | Closing price at settlement | Dividend yield ratio |
|------|---------------|--------------------|-----------------------------|----------------------|
| 2015 | Cash dividend | 10,000             | 215,500                     | 4.64%                |
| 2014 | Cash dividend | 9,400              | 268,000                     | 3.51%                |
| 2013 | Cash dividend | 9,400              | 230,000                     | 4.09%                |

**34. Categories of Financial Instruments**

(1) Financial assets by categories as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                                  | December 31, 2015                                     |                                     |                       |  |           |
|----------------------------------|---|-------------------------------------|-----------------------|--|-----------|
|                                  | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Loans and receivables | Derivative financial instruments designated as hedged item | Total     |
| Cash and cash equivalents        |   |                                     | 768,922               |  | 768,922   |
| Financial instruments            |   |                                     | 701,713               |  | 701,713   |
| Short-term investment securities |   | 92,262                              |                       |  | 92,262    |
| Long-term investment securities  |   | 1,207,226                           |                       |  | 1,207,226 |
| Accounts receivable trade        |   |                                     | 2,390,110             |  | 2,390,110 |
| Loans and other receivables(*)   |   |                                     | 1,102,403             |  | 1,102,403 |
| Derivative financial assets      | 6,277   |                                     |                       | 160,122  | 166,399   |
|                                  | 6,277   | 1,299,488                           | 4,963,148             | 160,122  | 6,429,035 |

(In millions of won)

|  | December 31, 2014        |                              |                       |                                  | Total |
|--|--------------------------|------------------------------|-----------------------|----------------------------------|-------|
|  | Financial assets at fair | Available-for-sale financial | Loans and receivables | Derivative financial instruments |       |

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|                                  | value<br>through<br>profit or<br>loss | assets    |           | designated<br>as hedged<br>item |           |
|----------------------------------|---------------------------------------|-----------|-----------|---------------------------------|-----------|
| Cash and cash equivalents        |                                       |           | 834,429   |                                 | 834,429   |
| Financial instruments            |                                       |           | 313,699   |                                 | 313,699   |
| Short-term investment securities |                                       | 280,161   |           |                                 | 280,161   |
| Long-term investment securities  | 7,817                                 | 948,463   |           |                                 | 956,280   |
| Accounts receivable - trade      |                                       |           | 2,460,686 |                                 | 2,460,686 |
| Loans and other receivables(*)   |                                       |           | 1,123,507 |                                 | 1,123,507 |
| Derivative financial assets      | 8,713                                 |           |           | 61,322                          | 70,035    |
|                                  | 16,530                                | 1,228,624 | 4,732,321 | 61,322                          | 6,038,797 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(\*) Details of loans and other receivables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                                     | <b>December<br/>31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|-------------------------------------|----------------------------------|------------------------------|
| Short-term loans                    | 53,895                           | 74,512                       |
| Accounts receivable other           | 673,739                          | 690,527                      |
| Accrued income                      | 10,753                           | 10,134                       |
| Other current assets                | 1,861                            | 3,866                        |
| Long-term loans                     | 62,454                           | 55,728                       |
| Long-term accounts receivable other | 2,420                            | 3,596                        |
| Guarantee deposits                  | 297,281                          | 285,144                      |
|                                     | <b>1,102,403</b>                 | <b>1,123,507</b>             |

(2) Financial liabilities by categories as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                                       | <b>December 31, 2015</b>  |   |   |                   |
|---------------------------------------|---|---|---|-------------------|
|                                       | <b>Financial<br/>liabilities<br/>at fair<br/>value<br/>through<br/>profit or<br/>loss</b> | <b>Financial<br/>liabilities<br/>measured 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                |   | 279,782   |   | 279,782           |
| Derivative financial liabilities      |   |   | 89,296  | 89,296            |
| Borrowings                            |   | 415,134   |   | 415,134           |
| Debentures(*1)                        | 155,704   | 6,952,949   |   | 7,108,653         |
| Accounts payable other and others(*2) |   | 2,970,801   |   | 2,970,801         |
|                                       | <b>155,704</b>  | <b>10,618,666</b>   | <b>89,296</b>   | <b>10,863,666</b> |

(In millions of won)

|  | <b>December 31, 2014</b>   |   |  |              |
|--|--|---|--|--------------|
|  | <b>Financial<br/>liabilities<br/>at<br/>fair value<br/>through</b> | <b>Financial<br/>liabilities<br/>measured at<br/>amortized<br/>cost</b> | <b>Derivative<br/>financial<br/>instruments<br/>designated<br/>as hedged</b> | <b>Total</b> |

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|                                       | profit or<br>loss |            | item    |            |
|---------------------------------------|-------------------|------------|---------|------------|
| Accounts payable trade                |                   | 275,495    |         | 275,495    |
| Derivative financial liabilities      |                   |            | 130,889 | 130,889    |
| Borrowings                            |                   | 537,562    |         | 537,562    |
| Debentures(*1)                        | 110,365           | 6,108,265  |         | 6,218,630  |
| Accounts payable other and others(*2) |                   | 3,241,615  |         | 3,241,615  |
|                                       | 110,365           | 10,162,937 | 130,889 | 10,404,191 |

(\*1) Bonds classified as financial liabilities at fair value through profit or loss as of December 31, 2015 and 2014 are structured bonds and they were designated as financial liabilities at fair value through profit or loss in order to settle the difference of the measurement bases of accounting profit or loss between the related derivatives and bonds.

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(\*2) Details of accounts payable other and other payables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|   | <b>December<br/>31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|----------------------------------|------------------------------|
| Accounts payable other                      | 1,323,434                        | 1,381,850                    |
| Withholdings                                | 1,178                            | 1,760                        |
| Accrued expenses                            | 920,739                          | 952,418                      |
| Current portion of long-term payables other | 120,211                          | 193,193                      |
| Long-term payables other                    | 581,697                          | 684,567                      |
| Finance lease liabilities                   |                                  | 26                           |
| Other non-current liabilities               | 23,542                           | 27,801                       |
|   | 2,970,801                        | 3,241,615                    |

**35. Financial Risk Management****(1) Financial risk management**

The Group is exposed to credit risk, liquidity risk and market risk. Market risk is the risk related to the changes in market prices, such as foreign exchange rates, interest rates and equity prices. The Group implements a risk management system to monitor and manage these specific risks.

The Group's financial assets under financial risk management consist of cash and cash equivalents, financial instruments, available-for-sale financial assets, trade and other receivables. Financial liabilities consist of trade and other payables, borrowings, and debentures.

**1) Market risk****(i) Currency risk**

The Group is exposed to currency risk mainly on exchange fluctuations on recognized assets and liabilities. The Group manages currency risk by currency forward, etc. if needed to hedge currency risk on business transactions. Currency risk occurs on forecasted transaction and recognized assets and liabilities which are denominated in a currency other than the functional currency of the Group.

Monetary foreign currency assets and liabilities as of December 31, 2015 are as follows:

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

| <b>Assets</b>                 |                            | <b>Liabilities</b>            |                            |
|-------------------------------|----------------------------|-------------------------------|----------------------------|
| <b>Foreign<br/>currencies</b> | <b>Won<br/>translation</b> | <b>Foreign<br/>currencies</b> | <b>Won<br/>translation</b> |

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|        |         |         |           |           |
|--------|---------|---------|-----------|-----------|
| USD    | 162,322 | 189,763 | 1,836,860 | 2,152,800 |
| EUR    | 23,421  | 30,005  | 257       | 328       |
| JPY    | 24,462  | 238     | 695       | 7         |
| AUD    |         |         | 299,023   | 255,097   |
| CHF    |         |         | 299,403   | 354,909   |
| Others | 4,995   | 1,148   | 291       | 121       |
|        |         | 221,154 |           | 2,763,262 |

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 23)

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As of December 31, 2015, effects on income (loss) before income tax as a result of change in exchange rate by 10% are as follows:

(In millions of won)

|        | If increased by 10% | If decreased by 10% |
|--------|---------------------|---------------------|
| USD    | 9,600               | (9,600)             |
| EUR    | 2,934               | (2,934)             |
| JPY    | 23                  | (23)                |
| Others | 100                 | (100)               |
|        | 12,657              | (12,657)            |

**(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, 2015, available-for-sale equity instruments measured at fair value amount to 1,076,291 million.

**(iii) Interest rate risk**

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

Accordingly, the Group performs various analysis of interest rate risk, which includes refinancing, renewal, alternative financing and hedging instrument option, to reduce interest rate risk and to optimize its financing.

The interest rate risk arises from the Group's floating-rate borrowings and bonds agreements. As of December 31, 2015, the floating-rate borrowings and bonds are 20,573 million and 351,600 million, respectively, and the Group has entered into interest rate swap agreements, as described in Note 23, for all floating-rate bonds to hedge the interest rate risk of floating-rate bonds. On the other hand, if the interest rate increases (decreases) 1% with all other variables held constant, income before income taxes for the year ended December 31, 2015, fluctuates as much as 206 million due to the interest expense on floating-rate borrowings that have not entered into an interest rate swap agreement.

**2) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations. The maximum credit exposure as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                                     | December 31, 2015 | December 31, 2014 |
|-------------------------------------|-------------------|-------------------|
| Cash and cash equivalents           | 768,794           | 833,129           |
| Financial instruments               | 701,713           | 313,699           |
| Available-for-sale financial assets | 3,430             | 15,498            |
| Accounts receivable - trade         | 2,390,110         | 2,460,686         |

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|   |           |           |
|---|-----------|-----------|
| Loans and receivables                                 | 1,102,403 | 1,123,507 |
| Derivative financial assets                           | 166,399   | 70,035    |
| Financial assets at fair value through profit or loss |           | 7,817     |
|   | 5,132,849 | 4,824,371 |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

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, 2015, 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, 2015.

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

## 3) Liquidity risk

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

Contractual maturities of financial liabilities as of December 31, 2015 are as follows:

(In millions of won)

|   | Carrying<br>amount | Contractual<br>cash flows | Less than<br>1 year | 1 - 5 years | More than<br>5 years |
|---|--------------------|---------------------------|---------------------|-------------|----------------------|
| Accounts payable - trade                | 279,782            | 279,782                   | 279,782             |             |                      |
| Borrowings(*1)                          | 415,134            | 428,012                   | 298,118             | 109,200     | 20,694               |
| Debentures(*1)                          | 7,108,653          | 8,514,028                 | 897,895             | 4,516,896   | 3,099,237            |
| Accounts payable - other and others(*2) | 2,970,801          | 3,030,356                 | 2,330,565           | 578,643     | 121,148              |
|   | 10,774,370         | 12,252,178                | 3,806,360           | 5,204,739   | 3,241,079            |

The Group does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at different amounts.

(\*1) Includes estimated interest to be paid and excludes discounts on borrowings and debentures.

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

As of December 31, 2015, periods which cash flows from cash flow hedge derivatives are expected to be incurred are as follows:

(In millions of won)

|             | <b>Carrying<br/>amount</b> | <b>Contractual<br/>cash flows</b> | <b>Less than<br/>1 year</b> | <b>1 -5 years</b> | <b>More than<br/>5 years</b> |
|-------------|----------------------------|-----------------------------------|-----------------------------|-------------------|------------------------------|
| Assets      | 160,122                    | 171,808                           | 1,894                       | 138,980           | 30,934                       |
| Liabilities | (89,296)                   | (92,498)                          | (4,882)                     | (87,616)          |                              |
|             | 70,826                     | 79,310                            | (2,988)                     | 51,364            | 30,934                       |

(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, 2014.

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

Debt-equity ratio as of December 31, 2015 and 2014 are as follows:

(In millions of won)

|                   | December 31,<br>2015 | December 31,<br>2014 |
|-------------------|----------------------|----------------------|
| Liabilities       | 13,207,291           | 12,692,963           |
| Equity            | 15,374,096           | 15,248,270           |
| Debt-equity ratio | 85.91%               | 83.24%               |

**(3) Fair value**

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2015 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           | 6,277              |         | 6,277   |         | 6,277     |
| Derivative financial assets                                     | 160,122            |         | 160,122 |         | 160,122   |
| Available-for-sale financial assets                             | 1,076,291          | 897,958 | 47,262  | 131,071 | 1,076,291 |
|   | 1,242,690          | 897,958 | 213,661 | 131,071 | 1,242,690 |
| <b>Financial assets that cannot be measured at fair value</b>   |                    |         |         |         |           |
| Cash and cash equivalents(*1)                                   | 768,922            |         |         |         |           |
| Available-for-sale financial assets(*1,2)                       | 223,197            |         |         |         |           |
| Accounts receivable trade and others(*1)                        | 3,492,513          |         |         |         |           |
| Financial instruments(*1)                                       | 701,713            |         |         |         |           |
|   | 5,186,345          |         |         |         |           |
| <b>Financial liabilities that can be measured at fair value</b> |                    |         |         |         |           |
| Financial liabilities at fair value through profit or loss      | 155,704            |         | 155,704 |         | 155,704   |
| Derivative financial liabilities                                | 89,296             |         | 89,296  |         | 89,296    |
|   | 245,000            |         | 245,000 |         | 245,000   |

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

|                  |                      |            |           |           |
|------------------|----------------------|------------|-----------|-----------|
| Accounts payable | trade(*1)            | 279,782    |           |           |
| Borrowings       |                      | 415,134    | 416,702   | 416,702   |
| Debentures       |                      | 6,952,949  | 7,411,909 | 7,411,909 |
| Accounts payable | other and others(*1) | 2,970,801  |           |           |
|                  |                      | 10,618,666 | 7,828,611 | 7,828,611 |

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2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2014 are as follows:

(In millions of won)

|  | Carrying<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              | 16,530             |         | 8,713     | 7,817   | 16,530    |
| Derivative financial assets  | 61,322             |         | 61,322    |         | 61,322    |
| Available-for-sale financial assets                                | 846,614            | 657,286 | 47,002    | 142,326 | 846,614   |
|  | 924,466            | 657,286 | 117,037   | 150,143 | 924,466   |
| <b>Financial assets that cannot be measured at fair value</b>      |                    |         |           |         |           |
| Cash and cash equivalents(*1)                                      | 834,429            |         |           |         | 834,429   |
| Available-for-sale financial assets(*1,2)                          | 382,010            |         |           |         | 382,010   |
| Accounts receivable trade and others(*1)                           | 3,584,193          |         |           |         | 3,584,193 |
| Financial instruments(*1)  | 313,699            |         |           |         | 313,699   |
|  | 5,114,331          |         |           |         | 5,114,331 |
| <b>Financial liabilities that can be measured at fair value</b>    |                    |         |           |         |           |
| Financial liabilities at fair value through profit or loss         | 110,365            |         | 110,365   |         | 110,365   |
| Derivative financial liabilities                                   | 130,889            |         | 130,889   |         | 130,889   |
|  | 241,254            |         | 241,254   |         | 241,254   |
| <b>Financial liabilities that cannot be measured at fair value</b> |                    |         |           |         |           |
| Accounts payable trade(*1)   | 275,495            |         |           |         | 275,495   |
| Borrowings   | 537,562            |         | 549,083   |         | 549,083   |
| Debentures   | 6,108,265          |         | 6,514,832 |         | 6,514,832 |
| Accounts payable other and others(*1)                              | 3,241,615          |         |           |         | 3,241,615 |
|  | 10,162,937         |         | 7,063,915 |         | 7,063,915 |

(\*1) Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are a reasonable approximation of fair value.

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(\*2) Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with IAS 39 as such equity instruments cannot be reliably measured using other methods.

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 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.

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Fair values of accounts receivable trade, and accounts payable trade are considered to be carrying amount less impairment and fair value of financial liabilities for the disclosure purpose is estimated by discounting contractual future cash flows using the current market interest rate used for the similar financial instruments by the Group.

Interest rates used by the Group for the fair value measurement as of December 31, 2015 are as follows:

|                           | <b>Interest rate</b> |
|---------------------------|----------------------|
| Derivative instruments    | 1.92 ~ 2.37%         |
| Borrowings and debentures | 2.12 ~ 3.34%         |

- 3) There have been no transfers from Level 2 to Level 1 in 2015 and changes of financial assets classified as Level 3 for the year ended December 31, 2015 are as follows:

(In millions of won)

|                                     | <b>Balance<br/>at<br/>Jan. 1</b> | <b>Acquisition</b> | <b>Loss for<br/>the period</b> | <b>Other<br/>comprehensive<br/>loss</b> | <b>Disposal</b> | <b>Others</b> | <b>Balance at<br/>Dec.31</b> |
|-------------------------------------|----------------------------------|--------------------|--------------------------------|---|-----------------|---------------|------------------------------|
| Available-for-sale financial assets | 142,326                          | 3,103              | (449)                          | (2,379)                                 | (30,359)        | 18,829        | 131,071                      |

- (4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2015 are as follows:

(In millions of won)

|                                      | <b>Gross financial<br/>instruments<br/>recognized</b> | <b>Gross offset<br/>financial<br/>instruments<br/>recognized</b> | <b>Net financial<br/>instruments<br/>presented on the<br/>statements of<br/>financial position</b> | <b>Relevant amount not offset<br/>on the statements of<br/>financial position</b> | <b>Cash<br/>collaterals<br/>received</b> | <b>Net<br/>amount</b> |
|--------------------------------------|---|--|--|---|--|-----------------------|
| <b>Financial assets:</b>             |   |  |  |   |  |                       |
| Derivatives(*)                       | 55,673  |  | 55,673   | (55,673)  |  |                       |
| Accounts receivable trade and others | 129,527   | (113,003)  | 16,524   |   |  | 16,524                |
|                                      | 185,200   | (113,003)  | 72,197   | (55,673)  |  | 16,524                |
| <b>Financial liabilities:</b>        |   |  |  |   |  |                       |
| Derivatives(*)                       | 89,734  |  | 89,734   | (55,673)  |  | 34,061                |
| Accounts payable other and others    | 113,003   | (113,003)  |  |   |  |                       |
|                                      | 202,737   | (113,003)  | 89,734   | (55,673)  |  | 34,061                |



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Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2014 are as follows:

(In millions of won)

|                                      | Gross financial instruments recognized | Gross offset financial instruments recognized | Net financial instruments presented on the statements of financial position | Relevant amount not offset on the statements of financial position |                           | Net amount |
|--------------------------------------|--|---|---|--|---------------------------|------------|
|                                      |  |   |   | Financial instruments  | Cash collaterals received |            |
| <b>Financial assets:</b>             |  |   |   |  |                           |            |
| Derivatives(*)                       | 48,057                                 |   | 48,057  | (45,892)   |                           | 2,165      |
| Accounts receivable trade and others | 128,794                                | (117,568)                                     | 11,226  |  |                           | 11,226     |
|                                      | 176,851                                | (117,568)                                     | 59,283  | (45,892)   |                           | 13,391     |
| <b>Financial liabilities:</b>        |  |   |   |  |                           |            |
| Derivatives(*)                       | 45,892                                 |   | 45,892  | (45,892)   |                           |            |
| Accounts payable others              | 117,568                                | (117,568)                                     |   |  |                           |            |
|                                      | 163,460                                | (117,568)                                     | 45,892  | (45,892)   |                           |            |

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

ISDA agreements do not allow the Group to exercise rights of set-off unless credit events such as bankruptcy occur. Therefore, assets and liabilities recognized in accordance with the agreements cannot be offset as the Group does not have enforceable rights of set-off.

**36. Transactions with Related Parties****(1) List of related parties**

| Relationship                | Company   |
|-----------------------------|---|
| Ultimate Controlling Entity | SK Holdings Co., Ltd.   |
| Joint venture               | Dogus Planet, Inc. and 3 others                                     |
| Associates                  | SK hynix Inc. and 52 others   |
| Affiliates                  | The Ultimate Controlling Entity's subsidiaries and associates, etc. |

*(2) Compensation for the key management*

The Parent Company considers registered directors who have substantial role and responsibility in planning, operating, and controlling of the business as key management. The compensation given to such key management for the years ended December 31, 2015, 2014 and 2013 are as follows:

*(In millions of won)*

|                                   | <b>2015</b>  | <b>2014</b>  | <b>2013</b>  |
|-----------------------------------|--------------|--------------|--------------|
| Salaries                          | 1,971        | 2,600        | 2,263        |
| Provision for retirement benefits | 626          | 907          | 1,012        |
|                                   | <b>2,597</b> | <b>3,507</b> | <b>3,275</b> |

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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, 2015, 2014 and 2013 are as follows:

(In millions of won)

| Scope                       | Company  | Operating<br>revenue<br>and<br>others | Operating<br>expense<br>and<br>others | 2015<br>Acquisition of<br>property and<br>equipment | Loans | Loans<br>collection |
|-----------------------------|--|---------------------------------------|---------------------------------------|---|-------|---------------------|
| Ultimate Controlling Entity | SK Holdings Co., Ltd.  |                                       |                                       |   |       |                     |
|                             | (formerly, SK C&C Co., Ltd.)(*1)                                 | 20,260                                | 324,078                               | 236,414   |       |                     |
|                             | SK Holdings Co., Ltd. (formerly,<br>SK Holdings Co., Ltd.)(*2,3) | 1,299                                 | 212,378                               | 117   |       |                     |
|                             |  | 21,559                                | 536,456                               | 236,531   |       |                     |
| Associates                  | F&U Credit information Co., Ltd.                                 | 2,510                                 | 43,967                                |   |       |                     |
|                             | HappyNarae Co., Ltd.   | 297                                   | 6,886                                 | 13,495  |       |                     |
|                             | SK hynix Inc.(*4)  | 55,949                                | 2,384                                 |   |       |                     |
|                             | SK Wyverns Baseball Club., Ltd.                                  | 3,849                                 | 18,544                                |   |       | 204                 |
|                             | KEB HanaCard Co., Ltd.   | 21,414                                | 16,057                                |   |       |                     |
|                             | Xian Tianlong Science and<br>Technology Co., Ltd.                |                                       |                                       |   | 8,287 |                     |
|                             | Others(*5)   | 6,397                                 | 11,917                                | 1,864   | 690   |                     |
|                             |  | 90,416                                | 99,755                                | 15,359  | 8,977 | 204                 |
| Other                       | SK Engineering & Construction<br>Co., Ltd.                       | 15,598                                | 27,243                                | 240,701   |       |                     |
|                             | SK Networks Co., Ltd.  | 11,923                                | 1,257,975                             | 2   |       |                     |
|                             | SK Networks Services Co., Ltd.                                   | 10,491                                | 94,097                                | 6,472   |       |                     |
|                             | SK Telesys Co., Ltd.   | 397                                   | 48,900                                | 141,870   |       |                     |
|                             | SK Energy Co., Ltd.  | 9,930                                 | 978                                   |   |       |                     |
|                             | SK Gas Co., Ltd.   | 3,561                                 | 2                                     |   |       |                     |
|                             | Others   | 29,409                                | 71,314                                | 194,945   |       |                     |
|                             |  | 81,309                                | 1,500,509                             | 583,990   |       |                     |
| Total                       |  | 193,284                               | 2,136,720                             | 835,880   | 8,977 | 204                 |

- (\*1) On August 1, 2015, SK C&C Co., Ltd., the Ultimate Controlling Entity's investor using equity method, merged SK Holdings Co., Ltd., the ultimate controlling entity of the Parent Company, and changed its name to SK Holdings Co., Ltd.
- (\*2) These relates to transactions occurred until July 31, 2015 before the merger with SK C&C Co., Ltd.
- (\*3) Operating expense and others include 191,416 million of dividends paid by the Parent Company.
- (\*4) Operating revenue and others include 43,830 million of dividends paid by SK hynix Inc. and deducted from the investment in associates.
- (\*5) Operating revenue and others include 2,103 million and 457 million of dividends paid by Korea IT Fund and UniSK, respectively, and deducted from the investment in associates.



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| Scope                                     | Company                            | Operating<br>revenue<br>and<br>others      | Operating<br>expense and<br>others | 2014  |         |                     |     |
|---|------------------------------------|--|------------------------------------|---|---------|---------------------|-----|
|   |                                    |  |                                    | Acquisition of<br>property and<br>equipment | Loans   | Loans<br>collection |     |
| Ultimate Controlling Entity<br>Associates | SK Holding Co., Ltd.(*1)           | 530  | 226,772                            |   |         |                     |     |
|   | F&U Credit information Co., Ltd.   | 2,395                                      | 45,417                             |   |         |                     |     |
|   | HappyNarae Co., Ltd.               | 253  | 6,492                              | 10,418                                      |         |                     |     |
|   | SK hynix Inc.                      | 12,964                                     | 3,391                              |   |         |                     |     |
|   | SK USA, Inc.                       |  | 2,153                              |   |         |                     |     |
|   | SK Wyverns Baseball<br>Club., Ltd. | 901  | 22,402                             |   |         | 204                 |     |
|   | KEB HanaCard Co., Ltd.(*2)         | 39,828                                     | 5,416                              |   |         |                     |     |
|   | Others                             | 5,852                                      | 15,150                             |   | 45      |                     |     |
|   |                                    |  | 62,193                             | 100,421                                     | 10,418  | 45                  | 204 |
|   | Other                              | SK Engineering & Construction<br>Co., Ltd. | 3,385                              | 42,964                                      | 460,783 |                     |     |
| SK C&C Co., Ltd.                          |                                    | 18,309                                     | 360,842                            | 168,778                                     |         |                     |     |
| SK Networks Co., Ltd.                     |                                    | 16,230                                     | 1,509,017                          | 5,388                                       |         |                     |     |
| SK Networks Services Co., Ltd.            |                                    | 13,017                                     | 106,273                            | 2,583                                       |         |                     |     |
| SK Telesys Co., Ltd.                      |                                    | 494  | 64,038                             | 205,538                                     |         |                     |     |
| SK Energy Co., Ltd.                       |                                    | 22,650                                     | 944                                |   |         |                     |     |
| SK Gas Co., Ltd.                          |                                    | 10,115                                     |                                    |   |         |                     |     |
| Others                                    |                                    | 25,537                                     | 38,868                             | 12,628                                      |         |                     |     |
|   |                                    | 109,737                                    | 2,122,946                          | 855,698                                     |         |                     |     |
| Total                                     |                                    | 172,460                                    | 2,450,139                          | 866,116                                     | 45      | 204                 |     |

(\*1) Operating expense and others include 191,416 million of dividends paid by the Parent Company.

(\*2) During the year ended December 31, 2014, due to merger between Hana SK Card Co., Ltd., the Parent Company's associate and KEB Card Co., Ltd., the Group returned 57,647,058 shares of Hana SK Card Co., Ltd., and received 67,627,587 shares of the merged company, KEB HanaCard Co., Ltd. (See Note 13-(1)).

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

| Scope                                     | Company                                    | Operating<br>revenue<br>and<br>others | Operating<br>expense and<br>others | 2013  |        |                     |
|---|--|---------------------------------------|------------------------------------|---|--------|---------------------|
|   |  |                                       |                                    | Acquisition of<br>property and<br>equipment | Loans  | Loans<br>collection |
| Ultimate Controlling Entity<br>Associates | SK Holding Co., Ltd.(*)                    | 1,912                                 | 226,023                            |   |        |                     |
|   | F&U Credit information Co., Ltd.           | 1,753                                 | 43,931                             |   |        |                     |
|   | HappyNarae Co., Ltd.                       | 281                                   | 6,217                              | 10,542                                      |        |                     |
|   | SK hynix Inc.                              | 3,178                                 | 1,160                              |   |        |                     |
|   | SK USA, Inc.                               |                                       | 2,086                              |   |        |                     |
|   | SK Wyverns Baseball Club., Ltd.            | 363                                   |                                    |   |        | 204                 |
|   | HanaSK Card Co., Ltd.                      | 11,129                                | 14,342                             |   |        |                     |
|   | Others                                     | 3,171                                 | 3,734                              | 125   | 1,200  |                     |
|   |  |                                       | 19,875                             | 71,470                                      | 10,667 | 1,200               |
| Other                                     | SK Engineering & Construction<br>Co., Ltd. | 5,564                                 | 37,978                             | 484,006                                     |        |                     |
|   | SK C&C Co., Ltd.                           | 4,041                                 | 357,945                            | 206,298                                     |        |                     |
|   | SK Networks Co., Ltd.                      | 51,996                                | 1,463,341                          | 6,241                                       |        |                     |
|   | SK Networks Services Co., Ltd.             | 6,165                                 | 108,972                            | 3,057                                       |        |                     |
|   | SK Telesys Co., Ltd.                       | 1,554                                 | 99,381                             | 234,319                                     |        |                     |
|   | SK Energy Co., Ltd.                        | 20,831                                | 2,422                              |   |        |                     |
|   | SK Gas Co., Ltd.                           | 6,656                                 |                                    |   |        |                     |
|   | Others                                     | 30,905                                | 43,759                             | 11,724                                      |        |                     |
|   |  | 127,712                               | 2,113,798                          | 945,645                                     |        |                     |
| Total                                     |  | 149,499                               | 2,411,291                          | 956,312                                     | 1,200  | 204                 |

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

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(4) Account balances as of December 31, 2015 and 2014 are as follows:

(In millions of won)

| Scope                       | Company  | Loans  | 2015   | Accounts payable                         |
|-----------------------------|--|--------|--|--|
|                             |  |        | Accounts receivable<br>receivable-trade,<br>and others | Accounts<br>payable-other,<br>and others |
| Ultimate Controlling Entity | SK Holdings Co., Ltd. (formerly, SK C&C Co., Ltd.) (*) |        | 1,836  | 160,133                                  |
| Associates                  | HappyNarae Co., Ltd.                                   |        | 12   | 6,162                                    |
|                             | F&U Credit information Co., Ltd.                       |        | 66   | 934                                      |
|                             | SK hynix Inc.  |        | 4,360  | 155                                      |
|                             | SK Wyverns Baseball Club Co., Ltd.                     | 1,017  | 4,502  |  |
|                             | Wave City Development Co., Ltd.                        | 1,890  | 38,412   |  |
|                             | Daehan Kanggun BcN Co., Ltd.                           | 22,148 |  |  |
|                             | KEB HanaCard Co., Ltd.                                 |        | 1,771  | 9,042                                    |
|                             | Xian Tianlong Science and Technology Co., Ltd.         | 8,287  |  |  |
|                             | Others   |        | 299  | 964                                      |
|                             |  |        | 33,342   | 49,422                                   |
| Other                       | SK Engineering & Construction Co., Ltd.                |        | 1,005  | 14,877                                   |
|                             | SK Networks Co., Ltd.                                  |        | 1,569  | 208,291                                  |
|                             | SK Networks Services Co., Ltd.                         |        |  | 9,414                                    |
|                             | SK Telesys Co., Ltd.                                   |        | 140  | 37,491                                   |
|                             | SK Innovation Co., Ltd.                                |        | 2,159  | 1,424                                    |
|                             | SK Energy Co., Ltd.                                    |        | 1,681  | 173                                      |
|                             | SK Gas Co., Ltd.                                       |        | 1,830  | 9  |
|                             | Others   |        | 2,886  | 58,088                                   |
|                             |  |        | 11,270   | 329,767                                  |
| Total                       |  | 33,342 | 62,528   | 507,157                                  |

(\*) On August 1, 2015, SK C&C Co., Ltd., the Ultimate Controlling Entity's investor using equity method, merged SK Holdings Co., Ltd., the ultimate controlling entity of the Parent Company, and changed its name to SK Holdings Co., Ltd.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013***(In millions of won)*

| Scope                       | Company                                 | Loans         | 2014   |  |
|-----------------------------|---|---------------|--|--|
|                             |   |               | Accounts receivable<br>Accounts<br>receivable-trade,<br>and others | Accounts payable<br>Accounts<br>payable-trade,<br>and others |
| Ultimate Controlling Entity | SK Holding Co., Ltd.                    |               | 90   |  |
| Associates                  | HappyNarae Co., Ltd.                    |               | 13   | 2,650  |
|                             | F&U Credit information Co., Ltd.        |               | 148  | 797  |
|                             | SK hynix Inc.                           |               | 2,800  | 2,840  |
|                             | SK Wyverns Baseball Club Co., Ltd.      | 1,221         |  |  |
|                             | Wave City Development Co., Ltd.         | 1,200         | 38,412   |  |
|                             | Daehan Kanggun BcN Co., Ltd.            | 22,148        |  |  |
|                             | KEB HanaCard Co., Ltd.                  |               | 1,998  | 59   |
|                             | Others                                  |               | 543  | 1,285  |
|                             |   | 24,569        | 43,914   | 7,631  |
| Other                       | SK Engineering & Construction Co., Ltd. |               | 897  | 27,282   |
|                             | SK C&C Co., Ltd.                        |               | 1,393  | 121,145  |
|                             | SK Networks Co., Ltd.                   |               | 2,608  | 238,351  |
|                             | SK Networks Services Co., Ltd.          |               | 16   | 2,922  |
|                             | SK Telesys Co., Ltd.                    |               | 321  | 3,037  |
|                             | SK Innovation Co., Ltd.                 |               | 1,641  | 271  |
|                             | SK Energy Co., Ltd.                     |               | 4,781  | 79   |
|                             | SK Gas Co., Ltd.                        |               | 2,143  | 47   |
|                             | Others                                  |               | 2,813  | 9,342  |
|                             |   |               | 16,613   | 402,476  |
| <b>Total</b>                |   | <b>24,569</b> | <b>60,617</b>  | <b>410,107</b>   |

(5) As of December 31, 2015, there are no collateral or guarantee provided by the Group to related parties nor by related parties to the Group.

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

(7) During the year ended December 31, 2014, the Group acquired convertible bonds with a face value of 6,000 million from Health Connect Co., Ltd. at the face value. During the year ended December 31, 2015, the Parent Company exercised the conversion right for the convertible bonds of Health Connect Co., Ltd. As a result of this transaction, investments in associates have increased by 5,900 million.

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- (8) As of December 31, 2015 the Parent Company has established a right of pledge on its capital investment for Entrix Co., Ltd., a subsidiary of the Parent Company, amounting to 10,000 million.
- (9) There were additional investments in associates and joint ventures during the year ended December 31, 2015. (See Note 13)

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

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

**For the years ended December 31, 2015, 2014 and 2013**

**37. Commitments and Legal Claims and Litigations**

***(1) Collateral assets and commitments***

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases on buildings in the amount of 10,193 million as of December 31, 2015.

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has guaranteed for employees' borrowings relating to employee stock ownership and provided short-term financial instruments amounting to 1,219 million as collateral as of December 31, 2015.

***(2) Legal claims and litigations***

As of December 31, the Group is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. For those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation for these matters, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

***(3) Guarantee provided***

PS&Marketing Corporation, a subsidiary of the Parent Company, obtained 3,000 million of payment guarantees from Shinhan Bank, in relation to handsets purchased from the Apple Computer Korea Ltd.

**38. Discontinued Operations**

***(1) Discontinued operations***

During the year ended December 31, 2013, SK Planet Co., Ltd., a subsidiary of the Parent Company, sold 52.6% of its ownership interests (13,294,369 shares) in Loen Entertainment, Inc., to Star Invest Holdings Limited. Consideration for the sale amounted to 265,887 million. Loen Entertainment was a subsidiary of SK Planet Co., Ltd. and is engaged in the release of music discs as its primary business. The Group's ownership interests after the disposition is 15.0% and Loen Entertainment, Inc. was excluded from the Group's consolidated financial statements as of the date of the sale. The results of operations of Loen Entertainment, Inc. prior to the date of disposal of the Group's controlling interest is presented as a discontinued operation.

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****(2) Results of discontinued operations**

Results of discontinued operations included in the consolidated statements of income for the year ended December 31, 2013 is as follows.

(In millions of won)

|  | <b>2013</b>    |
|--|----------------|
| <b>Results of discontinued operations:</b>                   |                |
| Operating revenue and other income                           | 167,448        |
| Operating expense  | (140,203)      |
| <b>Operating income generated by discontinued operations</b> | <b>27,245</b>  |
| Finance income and costs                                     | 1,773          |
| Gain related to investments in associates, net               | 1,000          |
| Gain on disposal relating to discontinued operations         | 214,352        |
| Income tax expense   | (61,125)       |
| <b>Profit generated by discontinued operations</b>           | <b>183,245</b> |
| Attributable to :  |                |
| Owners of the Parent Company                                 | 175,867        |
| Non-controlling interests                                    | 7,378          |

**(3) Cash flows from discontinued operations**

Cash flows from discontinued operations for the year ended December 31, 2013 is as follows:

|  | <b>2013</b>    |
|--|----------------|
| <b>Cash flow from discontinued 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)        |
|  | <b>215,594</b> |

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

(In millions of won)

|                           | <b>Date of disposal</b> |
|---------------------------|-------------------------|
| Cash and cash equivalents | 55,527                  |

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|  |                |
|--|----------------|
| Long-term and short-term financial instruments | 42,404         |
| Accounts receivable trade                      | 49,700         |
| Property and equipment, and intangible assets  | 26,334         |
| Other assets                                   | 39,526         |
| Accounts payable trade                         | (33,154)       |
| Defined benefit liabilities                    | (737)          |
| Other liabilities                              | (87,022)       |
| <b>Decrease in net assets</b>                  | <b>92,578</b>  |
| Consideration received for disposal            | 264,245        |
| Cash and cash equivalents disposed             | (55,527)       |
| <b>Net cash inflow</b>                         | <b>208,718</b> |

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**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013****39. Statements of Cash Flows**

(1) Adjustments for income and expenses from operating activities for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In millions of won)

|   | 2015      | 2014      | 2013      |
|---|-----------|-----------|-----------|
| Interest income   | (45,884)  | (60,006)  | (67,359)  |
| Dividend  | (16,102)  | (13,048)  | (10,197)  |
| Gain on foreign currency translation  | (5,090)   | (6,277)   | (4,401)   |
| Gain on disposal of long-term investment securities                         | (10,786)  | (13,994)  | (9,300)   |
| Gain on valuation of derivatives  | (1,927)   | (8,713)   |           |
| Gain on settlement of derivatives   |           | (7,998)   | (7,716)   |
| Gain related to investments in subsidiaries and associates, net             | (786,140) | (906,338) | (921,861) |
| Gain on disposal of property, equipment and intangible assets               | (7,140)   | (8,792)   | (7,991)   |
| Gain on valuation of financial assets at fair value through profit or loss  |           |           | (5,177)   |
| Gain relating to financial liabilities at fair value through profit or loss | (5,188)   |           |           |
| Reversal of allowance for doubtful accounts                                 |           |           | (359)     |
| Other income  | (7,577)   | (608)     | (3,951)   |
| Interest expenses   | 297,662   | 323,910   | 331,834   |
| Loss on foreign currency translation  | 4,750     | 5,079     | 2,634     |
| Loss on disposal of long-term investment securities                         | 2,599     | 2,694     | 31,909    |
| Other finance costs   | 21,787    | 24,533    | 52,058    |
| Loss on valuation of derivatives  |           | 10        | 2,106     |
| Loss on settlement of derivatives   | 4,845     | 672       |           |
| Income tax expense  | 519,480   | 454,508   | 461,922   |
| Expense related to defined benefit plan                                     | 110,021   | 112,717   | 92,840    |
| Depreciation and amortization   | 2,993,486 | 2,891,870 | 2,829,784 |
| Bad debt expenses   | 60,450    | 45,754    | 57,163    |
| Loss on disposal of property and equipment and intangible assets            | 21,392    | 32,950    | 267,702   |
| Impairment loss on property and equipment and intangible assets             | 35,845    | 47,489    | 14,399    |
| Loss relating to financial assets at fair value through profit or loss      |           | 1,352     |           |
| Loss relating to financial liabilities at fair value through profit or loss | 526       | 10,370    | 134,232   |
| Bad debt for accounts receivable other                                      | 15,323    | 17,943    | 22,167    |
| Impairment loss on other investment securities                              | 42,966    | 22,749    | 6,136     |
| Other expenses  | 4,845     | 10,169    | 6,802     |
|   | 3,250,143 | 2,978,995 | 3,275,376 |

**Table of Contents****SK TELECOM CO., LTD. and Subsidiaries****Notes to the Consolidated Financial Statements (Continued)****For the years ended December 31, 2015, 2014 and 2013**

(2) Changes in assets and liabilities from operating activities for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In millions of won)

|                                      | 2015      | 2014      | 2013      |
|--------------------------------------|-----------|-----------|-----------|
| Accounts receivable trade            | 7,554     | (168,839) | (267,754) |
| Accounts receivable other            | (11,108)  | (52,137)  | (41,243)  |
| Accrued income                       | 116       | 14        | (502)     |
| Advance payments                     | (35,906)  | (62,873)  | (26,064)  |
| Prepaid expenses                     | (40,464)  | (36,808)  | (1,583)   |
| V.A.T. refund receivable             | 1,385     | 7,200     | (5,442)   |
| Inventories                          | (7,814)   | (171)     | (39,610)  |
| Long-term accounts receivables other |           | 80        |           |
| Guarantee deposits                   | (11,238)  | (12,699)  | 59,431    |
| Accounts payable trade               | 12,442    | (37,790)  | (4,708)   |
| Accounts payable other               | (107,114) | (296,875) | (131,142) |
| Advanced receipts                    | 6,421     | 20,701    | (2,916)   |
| Withholdings                         | (191,209) | 306,515   | 22,025    |
| Deposits received                    | (9,661)   | (4,395)   | (1,745)   |
| Accrued expenses                     | (28,845)  | (79,831)  | 98,081    |
| V.A.T. payable                       | 3,494     | 2,711     | (3,901)   |
| Unearned revenue                     | (115,187) | (140,295) | (188,589) |
| Provisions                           | (30,562)  | (38,469)  | (226,644) |
| Long-term provisions                 | (4,447)   | 29,532    | (72,398)  |
| Plan assets                          | (67,831)  | (96,847)  | (61,856)  |
| Retirement benefit payment           | (58,513)  | (46,531)  | (42,948)  |
| Others                               | 2,753     | 474       | (30,362)  |
|                                      | (685,734) | (707,333) | (969,870) |

(3) Significant non-cash transactions for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In millions of won)

|   | 2015      | 2014      | 2013      |
|---|-----------|-----------|-----------|
| Transfer of construction in progress to property and equipment, and intangible assets                               | 2,002,231 | 2,238,620 | 2,320,528 |
| Transfer of other property and equipment and others to construction in progress                                     | 730,469   | 1,090,954 | 1,188,826 |
| Increase(decrease) of accounts payable other related to acquisition of property and equipment and intangible assets | 39,973    | (184,614) | 350,735   |
| Return of the existing 1.8GHz frequency use rights  |           |           | 614,600   |

**40. Cash Dividends paid to the Parent Company**

Cash dividends paid to the Parent Company for the years ended December 31, 2015, 2014 and 2013 are as follows:

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*(In millions of won)*

|  | <b>2015</b> | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|-------------|
| Cash dividends received from consolidated subsidiaries |             |             | 13,657      |
| Cash dividends received from associates                | 46,390      | 939         |             |
|  | 46,390      | 939         | 13,657      |

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

SK hynix, Inc.:

We have audited the accompanying consolidated statements of financial position of SK hynix, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of SK hynix, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SK hynix, Inc. and subsidiaries as of December 31, 2015 and 2014 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 27, 2016

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2015 and 2014**

|                                     | <i>Note</i> | <b>2015</b>          | <b>2014</b>       |
|-------------------------------------|-------------|----------------------|-------------------|
|                                     |             | (In millions of won) |                   |
| <b>Assets</b>                       |             |                      |                   |
| <b>Current assets</b>               |             |                      |                   |
| Cash and cash equivalents           | 5,6         | 1,175,719            | 436,761           |
| Short-term financial instruments    | 5,6,7       | 3,615,554            | 3,618,014         |
| Trade receivables, net              | 5,6,8,32    | 2,628,448            | 3,732,926         |
| Loans and other receivables, net    | 5,6,8,32    | 61,613               | 691,529           |
| Inventories, net                    | 9           | 1,923,376            | 1,497,563         |
| Current tax assets                  |             | 1,394                | 1,629             |
| Assets held for sale                | 10          |                      | 27,661            |
| Other current assets                | 11          | 353,926              | 357,431           |
|                                     |             | 9,760,030            | 10,363,514        |
| <b>Non-current assets</b>           |             |                      |                   |
| Equity-accounted investees          | 12          | 122,609              | 97,090            |
| Available-for-sale financial assets | 5,6,13      | 131,354              | 127,314           |
| Loans and other receivables, net    | 5,6,8,32    | 62,919               | 58,989            |
| Other financial assets              | 5,6,7       | 430                  | 323               |
| Property, plant and equipment, net  | 14,21,33    | 16,966,252           | 14,090,334        |
| Intangible assets, net              | 15,29       | 1,704,896            | 1,336,680         |
| Investment property, net            | 14,16       | 2,679                | 28,456            |
| Deferred tax assets                 | 21,30       | 361,204              | 272,102           |
| Other non-current assets            | 11          | 565,533              | 508,476           |
|                                     |             | 19,917,876           | 16,519,764        |
| <b>Total assets</b>                 |             | <b>29,677,906</b>    | <b>26,883,278</b> |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Financial Position, continued**

As of December 31, 2015 and 2014

|  | <i>Note</i> | <b>2015</b>                 | <b>2014</b> |
|--|-------------|-----------------------------|-------------|
|  |             | <b>(In millions of won)</b> |             |
| <b>Liabilities</b>   |             |                             |             |
| <b>Current liabilities</b>                                       |             |                             |             |
| Trade payables   | 5,6         | 791,373                     | 787,822     |
| Other payables   | 5,6,32      | 1,337,803                   | 1,358,816   |
| Other non-trade payables   | 5,6         | 1,001,171                   | 1,182,956   |
| Borrowings   | 5,6,17,32   | 1,013,372                   | 1,755,020   |
| Other financial liabilities                                      | 5,6,22      |                             | 30          |
| Provisions   | 19,33       | 25,276                      | 25,932      |
| Current tax liabilities  |             | 627,260                     | 583,529     |
| Other current liabilities  | 18          | 44,443                      | 71,199      |
|  |             | 4,840,698                   | 5,765,304   |
| <b>Non-current liabilities</b>                                   |             |                             |             |
| Other non-trade payables   | 5,6         | 89,891                      | 132,947     |
| Borrowings   | 5,6,17,32   | 2,805,223                   | 2,419,739   |
| Other financial liabilities                                      | 5,6,22      | 683                         | 708         |
| Defined benefit liabilities, net                                 | 20          | 484,977                     | 465,350     |
| Deferred tax liabilities   | 21          | 7,582                       | 3,463       |
| Other non-current liabilities                                    | 18          | 61,149                      | 59,464      |
|  |             | 3,449,505                   | 3,081,671   |
| <b>Total liabilities</b>   |             | 8,290,203                   | 8,846,975   |
| <b>Equity</b>  |             |                             |             |
| <b>Equity attributable to owners of the Parent Company</b>       |             |                             |             |
| Capital stock  | 1,23        | 3,657,652                   | 3,657,652   |
| Capital surplus  | 23          | 4,143,736                   | 4,143,736   |
| Other equity   | 23          | (771,913)                   | (24)        |
| Accumulated other comprehensive loss                             | 24          | (1,600)                     | (41,815)    |
| Retained earnings  | 25          | 14,358,988                  | 10,276,904  |
| <b>Total equity attributable to owners of the Parent Company</b> |             | 21,386,863                  | 18,036,453  |
| <b>Non-controlling interests</b>                                 |             | 840                         | (150)       |
| <b>Total equity</b>  |             | 21,387,703                  | 18,036,303  |
| <b>Total liabilities and equity</b>                              |             | 29,677,906                  | 26,883,278  |

See accompanying notes to the consolidated financial statements.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2015, 2014 and 2013

|   | <i>Note</i> | <b>2015</b>  | <b>2014</b> | <b>2013</b> |
|---|-------------|--|-------------|-------------|
|   |             | (In millions of won, except per share information) |             |             |
| <b>Revenue</b>  | 4,32        | 18,797,998   | 17,125,566  | 14,165,102  |
| Cost of sales   | 27,32       | 10,515,353   | 9,461,725   | 8,864,587   |
| <b>Gross profit</b>   |             | 8,282,645  | 7,663,841   | 5,300,515   |
| Selling and administrative expense  | 26,27       | (2,946,545)  | (2,554,375) | (1,920,730) |
| Finance income  | 28          | 846,752  | 678,570     | 560,570     |
| Finance expenses  | 28          | (829,913)  | (799,771)   | (747,329)   |
| Share of profit of equity-accounted investees                                       | 12          | 24,642   | 23,145      | 19,256      |
| Other income  | 29          | 40,479   | 618,684     | 368,513     |
| Other expenses  | 29          | (148,939)  | (582,424)   | (505,870)   |
| <b>Profit before income tax</b>   |             | 5,269,121  | 5,047,670   | 3,074,925   |
| Income tax expense  | 30          | 945,526  | 852,501     | 202,068     |
| <b>Profit for the year</b>  |             | 4,323,595  | 4,195,169   | 2,872,857   |
| <b>Other comprehensive income (loss)</b>  |             |  |             |             |
| <b>Item that will never be reclassified to profit or loss:</b>                      |             |  |             |             |
| Remeasurements of defined benefit liability, net of tax                             | 20          | (21,871)   | (119,874)   | 15,587      |
| <b>Items that are or may be reclassified to profit or loss:</b>                     |             |  |             |             |
| Available-for-sale financial assets unrealized net change in fair value, net of tax | 13,24       |  | (7,824)     | (655)       |
| Foreign operations foreign currency translation differences, net of tax             | 24          | 33,479   | 71,631      | 8,419       |
| Equity-accounted investees share of other comprehensive income (loss), net of tax   | 12,24       | 6,487  | 3,706       | (1,226)     |
| <b>Other comprehensive income (loss) for the year, net of tax</b>                   |             | 18,095   | (52,361)    | 22,125      |
| <b>Total comprehensive income for the year</b>                                      |             | 4,341,690  | 4,142,808   | 2,894,982   |
| <b>Profit (loss) attributable to:</b>   |             |  |             |             |
| Owners of the Parent Company  |             | 4,322,356  | 4,195,456   | 2,872,470   |
| Non-controlling interests   |             | 1,239  | (287)       | 387         |
| <b>Total comprehensive income attributable to:</b>                                  |             |  |             |             |
| Owners of the Parent Company  |             | 4,340,700  | 4,142,574   | 2,894,652   |
| Non-controlling interests   |             | 990  | 234         | 330         |
| <b>Earnings per share</b>   |             |  |             |             |
| Basic and diluted earnings per share (in won)                                       | 31          | 6,002  | 5,842       | 4,045       |

See accompanying notes to the consolidated financial statements.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Changes in Equity**

For the year ended December 31, 2013

|   | Attributable to owners of the Parent Company |                 |                            |   |                   | Total      | Non-controlling interests | Total equity |
|---|--|-----------------|----------------------------|---|-------------------|------------|---------------------------|--------------|
|   | Capital stock                                | Capital surplus | Other components of equity | Accumulated other comprehensive income (loss) | Retained earnings |            |                           |              |
| <b>Balance at January 1, 2013</b>                           | 3,488,419                                    | 3,053,874       |                            | (115,402)                                     | 3,313,265         | 9,740,156  | (714)                     | 9,739,442    |
| <b>Total comprehensive income</b>                           |  |                 |                            |   |                   |            |                           |              |
| Profit for the year   |  |                 |                            |   | 2,872,470         | 2,872,470  | 387                       | 2,872,857    |
| Other comprehensive income (loss)                           |  |                 |                            | 6,595   | 15,587            | 22,182     | (57)                      | 22,125       |
| <b>Total comprehensive income</b>                           |  |                 |                            | 6,595   | 2,888,057         | 2,894,652  | 330                       | 2,894,982    |
| <b>Transactions with owners of the Parent Company</b>       |  |                 |                            |   |                   |            |                           |              |
| Exercise of conversion rights                               | 80,226                                       | 352,209         |                            |   |                   | 432,435    |                           | 432,435      |
| <b>Total transactions with owners of the Parent Company</b> | 80,226                                       | 352,209         |                            |   |                   | 432,435    |                           | 432,435      |
| <b>Balance at December 31, 2013</b>                         | 3,568,645                                    | 3,406,083       |                            | (108,807)                                     | 6,201,322         | 13,067,243 | (384)                     | 13,066,859   |

See accompanying notes to the consolidated financial statements.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Changes in Equity**

For the years ended December 31, 2015 and 2014

|   | Attributable to owners of the Parent Company |                    | Accumulated<br>other<br>comprehensive<br>income<br>(loss) |                      | Retained<br>earnings | Total      | Non-<br>controlling<br>interests | Total equity |
|---|--|--------------------|---|----------------------|----------------------|------------|----------------------------------|--------------|
|   | Capital<br>stock                             | Capital<br>surplus | Other<br>components<br>of equity                          | (In millions of won) |                      |            |                                  |              |
| <b>Balance at January 1, 2014</b>                               | 3,568,645                                    | 3,406,083          |   | (108,807)            | 6,201,322            | 13,067,243 | (384)                            | 13,066,859   |
| <b>Total comprehensive income</b>                               |  |                    |   |                      |                      |            |                                  |              |
| Profit for the year   |  |                    |   |                      | 4,195,456            | 4,195,456  | (287)                            | 4,195,169    |
| Other comprehensive income (loss)                               |  |                    |   | 66,992               | (119,874)            | (52,882)   | 521                              | (52,361)     |
| <b>Total comprehensive income</b>                               |  |                    |   | 66,992               | 4,075,582            | 4,142,574  | 234                              | 4,142,808    |
| <b>Transactions with owners of the Parent Company</b>           |  |                    |   |                      |                      |            |                                  |              |
| Issue of ordinary shares related to acquisition of a subsidiary | 6,793  | 47,277             |   |                      |                      | 54,070     |                                  | 54,070       |
| Exercise of conversion rights                                   | 82,214                                       | 690,376            |   |                      |                      | 772,590    |                                  | 772,590      |
| Acquisition of treasury shares                                  |  |                    | (24)  |                      |                      | (24)       |                                  | (24)         |
| <b>Total transactions with owners of the Parent Company</b>     | 89,007                                       | 737,653            | (24)  |                      |                      | 826,636    |                                  | 826,636      |
| <b>Balance at December 31, 2014</b>                             | 3,657,652                                    | 4,143,736          | (24)  | (41,815)             | 10,276,904           | 18,036,453 | (150)                            | 18,036,303   |
| <b>Balance at January 1, 2015</b>                               | 3,657,652                                    | 4,143,736          | (24)  | (41,815)             | 10,276,904           | 18,036,453 | (150)                            | 18,036,303   |
| <b>Total comprehensive income</b>                               |  |                    |   |                      |                      |            |                                  |              |
| Profit for the year   |  |                    |   |                      | 4,322,356            | 4,322,356  | 1,239                            | 4,323,595    |
| Other comprehensive income (loss)                               |  |                    |   | 40,215               | (21,871)             | 18,344     | (249)                            | 18,095       |
| <b>Total comprehensive income</b>                               |  |                    |   | 40,215               | 4,300,485            | 4,340,700  | 990                              | 4,341,690    |
| <b>Transactions with owners of the Parent Company</b>           |  |                    |   |                      |                      |            |                                  |              |
| Dividends paid  |  |                    |   |                      | (218,401)            | (218,401)  |                                  | (218,401)    |
| Acquisition of treasury shares                                  |  |                    | (771,889)   |                      |                      | (771,889)  |                                  | (771,889)    |
|   |  |                    | (771,889)   |                      | (218,401)            | (990,290)  |                                  | (990,290)    |

**Total transactions with  
owners of the Parent  
Company**

|   |           |           |           |         |            |            |     |            |
|---|-----------|-----------|-----------|---------|------------|------------|-----|------------|
| <b>Balance at December 31,<br/>2015</b> | 3,657,652 | 4,143,736 | (771,913) | (1,600) | 14,358,988 | 21,386,863 | 840 | 21,387,703 |
|---|-----------|-----------|-----------|---------|------------|------------|-----|------------|

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2015, 2014 and 2013**

|   | <i>Note</i> | <b>2015</b>          | <b>2014</b>        | <b>2013</b>        |
|---|-------------|----------------------|--------------------|--------------------|
|   |             | (In millions of won) |                    |                    |
| <b>Cash flows from operating activities</b>                               |             |                      |                    |                    |
| Cash generated from operating activities                                  | 34          | 10,357,267           | 6,305,229          | 6,521,553          |
| Interest received   |             | 51,610               | 35,658             | 58,888             |
| Interest paid   |             | (124,304)            | (151,551)          | (199,553)          |
| Dividends received  |             | 17,045               | 17,134             | 17,414             |
| Income tax paid   |             | (982,098)            | (339,779)          | (26,246)           |
| <b>Net cash provided by operating activities</b>                          |             | <b>9,319,520</b>     | <b>5,866,691</b>   | <b>6,372,056</b>   |
| <b>Cash flows from investing activities</b>                               |             |                      |                    |                    |
| Decrease (increase) in short-term financial instruments, net              |             | 39,533               | (1,407,752)        | (1,028,615)        |
| Collection of loans and other receivables                                 |             | 10,692               | 3,501              | 2,728              |
| Increase in loans and other receivables                                   |             | (14,134)             | (15,735)           | (5,969)            |
| Proceeds from disposal of available-for-sale financial assets             |             | 1,319                | 28,602             | 331                |
| Acquisition of available-for-sale financial assets                        |             | (5,359)              | (1,415)            | (115,564)          |
| Decrease in other financial assets  |             |                      | 275,422            | 29,681             |
| Increase in other financial assets  |             |                      | (29,611)           | (276,591)          |
| Cash inflows from derivative transactions                                 |             | 1,672                | 2,371              | 3,656              |
| Cash outflows from derivative transactions                                |             | (2,088)              | (4,534)            | (6,550)            |
| Proceeds from disposal of property, plant and equipment                   |             | 220,097              | 198,959            | 15,509             |
| Acquisition of property, plant and equipment                              |             | (6,774,625)          | (4,800,722)        | (3,205,797)        |
| Proceeds from disposal of intangible assets                               |             | 7,963                | 286                | 200                |
| Acquisition of intangible assets  |             | (623,743)            | (336,291)          | (301,496)          |
| Proceeds from disposal of assets held for sale                            |             | 22,630               |                    |                    |
| Receipt of government grants  |             | 406                  | 20,241             |                    |
| Cash outflows from business combinations                                  |             |                      | (19,682)           | (3,648)            |
| Cash outflows from disposal of investments in a subsidiary                |             |                      | (1,467)            |                    |
| Investments in associates   |             | (9,893)              |                    |                    |
| <b>Net cash used in investing activities</b>                              |             | <b>(7,125,530)</b>   | <b>(6,087,827)</b> | <b>(4,892,125)</b> |
| <b>Cash flows from financing activities</b>                               |             |                      |                    |                    |
| Proceeds from borrowings  |             | 3,933,056            | 3,848,816          | 3,528,687          |
| Repayments of borrowings  |             | (4,405,023)          | (3,820,449)        | (5,028,676)        |
| Acquisition of treasury shares  |             | (771,889)            | (24)               |                    |
| Dividends paid  |             | (218,401)            |                    |                    |
| <b>Net cash provided by (used in) financing activities</b>                |             | <b>(1,462,257)</b>   | <b>28,343</b>      | <b>(1,499,989)</b> |
| <b>Effect of movements in exchange rates on cash and cash equivalents</b> |             | <b>7,225</b>         | <b>(2,313)</b>     | <b>(6,462)</b>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>               |             | <b>738,958</b>       | <b>(195,106)</b>   | <b>(26,520)</b>    |
| <b>Cash and cash equivalents at beginning of the year</b>                 |             | <b>436,761</b>       | <b>631,867</b>     | <b>658,387</b>     |
| <b>Cash and cash equivalents at end of the year</b>                       |             | <b>1,175,719</b>     | <b>436,761</b>     | <b>631,867</b>     |

See accompanying notes to the consolidated financial statements.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****1. Reporting Entity**

(1) General information about SK hynix, Inc. (the Parent Company or the Company ) and its subsidiaries (collectively the Group ) is as follows:

The Parent Company is engaged in the manufacture, distribution and sales of semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Parent Company's headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Group has manufacturing facilities in Icheon-si and Cheongju-si, South Korea, and Wuxi and Chongqing, China.

As of December 31, 2015, the shareholders of the Parent Company are as follows:

| Shareholder                           | Number of shares | Percentage of ownership (%) |
|---------------------------------------|------------------|-----------------------------|
| SK Telecom Co., Ltd.                  | 146,100,000      | 20.07                       |
| National Pension Service              | 59,898,134       | 8.23                        |
| Share Management Council <sup>1</sup> | 5,097,667        | 0.70                        |
| Other investors                       | 494,905,994      | 67.98                       |
| Treasury shares                       | 22,000,570       | 3.02                        |
|                                       | 728,002,365      | 100.00                      |

<sup>1</sup> As of December 31, 2015, the number of shares held by each member of Share Management Council is as follows:

| Shareholder                                   | Number of shares | Percentage of ownership (%) |
|---|------------------|-----------------------------|
| KEB Hana Bank (formerly, Korea Exchange Bank) | 5,092,500        | 0.70                        |
| Other financial institutions                  | 5,167            | 0.00                        |
|   | 5,097,667        | 0.70                        |

According to the share purchase agreement dated November 14, 2011, between SK Telecom Co., Ltd. and the Share Management Council, the Share Management Council should exercise its voting right on its shares following SK Telecom Co., Ltd.'s decision in designating officers of the Company or other matters unless this conflicts with the Share Management Council's interest.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****1. Reporting Entity, continued**

(2) Details of the Group's consolidated subsidiaries as of December 31, 2015 and 2014 are as follows:

| Company  | Location  | Business  | Ownership(%) |        |
|--|-----------|---|--------------|--------|
|  |           |   | 2015         | 2014   |
| SK hyeng Inc.  | Korea     | Domestic subsidiary                                   | 100.00       | 100.00 |
| SK hystec Inc.   | Korea     | Domestic subsidiary                                   | 100.00       | 100.00 |
| Siliconfile Technologies Inc.                                      | Korea     | Development and manufacturing of electronic component | 100.00       | 100.00 |
| SK hynix America Inc. (SKHYA)                                      | U.S.A.    | Overseas sales subsidiary                             | 97.74        | 97.74  |
| Hynix Semiconductor Manufacturing America Inc. (HSMA) <sup>1</sup> | U.S.A.    | Discontinued subsidiary                               | 100.00       | 100.00 |
| SK hynix Deutschland GmbH (SKHYD)                                  | Germany   | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix U.K. Ltd. (SKHYU)   | U.K.      | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix Asia Pte. Ltd. (SKHYS)                                    | Singapore | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix Semiconductor India Pvt. Ltd. (SKHYIS) <sup>2</sup>       | India     | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix Semiconductor Hong Kong Ltd. (SKHYH)                      | Hong Kong | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)               | China     | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix Japan Inc. (SKHYJ)  | Japan     | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix Semiconductor Taiwan Inc. (SKHYT)                         | Taiwan    | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix Semiconductor (China) Ltd. (SKHYCL)                       | China     | Overseas manufacturing subsidiary                     | 100.00       | 100.00 |
| SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)                        | China     | Overseas manufacturing subsidiary                     | 100.00       | 100.00 |
| SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)                  | China     | Overseas sales subsidiary                             | 100.00       | 100.00 |
| SK hynix Italy S.r.l (SKHYIT)                                      | Italy     | Overseas R&D center                                   | 100.00       | 100.00 |
| SK hynix memory solutions Inc. (SKHMS)                             | U.S.A.    | Overseas R&D center                                   | 100.00       | 100.00 |
| SK hynix Flash Solution Taiwan (SKHYFST)                           | Taiwan    | Overseas R&D center                                   | 100.00       | 100.00 |
| SK APTECH Ltd. (SKAPTECH)  | Hong Kong | Holding company                                       | 100.00       | 100.00 |
| SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) <sup>3</sup>     | China     | Overseas manufacturing subsidiary                     | 100.00       | 100.00 |
| Softeq Flash Solutions LLC.(SOFTEQ)                                | Belarus   | Overseas R&D center                                   | 100.00       | 100.00 |
| MMT (Money Market Trust)   | Korea     | Money Market Trust                                    | 100.00       | 100.00 |

<sup>1</sup> Subsidiary of SK hynix America Inc. (SKHYA)<sup>2</sup> Subsidiary of SK hynix Asia Pte. Ltd. (SKHYS)<sup>3</sup> Subsidiary of SK APTECH Ltd. (SKAPTECH)

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****1. Reporting Entity, continued**

(3) There is no change in the consolidated subsidiaries for the year ended December 31, 2015.

(4) Major subsidiaries summarized statements of financial position as of December 31, 2015 and 2014 are as follows:

|  | 2015      |             |                                | 2014      |             |           |
|--|-----------|-------------|--------------------------------|-----------|-------------|-----------|
|  | Assets    | Liabilities | Equity<br>(In millions of won) | Assets    | Liabilities | Equity    |
| SK hynix America Inc.(SKHYA)                     | 1,504,882 | 1,333,291   | 171,591                        | 1,711,746 | 1,634,047   | 77,699    |
| SK hynix Asia Pte. Ltd.(SKHYS)                   | 269,286   | 190,155     | 79,131                         | 386,135   | 313,152     | 72,983    |
| SK hynix Semiconductor Hong Kong Ltd.(SKHYH)     | 529,095   | 431,074     | 98,021                         | 563,598   | 478,449     | 85,149    |
| SK hynix Japan Inc.(SKHYJ)                       | 245,142   | 183,277     | 61,865                         | 285,122   | 227,860     | 57,262    |
| SK hynix Semiconductor Taiwan Inc.(SKHYT)        | 299,834   | 277,520     | 22,314                         | 628,791   | 605,861     | 22,930    |
| SK hynix Semiconductor (China) Ltd.(SKHYCL)      | 3,718,832 | 503,776     | 3,215,056                      | 4,179,186 | 1,197,588   | 2,981,598 |
| SK hynix Deutschland GmbH(SKHYD)                 | 75,152    | 38,697      | 36,455                         | 135,384   | 98,477      | 36,907    |
| SK hynix U.K. Ltd.(SKHYU)                        | 155,531   | 138,918     | 16,613                         | 194,318   | 179,990     | 14,328    |
| SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL) | 406,552   | 224,672     | 181,880                        | 341,984   | 174,936     | 167,048   |

(5) Major subsidiaries summarized statements of comprehensive income for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015      |                                | Total<br>comprehensive<br>income |
|---|-----------|--------------------------------|----------------------------------|
|   | Revenue   | Profit<br>(In millions of won) |                                  |
| SK hynix America Inc. (SKHYA)                     | 7,599,679 | 89,716                         | 89,716                           |
| SK hynix Asia Pte.Ltd. (SKHYS)                    | 1,612,550 | 1,303                          | 1,303                            |
| SK hynix Semiconductor Hong Kong Ltd. (SKHYH)     | 4,181,208 | 6,909                          | 6,909                            |
| SK hynix Japan Inc. (SKHYJ)                       | 934,001   | 1,116                          | 1,322                            |
| SK hynix Semiconductor Taiwan Inc. (SKHYT)        | 1,915,465 | 5,852                          | 5,852                            |
| SK hynix Semiconductor (China) Ltd. (SKHYCL)      | 2,273,536 | 206,446                        | 206,446                          |
| SK hynix Deutschland GmbH (SKHYD)                 | 414,489   | 1,072                          | 1,072                            |
| SK hynix U.K. Ltd. (SKHYU)                        | 702,329   | 1,289                          | 1,289                            |
| SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) | 350,110   | 13,328                         | 13,328                           |



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****1. Reporting Entity, continued**

|   | 2014      |                                | Total<br>comprehensive<br>income |
|---|-----------|--------------------------------|----------------------------------|
|   | Revenue   | Profit<br>(In millions of won) |                                  |
| SK hynix America Inc. (SKHYA)                     | 6,360,992 | 21,385                         | 21,385                           |
| SK hynix Asia Pte.Ltd. (SKHYS)                    | 1,638,396 | 2,773                          | 2,773                            |
| SK hynix Semiconductor Hong Kong Ltd. (SKHYH)     | 3,714,085 | 12,941                         | 12,941                           |
| SK hynix Japan Inc. (SKHYJ)                       | 843,383   | 9,890                          | 10,478                           |
| SK hynix Semiconductor Taiwan Inc. (SKHYT)        | 2,176,739 | 7,599                          | 7,599                            |
| SK hynix Semiconductor (China) Ltd. (SKHYCL)      | 1,914,452 | 381,729                        | 381,729                          |
| SK hynix Deutschland GmbH (SKHYD)                 | 551,528   | 6,197                          | 6,197                            |
| SK hynix U.K. Ltd. (SKHYU)                        | 575,959   | 1,813                          | 1,813                            |
| SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) | 109,769   | 6,813                          | 6,813                            |

|   | 2013      |                                | Total<br>comprehensive<br>income |
|---|-----------|--------------------------------|----------------------------------|
|   | Revenue   | Profit<br>(In millions of won) |                                  |
| SK hynix America Inc. (SKHYA)                 | 5,187,848 | 23,547                         | 23,547                           |
| SK hynix Asia Pte.Ltd. (SKHYS)                | 1,203,290 | 2,385                          | 2,385                            |
| SK hynix Semiconductor Hong Kong Ltd. (SKHYH) | 3,022,397 | 19,471                         | 19,471                           |
| SK hynix Japan Inc. (SKHYJ)                   | 790,736   | 10,335                         | 10,447                           |
| SK hynix Semiconductor Taiwan Inc. (SKHYT)    | 1,769,055 | 6,680                          | 6,680                            |
| SK hynix Semiconductor (China) Ltd. (SKHYCL)  | 1,718,074 | 23,611                         | 23,611                           |
| SK hynix Deutschland GmbH (SKHYD)             | 594,166   | 2,440                          | 2,440                            |
| SK hynix U.K. Ltd. (SKHYU)                    | 494,305   | 1,743                          | 1,743                            |

(6) There are no significant non-controlling interests to the Group as of December 31, 2015, 2014 and 2013.

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

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

The consolidated financial statements were authorized for issuance by the board of directors on January 25, 2016

**(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

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

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2015, 2014 and 2013**

**2. Basis of Preparation, continued**

**(3) *Functional and presentation currency***

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

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

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

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

**(a) *Critical judgments***

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

Note 3: estimated useful lives of property, plant and equipment and intangible assets

Note 5: classification of financial instruments

**(b) *Assumptions and estimation uncertainties***

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 9: net realizable value of inventories

Note 15: impairment of goodwill

Note 19: recognition and measurement of provisions

Note 20: measurement of defined benefit obligations

Note 21: recognition of deferred tax assets and liabilities

(c) *Fair value measurement*

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

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

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2015, 2014 and 2013**

**2. Basis of Preparation, continued**

The Group uses the best observable inputs in market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation methods as follows:

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

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

Information about assumptions used for fair value measurements are included in note 6.

**3. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are explained below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

**(1) Operating Segments**

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ( CODM ) in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. The Group's CODM is the board of directors, who do not receive and therefore do not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic, product and customer information are provided in note 4.

**(2) Basis of consolidation**

**(a) 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.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

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Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

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**SK HYNIX, INC. and Subsidiaries**

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**3. Significant Accounting Policies, continued**

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

*(b) Non-controlling interests*

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

*(c) Subsidiaries*

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

*(d) Loss of control*

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

*(e) Interests in equity-accounted investees*

The Group's interest in equity-accounted investees comprise interests in an associate and a joint venture. An associate is an entity in which the Group has significant influence, but not control or joint control, over the entity's financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in an associate and a joint venture are initially recognized at cost including transaction costs. Subsequent to initial recognition, their carrying amounts are increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture. Distributions from equity-accounted investees are accounted for as deduction from the carrying amounts.

*(f) Transactions eliminated on consolidation*

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

*(g) Business combinations under common control*

The assets and liabilities acquired in the combination of entities or business under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and

carrying amounts of net assets acquired is added to or deducted from other capital adjustments.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2015, 2014 and 2013**

**3. Significant Accounting Policies, continued**

**(3) Cash and cash equivalents**

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

**(4) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method (except for goods in-transit that is based on the specific identification method), and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing inventories to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

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

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

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

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

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

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

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

**(c) Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

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

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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

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**December 31, 2015, 2014 and 2013**

**3. Significant Accounting Policies, continued**

and receivables. Subsequent to initial recognition, they are measured at fair value, and changes in their fair value, net of any tax effect, are recorded in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

*(e) De-recognition of financial assets*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, it derecognizes the financial assets when it does not retain control over the transferred financial assets. If the Group has retained control over the transferred financial assets, it continues to recognize the assets to the extent of its continuing involvement. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

*(f) Offsetting between financial assets and financial liabilities*

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

*(6) Derivative financial instruments*

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

*(a) Embedded derivatives*

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

the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

*(b) Other derivative financial instruments*

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

**(7) *Impairment of financial assets***

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence

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**3. Significant Accounting Policies, continued**

indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified with the individual financial assets in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

*(a) Financial assets measured at amortized cost*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the financial asset's estimated future cash flows, impairment losses would be measured based on prices from any observable current market transactions. Impairment losses are deducted through an allowance account or directly from the carrying amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

*(b) Financial assets carried at cost*

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The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****3. Significant Accounting Policies, continued****(8) Property, plant and equipment**

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other income or expenses.

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

|            | <b>Useful lives (years)</b> |
|------------|-----------------------------|
| Buildings  | 10 - 50                     |
| Structures | 10 - 30                     |
| Machinery  | 4 - 15                      |
| Vehicles   | 4 - 10                      |
| Other      | 3 - 15                      |

Depreciation methods, useful lives, and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

**(9) Borrowing costs**

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 determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group

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that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****3. 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.

Goodwill arising from business combinations is recognized as the excess of the consideration transferred in the acquisition over the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

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

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

|                   | Useful lives (years) |
|-------------------|----------------------|
| Industrial rights | 5 - 10               |
| Development costs | 1 - 2                |
| Software          | 5                    |

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

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

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

**(11) Government grants**

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

**(a) Grants related to assets**

Government grants whose primary condition is that the Group purchases, constructs or otherwise acquires non-current assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the useful lives of depreciable assets.

*(b) Grants related to income*

Government grants which are intended to compensate the Group for expenses incurred are recognized in profit or loss by as deduction of the related expenses.

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**3. Significant Accounting Policies, continued**

**(12) Investment property**

Property held for the purpose of earning rental income or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at cost less accumulated depreciation and impairment losses.

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

Investment property except for land, are depreciated on a straight-line basis over estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

**(13) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset; however if it is impossible to measure the individual recoverable amount of an asset, the Group estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from business combination. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(14) Leases**

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.



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**3. Significant Accounting Policies, continued**

*(a) Finance leases*

At the commencement of the lease term, the Group recognizes as finance lease assets and finance lease liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews whether the leased asset is impaired.

*(b) Operating leases*

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

*(c) Determining whether an arrangement contains a lease*

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

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

**(15) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).



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**3. 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.

**(a) *Financial liabilities at fair value through profit or loss***

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

**(b) *Other financial liabilities***

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The Group derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**(17) *Employee benefits***

**(a) *Short-term employee benefits***

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

**(b) *Other long-term employee benefits***

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

**(c) *Retirement benefits: defined benefit plans***

As of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized as present value of defined benefit obligations, net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

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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

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**3. Significant Accounting Policies, continued**

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

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

*(d) Termination benefits*

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring. If benefits are not payable within 12 months after the end of the reporting period, then they are discounted to their present value.

**(18) Provisions**

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

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

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

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

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

**(19) Foreign currencies**

*(a) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on the settlement or retranslation of monetary items are recognized in profit or loss, except for differences arising on the retranslation of the net investment in a foreign operation, which are recognized in other comprehensive income. When a gain or

loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2015, 2014 and 2013**

**3. Significant Accounting Policies, continued**

*(b) Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

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

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

**(20) Equity capital**

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

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

**(21) Revenue**

Revenue from the sale of goods, rendering of services or use of assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

*(a) Sale of goods*

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

*(b) Sale of services*

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

**(22) Finance income and finance expenses**

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Finance income comprises interest and dividend income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and changes in the fair value of

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2015, 2014 and 2013**

**3. Significant Accounting Policies, continued**

financial instruments at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive dividend is established.

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

**(23) Income taxes**

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

**(a) Current tax**

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

**(b) Deferred tax**

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes deferred tax assets for all deductible temporary differences including unused tax loss and tax credit to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If there are any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.



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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2015, 2014 and 2013**

**3. Significant Accounting Policies, continued**

**(24) Earnings per share**

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

**(25) Standards issued but not yet adopted**

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2015. The Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

**(a) IFRS 9, Financial Instruments**

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

**(b) IFRS 15, Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18, Revenue, IAS 11, Construction Contracts and IFRIC 13, Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

**(c) IFRS 16 Leases**

IFRS 16, published in January 2016, replaces the existing guidance in IAS 17, Leases. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

The Group is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****4. Geographic, Product and Customer Information**

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products.

(1) Details of the Group's revenue for the years ended December 31, 2015, 2014 and 2013 are as follows:

|                  | 2015       | 2014 <sup>1</sup><br>(In millions of won) | 2013 <sup>1</sup> |
|------------------|------------|---|-------------------|
| Sale of goods    | 18,739,177 | 17,054,031                                | 14,093,027        |
| Sale of services | 58,821     | 71,535                                    | 72,075            |
|                  | 18,797,998 | 17,125,566                                | 14,165,102        |

<sup>1</sup> Sale of service for the year ended December 31, 2014 amounting to 40,432 million (2013: 4,606 million) was reclassified to sale of goods to conform with the classification for the year ended December 31, 2015.

(2) Details of the Group's revenue by product and service types for the years ended December 31, 2015, 2014 and 2013 are as follows:

|            | 2015       | 2014<br>(In millions of won) | 2013       |
|------------|------------|------------------------------|------------|
| DRAM       | 14,045,339 | 13,311,628                   | 10,211,993 |
| NAND Flash | 4,148,315  | 3,320,658                    | 3,391,561  |
| Other      | 604,344    | 493,280                      | 561,548    |
|            | 18,797,998 | 17,125,566                   | 14,165,102 |

(3) The Group's revenue information by region based on the location of selling entities for the years ended December 31, 2015, 2014 and 2013 are as follows:

|                                    | 2015      | 2014<br>(In millions of won) | 2013      |
|------------------------------------|-----------|------------------------------|-----------|
| Korea                              | 1,204,642 | 1,179,949                    | 1,105,083 |
| China                              | 4,496,357 | 3,825,747                    | 3,038,355 |
| Taiwan                             | 1,899,649 | 2,155,005                    | 1,765,343 |
| Asia (other than China and Taiwan) | 2,536,009 | 2,482,716                    | 1,986,394 |
| U.S.A.                             | 7,549,622 | 6,359,461                    | 5,191,619 |
| Europe                             | 1,111,719 | 1,122,688                    | 1,078,308 |



18,797,998

17,125,566

14,165,102

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****4. Geographic, Product and Customer Information, continued**

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of December 31, 2015 and 2014 are as follows:

|                                    | 2015                 | 2014       |
|------------------------------------|----------------------|------------|
|                                    | (In millions of won) |            |
| Korea                              | 15,648,779           | 12,356,735 |
| China                              | 3,208,908            | 3,255,550  |
| Taiwan                             | 7,007                | 5,831      |
| Asia (other than China and Taiwan) | 770                  | 798        |
| U.S.A.                             | 365,024              | 333,908    |
| Europe                             | 8,874                | 11,124     |
|                                    | 19,239,362           | 15,963,946 |

(5) Revenue from customer A and B each constitutes more than 10% of the Group's consolidated revenue for the year ended December 31, 2015 amounts to 3,485,795 million (2014: 2,959,663 million, 2013: 2,457,867 million) and 2,078,835 million, respectively.

**5. Categories of Financial Instruments**

(1) Categories of financial assets as of December 31, 2015 and 2014 are as follows:

|                                     | 2015  |   |                          |           |
|-------------------------------------|---|---|--------------------------|-----------|
|                                     | Financial<br>assets at<br>fair<br>value<br>through<br>profit or<br>loss | Available-<br>for-sale<br>financial<br>assets<br>(In millions of won) | Loans and<br>receivables | Total     |
| Cash and cash equivalents           |   |   | 1,175,719                | 1,175,719 |
| Short-term financial instruments    | 1,047,277   |   | 2,568,277                | 3,615,554 |
| Trade receivables                   |   |   | 2,628,448                | 2,628,448 |
| Loans and other receivables         |   |   | 124,532                  | 124,532   |
| Other financial assets              |   |   | 430                      | 430       |
| Available-for-sale financial assets |   | 131,354   |                          | 131,354   |
|                                     | 1,047,277   | 131,354   | 6,497,406                | 7,676,037 |



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****5. Categories of Financial Instruments, continued**

|                                     | Financial<br>assets at<br>fair<br>value<br>through<br>profit or<br>loss | 2014  |                          | Total     |
|-------------------------------------|---|---|--------------------------|-----------|
|                                     |   | Available-<br>for-sale<br>financial<br>assets<br>(In millions of won) | Loans and<br>receivables |           |
| Cash and cash equivalents           |   |   | 436,761                  | 436,761   |
| Short-term financial instruments    | 1,842,020   |   | 1,775,994                | 3,618,014 |
| Trade receivables                   |   |   | 3,732,926                | 3,732,926 |
| Loans and other receivables         |   |   | 750,518                  | 750,518   |
| Other financial assets              |   |   | 323                      | 323       |
| Available-for-sale financial assets |   | 127,314   |                          | 127,314   |
|                                     | 1,842,020   | 127,314   | 6,696,522                | 8,665,856 |

(2) Categories of financial liabilities as of December 31, 2015 and 2014 are as follows:

|                                       | Financial liabilities<br>at fair value through<br>profit<br>or<br>loss | 2015   |  | Total     |
|---------------------------------------|--|--|--|-----------|
|                                       |  | Financial liabilities<br>measured at<br>amortized cost<br>(In millions of won) |  |           |
| Trade payables                        |  | 791,373  |  | 791,373   |
| Other payables                        |  | 1,337,803  |  | 1,337,803 |
| Other non-trade payables <sup>1</sup> |  | 1,091,062  |  | 1,091,062 |
| Borrowings                            |  | 3,818,595  |  | 3,818,595 |
| Other financial liabilities           | 683  |  |  | 683       |
|                                       | 683  | 7,038,833  |  | 7,039,516 |

|                                       | Financial<br>liabilities<br>at fair value through<br>profit<br>or<br>loss | 2014   |  | Total     |
|---------------------------------------|---|--|--|-----------|
|                                       |   | Financial liabilities<br>measured at<br>amortized cost<br>(In millions of won) |  |           |
| Trade payables                        |   | 787,822  |  | 787,822   |
| Other payables                        |   | 1,358,816  |  | 1,358,816 |
| Other non-trade payables <sup>1</sup> |   | 1,315,903  |  | 1,315,903 |

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|                             |     |           |           |
|-----------------------------|-----|-----------|-----------|
| Borrowings                  |     | 4,174,759 | 4,174,759 |
| Other financial liabilities | 738 |           | 738       |
|                             | 738 | 7,637,300 | 7,638,038 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****5. Categories of Financial Instruments, continued**

<sup>1</sup> Details of other non-trade payables as of December 31, 2015 and 2014 are as follows:

|                            | 2015                 | 2014      |
|----------------------------|----------------------|-----------|
|                            | (In millions of won) |           |
| <b>Current</b>             |                      |           |
| Accrued expenses           | 1,001,171            | 1,182,956 |
| <b>Non-current</b>         |                      |           |
| Long-term other payables   | 87,036               | 130,566   |
| Rent deposits payable      | 2,855                | 2,357     |
| Long-term accrued expenses |                      | 24        |
|                            | 89,891               | 132,947   |
|                            | 1,091,062            | 1,315,903 |

(3) Finance income and expenses by categories for the years ended December 31, 2015, 2014 and 2013 are as follows:

|  | 2015                 | 2014    | 2013     |
|--|----------------------|---------|----------|
|  | (In millions of won) |         |          |
| <b>Loans and receivables</b>                                 |                      |         |          |
| Interest income  | 40,715               | 50,804  | 59,262   |
| Foreign exchange differences                                 | 300,163              | 200,390 | (61,819) |
| Reversal of impairment (loss)                                | 82                   | (5,463) | 2,250    |
|  | 340,960              | 245,731 | (307)    |
| <b>Available-for-sale financial assets</b>                   |                      |         |          |
| Other comprehensive loss                                     |                      |         | (966)    |
| Gain on disposal   |                      | 6,553   | 205      |
| Dividend income  | 1,265                | 1,233   | 2,381    |
|  | 1,265                | 7,786   | 1,620    |
| <b>Held-to-maturity financial assets</b>                     |                      |         |          |
| Interest income  |                      | 1,318   | 853      |
| <b>Financial assets at fair value through profit or loss</b> |                      |         |          |
| Interest income  |                      |         | 6,296    |
| Gain on valuation  | 2,280                | 6,920   |          |
| Gain from derivative instruments                             |                      |         | 73       |
| Gain on disposal   | 33,814               | 28,493  |          |

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|   |           |           |           |
|---|-----------|-----------|-----------|
|   | 36,094    | 35,413    | 6,369     |
| <b>Financial liabilities measured at amortized cost</b>           |           |           |           |
| Interest expenses   | (118,505) | (170,363) | (256,623) |
| Loss on redemption of debentures                                  |           | (2,924)   |           |
| Foreign exchange differences                                      | (242,532) | (71,870)  | 169,509   |
|   | (361,037) | (245,157) | (87,114)  |
| <b>Financial liabilities at fair value through profit or loss</b> |           |           |           |
| Loss from derivative instruments                                  | (361)     | (171,754) | (93,546)  |
|   | 16,921    | (126,663) | (172,125) |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****6. Financial Risk Management***(1) Financial risk management*

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Parent Company's corporate finance division in accordance with policies approved by the board of directors. The Parent Company's corporate finance division identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk; use of derivative financial instruments and non-derivative financial instruments; and the investment of excess liquidity.

*(a) Market risk**(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions; recognized assets and liabilities in foreign currencies; and net investments in foreign operations.

Monetary foreign currency assets and liabilities as of December 31, 2015 are as follows:

|     | Assets  |                       | Liabilities        |                       |
|-----|---|-----------------------|--------------------|-----------------------|
|     | Foreign currencies                                      | Korean won equivalent | Foreign currencies | Korean won equivalent |
|     | (In millions of won and millions of foreign currencies) |                       |                    |                       |
| USD | 4,299   | 5,038,126             | 3,261              | 3,821,703             |
| EUR |   | 115                   | 148                | 189,031               |
| JPY | 6,194   | 60,204                | 37,445             | 363,967               |

As of December 31, 2015, effects on profit before income tax as a result of change in exchange rate by 10% are as follows:

|     | If increased by 10%  | If decreased by 10% |
|-----|----------------------|---------------------|
|     | (In millions of won) |                     |
| USD | 121,642              | (121,642)           |
| EUR | (18,892)             | 18,892              |
| JPY | (30,376)             | 30,376              |

*(ii) Interest rate risk*

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings, and is partially offset by interests received from



floating rate financial assets.

The Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between interests of fixed rates and floating rates, which are calculated based on the agreed notional amounts.

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**SK HYNIX, INC. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**December 31, 2015, 2014 and 2013**

**6. Financial Risk Management, continued**

As of December 31, 2015, the Group is partially exposed to a risk of increase in interest rates. If interest rates on borrowings were 100 basis points higher/lower with all other variables held constant, profit before income tax for the following year would be 17,771 million (2014: 15,267 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

*(iii) Price risk*

As of December 31, 2015, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

*(b) Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from operating and investing activities. In order to manage credit risk, the Group periodically evaluates the creditworthiness of each customer or counterparty through the analysis of its financial information, historical transaction records and other factors, based on which the Group establishes credit limits for each customer or counterparty.

*(i) Trade and other receivables*

For each new customer, the Group individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Group is consistently managing trade and other receivables by reevaluating the customer's credit worthiness and securing collaterals in order to limit its credit risk exposure.

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from overseas customers. The maximum exposure to credit risk as of December 31, 2015 is the carrying amount of trade and other receivables.

*(ii) Other financial assets*

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of December 31, 2015 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings including Shinhan Bank, and accordingly management does not expect any losses from non-performance by these counterparties.

*(c) Liquidity risk*

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Group forecasts its cash flow and liquidity status and sets action plans on a regular basis to manage liquidity risk proactively.

The Group invests surplus cash in interest-bearing current accounts, time deposits, demand deposits, marketable available-for-sale securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****6. Financial Risk Management, continued**

Contractual maturities of financial liabilities as of December 31, 2015 and 2014 are as follows:

|   | 2015                 |             |             |                      | Total     |
|---|----------------------|-------------|-------------|----------------------|-----------|
|   | Less than<br>1 year  | 1 - 2 years | 2 - 5 years | More than<br>5 years |           |
|   | (In millions of won) |             |             |                      |           |
| Borrowings (other than finance lease liabilities) | 1,012,385            | 735,424     | 2,025,522   | 156,995              | 3,930,328 |
| Finance lease liabilities                         | 98,927               | 26,654      | 16,050      | 24,075               | 165,706   |
| Trade payables                                    | 791,373              |             |             |                      | 791,373   |
| Other payables                                    | 1,346,469            |             |             |                      | 1,346,469 |
| Other non-trade payables                          | 1,001,077            | 83,536      | 10,877      |                      | 1,095,490 |
| Derivatives                                       | 683                  |             |             |                      | 683       |
| Financial guarantee contract                      | 8                    |             |             |                      | 8         |
|   | 4,250,922            | 845,614     | 2,052,449   | 181,070              | 7,330,055 |
|   | 2014                 |             |             |                      |           |
|   | Less than<br>1 year  | 1 - 2 years | 2 - 5 years | More than<br>5 years | Total     |
|   | (In millions of won) |             |             |                      |           |
| Borrowings (other than finance lease liabilities) | 1,765,674            | 795,191     | 1,675,663   |                      | 4,236,528 |
| Finance lease liabilities                         | 106,318              | 92,024      | 24,253      |                      | 222,595   |
| Trade payables                                    | 787,822              |             |             |                      | 787,822   |
| Other payables                                    | 1,369,959            |             |             |                      | 1,369,959 |
| Other non-trade payables                          | 1,182,957            | 78,625      | 54,297      |                      | 1,315,879 |
| Derivatives                                       | 738                  |             |             |                      | 738       |
| Financial guarantee contract                      | 27                   |             |             |                      | 27        |
|   | 5,213,495            | 965,840     | 1,754,213   |                      | 7,933,548 |

The table above analyzes the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes estimated interest payments. The Group's derivative instruments have been included at their fair value of 683 million (2014: 738 million) within the less than one-year time bucket as of December 31, 2015. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Group to manage the Group's interest rate risk.

**(2) Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders, proceeds and repayments of borrowings, issue new shares or sell assets to reduce debt.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****6. Financial Risk Management, continued**

The debt-to-equity ratio and net borrowing ratio as of December 31, 2015 and 2014 are as follows:

|  | 2015                 | 2014       |
|--|----------------------|------------|
|  | (In millions of won) |            |
| Total liabilities (A)  | 8,290,203            | 8,846,975  |
| Total equity (B)   | 21,387,703           | 18,036,303 |
| Cash and cash equivalents and short-term financial instruments (C) | 4,791,273            | 4,054,775  |
| Total borrowings (D)   | 3,818,595            | 4,174,759  |
| Debt-to-equity ratio (A/B)   | 39%                  | 49%        |
| Net borrowing ratio (D-C)/B  | -5%                  | 1%         |

**(3) Fair value**

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of December 31, 2015 and 2014:

|   | Carrying<br>amounts          | Level 1 | Level 2   | Level 3 | Total     |
|---|------------------------------|---------|-----------|---------|-----------|
|   | 2015<br>(In millions of won) |         |           |         |           |
| <b>Financial assets measured at fair value</b>          |                              |         |           |         |           |
| Short-term financial instruments                        | 1,047,277                    |         | 1,047,277 |         | 1,047,277 |
|   | 1,047,277                    |         | 1,047,277 |         | 1,047,277 |
| <b>Financial assets not measured at fair value</b>      |                              |         |           |         |           |
| Cash and cash equivalents <sup>1</sup>                  | 1,175,719                    |         |           |         |           |
| Short-term financial instruments <sup>1</sup>           | 2,568,277                    |         |           |         |           |
| Trade receivables <sup>1</sup>                          | 2,628,448                    |         |           |         |           |
| Loans and other receivables <sup>1</sup>                | 124,532                      |         |           |         |           |
| Other financial assets <sup>1</sup>                     | 430                          |         |           |         |           |
| Available-for-sale financial assets <sup>1,2</sup>      | 131,354                      |         |           |         |           |
|   | 6,628,760                    |         |           |         |           |
| <b>Financial liabilities measured at fair value</b>     |                              |         |           |         |           |
| Other financial liabilities                             | 683                          |         | 683       |         | 683       |
|   | 683                          |         | 683       |         | 683       |
| <b>Financial liabilities not measured at fair value</b> |                              |         |           |         |           |
| Trade payables <sup>1</sup>                             | 791,373                      |         |           |         |           |

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|                                       |           |           |           |
|---------------------------------------|-----------|-----------|-----------|
| Other payables <sup>1</sup>           | 1,337,803 |           |           |
| Other non-trade payables <sup>1</sup> | 1,091,062 |           |           |
| Borrowings                            | 3,818,595 | 3,869,536 | 3,869,536 |
|                                       | 7,038,833 | 3,869,536 | 3,869,536 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****6. Financial Risk Management, continued**

|   | Carrying amounts | Level 1 | 2014<br>Level 2<br>(In millions of won) | Level 3 | Total     |
|---|------------------|---------|---|---------|-----------|
| <b>Financial assets measured at fair value</b>          |                  |         |   |         |           |
| Short-term financial instruments                        | 1,842,020        |         | 1,842,020                               |         | 1,842,020 |
|   | 1,842,020        |         | 1,842,020                               |         | 1,842,020 |
| <b>Financial assets not measured at fair value</b>      |                  |         |   |         |           |
| Cash and cash equivalents <sup>1</sup>                  | 436,761          |         |   |         |           |
| Short-term financial instruments <sup>1</sup>           | 1,775,994        |         |   |         |           |
| Trade receivables <sup>1</sup>                          | 3,732,926        |         |   |         |           |
| Loans and other receivables <sup>1</sup>                | 750,518          |         |   |         |           |
| Other financial assets <sup>1</sup>                     | 323              |         |   |         |           |
| Available-for-sale financial assets <sup>1,2</sup>      | 127,314          |         |   |         |           |
|   | 6,823,836        |         |   |         |           |
| <b>Financial liabilities measured at fair value</b>     |                  |         |   |         |           |
| Other financial liabilities                             | 738              |         | 738                                     |         | 738       |
|   | 738              |         | 738                                     |         | 738       |
| <b>Financial liabilities not measured at fair value</b> |                  |         |   |         |           |
| Trade payables <sup>1</sup>                             | 787,822          |         |   |         |           |
| Other payables <sup>1</sup>                             | 1,358,816        |         |   |         |           |
| Other non-trade payables <sup>1</sup>                   | 1,315,903        |         |   |         |           |
| Borrowings  | 4,174,759        |         | 4,243,974                               |         | 4,243,974 |
|   | 7,637,300        |         | 4,243,974                               |         | 4,243,974 |

<sup>1</sup> Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are close to the reasonable approximate fair values.

<sup>2</sup> Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with IAS 39, Financial Instrument: Recognition and Measurement as fair values of such equity instruments cannot be reliably measured using other valuation methods.

(b) Valuation Techniques

The valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2 are as follows:



|   | Fair value<br>(In millions of won) | Level | Valuation Techniques     |
|---|------------------------------------|-------|--------------------------|
| <b>Short-term financial instruments:</b>              |                                    |       |                          |
| Financial assets at fair value through profit or loss | 1,047,277                          | 2     | The present value method |
| <b>Derivative financial Liabilities:</b>              |                                    |       |                          |
| Interest swap   | 683                                | 2     | The present value method |

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2015.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****7. Restricted Financial Instruments**

Details of restricted financial instruments as of December 31, 2015 and 2014 are as follows:

|                                  | 2015<br>(In millions of won) | 2014   | Description                              |
|----------------------------------|------------------------------|--------|--|
| Short-term financial instruments |                              | 3      | Restricted for government grants         |
|                                  | 77,500                       | 46,000 | Restricted for supporting small business |
|                                  | 22,190                       | 21,655 | Pledged for borrowings                   |
|                                  | 5,832                        | 4,601  | Pledged for consumption tax              |
|                                  |                              | 4,764  | Pledged for letter of credit             |
|                                  | 2,843                        | 584    | Deposit for import duties                |
|                                  | 108,365                      | 77,607 |  |
| Other financial assets           | 308                          | 308    | Pledged for borrowings                   |
|                                  | 12                           | 12     | Bank overdraft guarantee deposit         |
|                                  | 110                          | 3      | Others                                   |
|                                  | 430                          | 323    |  |
|                                  | 108,795                      | 77,930 |  |

**8. Trade Receivables and Loans and Other Receivables**

(1) Details of loans and other receivables as of December 31, 2015 and 2014 are as follows:

|   | 2015<br>(In millions of won) | 2014    |
|---|------------------------------|---------|
| <b>Current</b>                          |                              |         |
| Other receivables <sup>1</sup>          | 37,427                       | 655,112 |
| Accrued income                          | 18,126                       | 28,337  |
| Short-term loans                        | 3,786                        | 3,504   |
| Short-term guarantee and other deposits | 2,274                        | 4,576   |
|   | 61,613                       | 691,529 |
| <b>Non-current</b>                      |                              |         |
| Long-term other receivables             | 22,921                       | 22,880  |
| Long-term loans                         | 6,104                        | 7,199   |
| Guarantee deposits                      | 33,637                       | 28,585  |
| Long-term deposits                      | 257                          | 325     |

62,919 58,989

124,532 750,518

<sup>1</sup> Some of other receivables as of December 31, 2014 were reclassified to other current assets to conform with the classification as of December 31, 2015.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****8. Trade Receivables and Loans and Other Receivables, continued**

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2015 and 2014 are as follows:

|   | <b>Gross<br/>amount</b> | <b>2015<br/>Provision<br/>for<br/>impairment<br/>(In millions of won)</b> | <b>Carrying<br/>amount</b> |
|---|-------------------------|---|----------------------------|
| Trade receivables                       | 2,631,422               | (2,974)   | 2,628,448                  |
| Current loans and other receivables     | 63,046                  | (1,433)   | 61,613                     |
| Non-current loans and other receivables | 69,062                  | (6,143)   | 62,919                     |
|   | 2,763,530               | (10,550)  | 2,752,980                  |

|   | <b>Gross<br/>amount</b> | <b>2014<br/>Provision<br/>for<br/>impairment<br/>(In millions of won)</b> | <b>Carrying<br/>amount</b> |
|---|-------------------------|---|----------------------------|
| Trade receivables                       | 3,735,845               | (2,919)   | 3,732,926                  |
| Current loans and other receivables     | 693,197                 | (1,668)   | 691,529                    |
| Non-current loans and other receivables | 65,023                  | (6,034)   | 58,989                     |
|   | 4,494,065               | (10,621)  | 4,483,444                  |

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the years ended December 31, 2015 and 2014 are as follows:

|  | <b>2015<br/>(In millions of won)</b> | <b>2014</b> |
|--|--------------------------------------|-------------|
| <b>Beginning balance</b>                                 | 2,919                                | 3,446       |
| Provision for receivables impairment                     | 88                                   | 525         |
| Receivables written off during the year as uncollectible |                                      | (885)       |
| Foreign exchange difference                              | (33)                                 | (167)       |
| <b>Ending balance</b>                                    | 2,974                                | 2,919       |

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Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2015 and 2014 are as follows:

|  | 2015                 | 2014  |
|--|----------------------|-------|
|  | (In millions of won) |       |
| <b>Beginning balance</b>                                 | 1,668                | 2,062 |
| Provision for receivables impairment                     |                      | 302   |
| Unused amounts reversed                                  | (234)                | (1)   |
| Receivables written off during the year as uncollectible |                      | (697) |
| Foreign exchange difference                              | (1)                  | 2     |
| <b>Ending balance</b>                                    | 1,433                | 1,668 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****8. Trade Receivables and Loans and Other Receivables, continued**

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2015 and 2014 are as follows:

|  | 2015                 | 2014     |
|--|----------------------|----------|
|  | (In millions of won) |          |
| <b>Beginning balance</b>                                 | 6,034                | 12,510   |
| Provision for receivables impairment                     | 68                   | 4,636    |
| Unused amounts reversed                                  | (4)                  |          |
| Receivables written off during the year as uncollectible | (6)                  | (10,891) |
| Foreign exchange difference                              | 51                   | (221)    |
| <b>Ending balance</b>                                    | 6,143                | 6,034    |

(4) The aging analyses of trade receivables and loans and other receivables as of December 31, 2015 and 2014 are as follows:

|   | 2015                 |                    |  |          |        | Total     |
|---|----------------------|--------------------|--|----------|--------|-----------|
|   | Not Past due         | Not impaired       |  | Impaired | Total  |           |
|   |                      | Less than 3 months | Overdue Over 3 months and less than 6 months |          |        |           |
|   | (In millions of won) |                    |  |          |        |           |
| Trade receivables                       | 2,606,603            | 24,819             |  |          |        | 2,631,422 |
| Current loans and other receivables     | 61,753               |                    |  |          | 1,293  | 63,046    |
| Non-current loans and other receivables | 43,953               |                    |  |          | 25,109 | 69,062    |
|   | 2,712,309            | 24,819             |  |          | 26,402 | 2,763,530 |

|   | 2014                 |                    |  |          |        | Total     |
|---|----------------------|--------------------|--|----------|--------|-----------|
|   | Not Past due         | Not impaired       |  | Impaired | Total  |           |
|   |                      | Less than 3 months | Overdue Over 3 months and less than 6 months |          |        |           |
|   | (In millions of won) |                    |  |          |        |           |
| Trade receivables                       | 3,731,621            | 3,809              | 415  |          |        | 3,735,845 |
| Current loans and other receivables     | 691,918              |                    |  |          | 1,279  | 693,197   |
| Non-current loans and other receivables | 41,599               |                    |  |          | 23,424 | 65,023    |

|           |       |     |        |           |
|-----------|-------|-----|--------|-----------|
| 4,465,138 | 3,809 | 415 | 24,703 | 4,494,065 |
|-----------|-------|-----|--------|-----------|

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****9. Inventories**

(1) Details of inventories as of December 31, 2015 and 2014 are as follows:

|                  | 2015                 | 2014      |
|------------------|----------------------|-----------|
|                  | (In millions of won) |           |
| Finished goods   | 613,382              | 408,256   |
| Work-in-process  | 848,199              | 762,421   |
| Raw materials    | 222,742              | 188,037   |
| Supplies         | 164,156              | 102,705   |
| Goods in transit | 74,897               | 36,144    |
|                  | 1,923,376            | 1,497,563 |

(2) The amount of the inventories recognized as cost of sales is as follows:

|   | 2015                 | 2014      | 2013      |
|---|----------------------|-----------|-----------|
|   | (In millions of won) |           |           |
| Inventories recognized as cost of sales | 10,350,548           | 9,448,374 | 8,594,938 |

(3) The changes in inventory valuation allowance during the years ended December 31, 2015 and 2014 are as follows:

|                          | 2015                 | 2014     |
|--------------------------|----------------------|----------|
|                          | (In millions of won) |          |
| <b>Beginning balance</b> | 68,528               | 73,116   |
| Charged to cost of sales | 119,764              | 20,924   |
| Write-off upon sales     | (46)                 | (25,512) |
| <b>Ending balance</b>    | 188,246              | 68,528   |

There were no significant reversals of inventory write-downs recognized during 2015 and 2014.

**10. Non-current assets held for sale**

Details of changes in non-current assets held for sale for the years ended December 31, 2015 and 2014 are as follows:

|                          | 2015                 | 2014   |
|--------------------------|----------------------|--------|
|                          | (In millions of won) |        |
| <b>Beginning balance</b> | 27,661               | 26,557 |



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|                       |          |               |
|-----------------------|----------|---------------|
| Disposal <sup>1</sup> | (27,661) |               |
| Other                 |          | 1,104         |
| <b>Ending balance</b> |          | <b>27,661</b> |

<sup>1</sup> The Group disposed assets held for sale during the year ended December 31, 2015 and recognized loss on disposal of assets held for sale as other expenses for the amount of 5,844 million.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****11. Other Current and Non-current Assets**

Details of other current and non-current assets as of December 31, 2015 and 2014 are as follows:

|   | 2015                 | 2014    |
|---|----------------------|---------|
|   | (In millions of won) |         |
| <b>Current</b>                          |                      |         |
| Advance payments                        | 2,033                | 4,501   |
| Prepaid expenses                        | 212,766              | 156,590 |
| Value added tax refundable <sup>1</sup> | 131,673              | 190,356 |
| Others                                  | 7,454                | 5,984   |
|   | 353,926              | 357,431 |
| <b>Non-current</b>                      |                      |         |
| Long-term prepaid expenses <sup>2</sup> | 558,058              | 494,908 |
| Others                                  | 7,475                | 13,568  |
|   | 565,533              | 508,476 |
|   | 919,459              | 865,907 |

<sup>1</sup> Value added tax refundable for the year ended December 31, 2014 was reclassified from other receivables to other current assets to conform with the classification for the year ended December 31, 2015.

<sup>2</sup> Long-term prepaid expenses primarily consist of prepaid royalties.

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

(1) Details of investments in associates and joint ventures as of December 31, 2015 and 2014 are as follows:

| Type          | Investee                               | Ownership (%) | 2015                 |                 | 2014            |
|---------------|--|---------------|----------------------|-----------------|-----------------|
|               |  |               | Net asset value      | Carrying amount | Carrying amount |
|               |  |               | (In millions of won) |                 |                 |
| Associate     | Stratio, Inc. <sup>1</sup>             | 9.10          | 171                  | 2,171           |                 |
|               | Gemini Partners Pte. Ltd. <sup>2</sup> | 20.00         | 6,228                | 7,976           |                 |
| Joint venture | HITECH Semiconductor                   |               |                      |                 |                 |
|               | (Wuxi) Co., Ltd. (HITECH)              | 45.00         | 112,462              | 112,462         | 97,090          |
|               |  |               | 118,861              | 122,609         | 97,090          |

- <sup>1</sup> In 2015, the Parent Company acquired 1,136,013 preferred shares of Stratio, Inc. Stratio, Inc. is classified as an associate because the Parent Company has significant influence over Stratio, Inc.'s financial and operating policies through its right to appoint a member of the board of directors.
  
- <sup>2</sup> In 2015, the Parent Company acquired 20% of shares of Gemini Partners Pte. Ltd. and classified it as an associate because the Parent Company has significant influence over Gemini Partners Pte. Ltd.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****12. Investments in Associates and Joint Ventures, continued**

(2) Changes in investments in associates and joint ventures for the years ended December 31, 2015 and 2014 are as follows:

|                                       | Beginning balance | Acquisition (disposal) | 2015                   |                       | Dividend | Ending balance |
|---------------------------------------|-------------------|------------------------|------------------------|-----------------------|----------|----------------|
|                                       |                   |                        | Share of profit (loss) | Other equity movement |          |                |
| (In millions of won)                  |                   |                        |                        |                       |          |                |
| Stratio, Inc.                         |                   | 2,194                  | (35)                   | 12                    |          | 2,171          |
| Gemini Partners Pte. Ltd.             |                   | 7,976                  |                        |                       |          | 7,976          |
| HITECH Semiconductor (Wuxi) Co., Ltd. | 97,090            |                        | 24,677                 | 6,475                 | (15,780) | 112,462        |
|                                       | 97,090            | 10,170                 | 24,642                 | 6,487                 | (15,780) | 122,609        |
| 2014                                  |                   |                        |                        |                       |          |                |
|                                       | Beginning balance | Acquisition (disposal) | 2014                   |                       | Dividend | Ending balance |
|                                       |                   |                        | Share of profit (loss) | Other equity movement |          |                |
| (In millions of won)                  |                   |                        |                        |                       |          |                |
| Siliconfile Technologies Inc.         | 10,962            | (10,319)               | (579)                  | 171                   | (235)    |                |
| HITECH Semiconductor (Wuxi) Co., Ltd. | 96,135            |                        | 13,084                 | 3,535                 | (15,664) | 97,090         |
|                                       | 107,097           | (10,319)               | 12,505                 | 3,706                 | (15,899) | 97,090         |

(3) Associate and joint venture s statements of financial position as of December 31, 2015 and 2014 are as follows:

|                                       | Current assets | 2015               |                     | Non-current liabilities |
|---------------------------------------|----------------|--------------------|---------------------|-------------------------|
|                                       |                | Non-current assets | Current liabilities |                         |
| (In millions of won)                  |                |                    |                     |                         |
| Stratio, Inc.                         | 962            | 921                |                     | 1                       |
| Gemini Partners Pte. Ltd.             | 27,762         | 14,694             | 3,444               | 7,867                   |
| HITECH Semiconductor (Wuxi) Co., Ltd. | 270,959        | 314,464            | 89,034              | 246,478                 |
| 2014                                  |                |                    |                     |                         |
|                                       | Current assets | 2014               |                     | Non-current liabilities |
|                                       |                | Non-current assets | Current liabilities |                         |
| (In millions of won)                  |                |                    |                     |                         |
| HITECH Semiconductor (Wuxi) Co., Ltd. | 251,443        | 306,344            | 289,990             | 52,042                  |



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****12. Investments in Associates and Joint Ventures, continued**

(4) Summary of associate and joint venture s statements of comprehensive income (loss) for the years ended December 31, 2015, 2014 and 2013 are as follows:

|  | 2015    |                               | 2014                            |                                  | 2013    |                        |
|--|---------|-------------------------------|---------------------------------|----------------------------------|---------|------------------------|
|  | Revenue | Profit (loss)<br>for the year | Revenue<br>(In millions of won) | Profit<br>(loss)<br>for the year | Revenue | Profit for<br>the year |
| Stratio, Inc.                              |         | (385)                         |                                 |                                  |         |                        |
| Gemini Partners Pte. Ltd.                  |         | (747)                         |                                 |                                  |         |                        |
| HITECH Semiconductor (Wuxi) Co., Ltd.      | 677,284 | 54,835                        | 608,300                         | 29,077                           | 566,065 | 38,008                 |
| Siliconfile Technologies Inc. <sup>1</sup> |         |                               | 40,339                          | (2,072)                          | 131,914 | 7,708                  |

<sup>1</sup> Siliconfile Technologies Inc. was reclassified as a subsidiary due to the Group s additional acquisition of the remaining interest on April 22, 2014. Accordingly, the information presented in the above table includes the results of Siliconfile Technologies Inc. only for the period from January 1 to April 22, 2014.

**13. Available-for-sale Financial Assets**

(1) Details of available-for-sale financial assets as of December 31, 2015 and 2014 are as follows:

|   | Ownership   | 2015          |  | Book value | 2014 Book value |
|---|-------------|---------------|--|------------|-----------------|
|   |             | Ownership (%) | Acquisition cost<br>(In millions of won) |            |                 |
| ProMos  | 201,600,000 | 7.93          | 21,847                                   |            |                 |
| JNT Frontier Private Equity Unit                          | Certificate |               | 1,213                                    | 1,213      | 1,307           |
| SV M&A No.1 Equity Unit                                   | Certificate |               | 1,120                                    | 1,120      | 1,196           |
| Daishin Aju IB Investment Co., Ltd.                       | Certificate |               | 699                                      | 699        | 1,265           |
| Seoul Investment Early & Green Venture Fund               | Certificate |               | 1,678                                    | 1,678      | 1,760           |
| TS 2011-4 Technology Transfer & Business                  | Certificate |               | 1,262                                    | 1,262      | 1,262           |
| IMM Investment  | Certificate |               | 620                                      | 620        | 1,040           |
| L&S Venture Capital                                       | Certificate |               | 1,849                                    | 1,849      | 1,899           |
| KTC-NP-Growth   | Certificate |               | 2,271                                    | 2,271      | 516             |
| Intellectual Discovery, Ltd.                              | 800,000     | 7.05          | 4,000                                    | 4,000      | 4,000           |
| SKY Property Mgmt. Ltd.                                   | 5,745       | 15.00         | 112,360                                  | 112,360    | 112,360         |
| Equity investment in a construction guarantee association | 526         | 0.01          | 709                                      | 709        | 709             |
| China Walden Venture Investments II                       | Certificate |               | 3,573                                    | 3,573      |                 |
|   |             |               | 153,201                                  | 131,354    | 127,314         |

(2) Changes in the carrying amount of available-for-sale financial assets for the years ended December 31, 2015 and 2014 are as follows:

|                          | 2015                 | 2014     |
|--------------------------|----------------------|----------|
|                          | (In millions of won) |          |
| <b>Beginning balance</b> | 127,314              | 158,770  |
| Acquisition              | 5,359                | 1,414    |
| Disposal                 | (1,319)              | (32,870) |
| <b>Ending balance</b>    | 131,354              | 127,314  |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****14. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the years ended December 31, 2015 and 2014 are as follows:

|                                  | 2015    |           |            |                                   |          |           |                              | Total        |
|----------------------------------|---------|-----------|------------|-----------------------------------|----------|-----------|------------------------------|--------------|
|                                  | Land    | Buildings | Structures | Machinery<br>(In millions of won) | Vehicles | Others    | Construction<br>-in-progress |              |
| <b>Beginning net book amount</b> | 542,952 | 1,433,541 | 282,191    | 9,974,301                         | 863      | 254,129   | 1,602,357                    | 14,090,334   |
| <b>Changes during 2015</b>       |         |           |            |                                   |          |           |                              |              |
| Additions                        |         |           | 907        | 48,005                            | 94       | 11,030    | 6,699,838                    | 6,759,874    |
| Receipt of government grants     |         |           |            | (378)                             |          |           |                              | (378)        |
| Disposals                        | (4)     | (71)      | (271)      | (204,220)                         |          | (12,759)  | (7,665)                      | (224,990)    |
| Depreciation                     |         | (88,013)  | (27,851)   | (3,476,825)                       | (371)    | (101,385) |                              | (3,694,445)  |
| Transfers <sup>1</sup>           | 23,908  | 1,198,576 | 167,970    | 5,271,980                         | 783      | 243,497   | (6,881,650)                  | 25,064       |
| Impairments                      |         | (22,050)  |            |                                   |          | (5)       |                              | (22,055)     |
| Exchange differences             | 758     | 3,058     | 1,663      | 26,345                            |          | 1,431     | (407)                        | 32,848       |
| <b>Ending net book amount</b>    | 567,614 | 2,525,041 | 424,609    | 11,639,208                        | 1,369    | 395,938   | 1,412,473                    | 16,966,252   |
| Acquisition cost                 | 567,614 | 3,243,654 | 792,270    | 39,376,245                        | 3,659    | 966,111   | 1,412,473                    | 46,362,026   |
| Accumulated depreciation         |         | (672,563) | (348,493)  | (27,479,837)                      | (2,290)  | (568,466) |                              | (29,071,649) |
| Accumulated impairment           |         | (45,749)  | (19,168)   | (250,883)                         |          | (1,509)   |                              | (317,309)    |
| Government grants                |         | (301)     |            | (6,317)                           |          | (198)     |                              | (6,816)      |
|                                  | 567,614 | 2,525,041 | 424,609    | 11,639,208                        | 1,369    | 395,938   | 1,412,473                    | 16,966,252   |

<sup>1</sup> 25,064 million was transferred from investment property during the year ended December 31, 2015.



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****14. Property, Plant and Equipment, continued**

|   | 2014    |           |            |                                   |          |           |                              | Total        |
|---|---------|-----------|------------|-----------------------------------|----------|-----------|------------------------------|--------------|
|   | Land    | Buildings | Structures | Machinery<br>(In millions of won) | Vehicles | Others    | Construction<br>-in-progress |              |
| <b>Beginning net book amount</b>                  | 504,398 | 1,309,816 | 207,299    | 9,222,376                         | 227      | 209,111   | 676,570                      | 12,129,797   |
| <b>Changes during 2014</b>                        |         |           |            |                                   |          |           |                              |              |
| Additions   |         | 59,216    | 12,454     | 160,039                           | 71       | 26,552    | 5,160,807                    | 5,419,139    |
| Receipt of government grants                      |         |           |            | (502)                             |          |           |                              | (502)        |
| Business combination and disposal of a subsidiary |         |           | (468)      | (5,945)                           | 27       | 1,462     | (242)                        | (5,166)      |
| Disposals   |         | (1,114)   | (1,437)    | (197,242)                         | (14)     | (734)     | (5,231)                      | (205,772)    |
| Depreciation                                      |         | (55,986)  | (21,260)   | (3,117,150)                       | (177)    | (73,893)  |                              | (3,268,466)  |
| Transfers <sup>1</sup>                            | 38,097  | 139,858   | 83,673     | 3,874,433                         | 730      | 90,310    | (4,228,187)                  | (1,086)      |
| Impairments                                       |         | (23,620)  | (1,777)    | (4,139)                           |          |           |                              | (29,536)     |
| Exchange differences                              | 457     | 5,371     | 3,707      | 42,431                            | (1)      | 1,321     | (1,360)                      | 51,926       |
| <b>Ending net book amount</b>                     | 542,952 | 1,433,541 | 282,191    | 9,974,301                         | 863      | 254,129   | 1,602,357                    | 14,090,334   |
| Acquisition cost                                  | 542,952 | 2,020,429 | 621,345    | 34,956,922                        | 3,037    | 772,844   | 1,602,357                    | 40,519,886   |
| Accumulated depreciation                          |         | (562,724) | (319,991)  | (24,721,171)                      | (2,174)  | (516,775) |                              | (26,122,835) |
| Accumulated impairment                            |         | (23,847)  | (19,163)   | (254,597)                         |          | (1,646)   |                              | (299,253)    |
| Government grants                                 |         | (317)     |            | (6,853)                           |          | (294)     |                              | (7,464)      |
|   | 542,952 | 1,433,541 | 282,191    | 9,974,301                         | 863      | 254,129   | 1,602,357                    | 14,090,334   |

<sup>1</sup> 1,086 million was transferred to investment property during the year ended December 31, 2014.

(2) Details of depreciation expense allocation for the years ended December 31, 2015, 2014 and 2013 are as follows:

|                                     | 2015      | 2014<br>(In millions of won) | 2013      |
|-------------------------------------|-----------|------------------------------|-----------|
| Cost of sales                       | 3,365,460 | 3,040,674                    | 2,616,341 |
| Selling and administrative expenses | 263,938   | 197,196                      | 154,673   |
| Other expenses <sup>1</sup>         | 8,050     | 4,902                        | 122,471   |
| Development costs and other         | 56,997    | 25,694                       | 27,481    |
|                                     | 3,694,445 | 3,268,466                    | 2,920,966 |

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During 2013, depreciation expense of 122,471 million related to idle assets of the manufacturing facility in Wuxi, China, has been charged to casualty losses in other expenses (Note 29).

(3) During 2014, Impairment of 4,139 million (2013: 101,532 million) has been charged to casualty losses caused by a fire on the manufacturing facilities in Wuxi, China, which is included in other expenses (Note 29).

(4) Certain property, plant and equipment are pledged as collaterals for borrowings as of December 31, 2015 (Note 33).

(5) During 2015, the Group capitalized borrowing costs amounting to 18,892 million (2014: 20,762 million and 2013: 7,687 million) on qualifying assets. Borrowing costs were calculated using a capitalization rate of 4.83% (2014: 5.08% and 2013: 3.87%) for the year ended December 31, 2015.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****14. Property, Plant and Equipment, continued**

(6) The Group leases certain machinery and others from ME Semiconductor Rental First L.L.C. and other under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to 136,134 million as of December 31, 2015 (as of December 31, 2014: 165,414 million). The machinery and others are pledged as collateral for the finance lease liabilities.

The Group leases certain machinery and others from Macquarie Capital and others under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of December 31, 2015 is as follows:

|                      | <b>Minimum lease payments<br/>(In millions of won)</b> |
|----------------------|--|
| No later than 1 year | 104,911  |
| Later than 1 year    | 217,092  |
|                      | <b>322,003</b>   |

(7) As of December 31, 2015, certain inventories; property, plant and equipment; and investment properties are insured and details of insured assets is as follows:

|                              | <b>Insured assets</b>  | <b>Insured amount<br/>(In millions of won)</b> | <b>Insurance Company</b>                             |
|------------------------------|--|--|--|
| Package insurance            | Property, plant and equipment, investment property, inventories and others Business interruption | 48,476,239                                     |  |
| Fire insurance               | Property, plant and equipment, investment property   | 247,316  | Hyundai Marine & Fire Insurance Co., Ltd. and others |
| Erection all risks insurance | Property, plant and equipment  | 1,664,895                                      |  |
|                              |  | <b>50,388,450</b>                              |  |

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****15. Intangible Assets**

(1) Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

|   | Goodwill | Industrial<br>property<br>rights | 2015   |                     | Total     |
|---|----------|----------------------------------|--|---------------------|-----------|
|   |          |                                  | Development<br>costs<br>(In millions of won) | Others <sup>1</sup> |           |
| <b>Beginning net book amount</b>        | 704,185  | 83,750                           | 319,824                                      | 228,921             | 1,336,680 |
| <b>Changes during 2015</b>              |          |                                  |  |                     |           |
| Internal development                    |          |                                  | 349,264                                      |                     | 349,264   |
| Separate acquisition                    |          | 31,604                           |  | 242,875             | 274,479   |
| Disposals                               |          | (12,859)                         |  | (597)               | (13,456)  |
| Impairment                              |          | (2)                              | (1,606)                                      | (163)               | (1,771)   |
| Amortization                            |          | (12,800)                         | (184,167)                                    | (61,111)            | (258,078) |
| Others                                  | 16,570   | 94                               | 15   | 1,099               | 17,778    |
| <b>Ending net book amount</b>           | 720,755  | 89,787                           | 483,330                                      | 411,024             | 1,704,896 |
| Acquisition cost                        | 720,755  | 160,180                          | 1,126,505                                    | 585,500             | 2,592,940 |
| Accumulated amortization and impairment |          | (70,393)                         | (643,175)                                    | (137,621)           | (851,189) |
| Government grants                       |          |                                  |  | (36,855)            | (36,855)  |
|   | 720,755  | 89,787                           | 483,330                                      | 411,024             | 1,704,896 |

|                                  | Goodwill | Industrial<br>property<br>rights | 2014   |                     | Total     |
|----------------------------------|----------|----------------------------------|--|---------------------|-----------|
|                                  |          |                                  | Development<br>costs<br>(In millions of won) | Others <sup>1</sup> |           |
| <b>Beginning net book amount</b> | 632,311  | 73,860                           | 276,930                                      | 127,302             | 1,110,403 |
| <b>Changes during 2014</b>       |          |                                  |  |                     |           |
| Internal development             |          |                                  | 181,287                                      |                     | 181,287   |
| Separate acquisition             |          | 32,229                           |  | 122,775             | 155,004   |
| Receipt of government grants     |          |                                  |  | (19,739)            | (19,739)  |
| Business combinations            | 62,618   |                                  |  | 21,858              | 84,476    |
| Disposals                        |          | (9,428)                          |  | (380)               | (9,808)   |
| Impairment                       |          |                                  |  | (529)               | (529)     |
| Amortization                     |          | (13,374)                         | (138,389)                                    | (22,512)            | (174,275) |
| Others                           | 9,256    | 463                              | (4)  | 146                 | 9,861     |
| <b>Ending net book amount</b>    | 704,185  | 83,750                           | 319,824                                      | 228,921             | 1,336,680 |
| Acquisition cost                 | 704,185  | 173,828                          | 777,226                                      | 301,252             | 1,956,491 |

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|   |          |           |          |           |
|---|----------|-----------|----------|-----------|
| Accumulated amortization and impairment | (90,078) | (457,402) | (34,987) | (582,467) |
| Government grants                       |          |           | (37,344) | (37,344)  |
|   | 704,185  | 83,750    | 319,824  | 228,921   |
|   |          |           |          | 1,336,680 |

<sup>1</sup> Others include software and club memberships.

(2) Amortization of 12,811 million (2014: 3,106 million and 2013: 501 million) is included in the cost of sales and 244,978 million (2014: 171,169 million and 2013: 155,775 million) in selling and

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****15. Intangible Assets, continued**

administrative expenses in the statements of comprehensive income for the year ended December 31, 2015. Amortization of 289 million (2014 and 2013 : nil) is capitalized as development cost.

(3) Among costs associated with development activities, 349,264 million (2014: 181,287 million and 2013: 190,271 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2015. In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to 1,620,324 million (2014: 1,409,530 million and 2013: 968,804 million) were recognized as expenses for the year ended December 31, 2015.

**(4) Goodwill impairment tests**

Goodwill impairment tests are undertaken annually. As the Group has only one CGU, goodwill was allocated to one CGU. Recoverable amount of the CGU was determined based on fair value less costs to sell, which was determined using the current stock price as of December 31, 2015. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2015.

**16. Investment Property**

Changes in investment property during the years ended December 31, 2015 and 2014 are as follows:

|                                  | <b>2015</b>                 | <b>2014</b> |
|----------------------------------|-----------------------------|-------------|
|                                  | <b>(In millions of won)</b> |             |
| <b>Beginning net book amount</b> | 28,456                      | 28,609      |
| <b>Changes for the year</b>      |                             |             |
| Depreciation                     | (713)                       | (1,239)     |
| Transfer <sup>1</sup>            | (25,064)                    | 1,086       |
| <b>Ending net book amount</b>    | 2,679                       | 28,456      |
| Acquisition cost                 |                             | 50,839      |
| Accumulated depreciation         |                             | (22,383)    |
|                                  | 2,679                       | 28,456      |

<sup>1</sup> Transfer from (to) property, plant and equipment.

The depreciation expense of 713 million was charged to cost of sales for the year ended December 31, 2015 (2014: 1,239 million and 2013: 1,279 million).

Rental income from investment property during the year ended December 31, 2015 was 2,627 million (2014: 4,534 million and 2013: 4,283 million).

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****17. Borrowings**

(1) Details of borrowings as of December 31, 2015 and 2014 are as follows:

|   | 2015                 | 2014      |
|---|----------------------|-----------|
|   | (In millions of won) |           |
| <b>Current</b>                          |                      |           |
| Short-term borrowings                   | 147,948              | 734,165   |
| Current portion of long-term borrowings | 465,561              | 820,855   |
| Current portion of debentures           | 399,863              | 200,000   |
|   | 1,013,372            | 1,755,020 |
| <b>Non-current</b>                      |                      |           |
| Long-term borrowings                    | 1,512,003            | 1,262,772 |
| Debentures                              | 1,293,220            | 1,156,967 |
|   | 2,805,223            | 2,419,739 |
|   | 3,818,595            | 4,174,759 |

(2) Details of short-term borrowings as of December 31, 2015 and 2014 are as follows:

|  | Financial<br>Institutions          | Interest rate<br>per annum<br>in 2015 (%) | 2015                 | 2014    |
|--|------------------------------------|---|----------------------|---------|
|  |                                    |   | (In millions of won) |         |
| Import finance                             | Woori Bank                         |   |                      | 22,060  |
| Borrowings on trade receivables collateral |                                    | 3M LIBOR +                                |                      |         |
|  | Shinhan Bank and others            | 1.20 ~ 3.30                               | 1,160                | 220,663 |
|  | NongHyup Bank                      | KORIBOR + 1.1                             | 1,916                |         |
| Refinancing and others                     | China Construction Bank and others | 1.23 ~ 3.20                               | 144,872              | 491,442 |
|  |                                    |   | 147,948              | 734,165 |



**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****17. Borrowings, continued**

(3) Details of long-term borrowings as of December 31, 2015 and 2014 are as follows:

|                                     | Financial institutions                                      | Interest rate per annum                          |  | 2015<br>(In millions of won) | 2014<br>(In millions of won) |
|-------------------------------------|---|--|--|------------------------------|------------------------------|
|                                     |   | in 2015 (%) <sup>1</sup>                         |  |                              |                              |
| <b>Local currency borrowings:</b>   |   |  |  |                              |                              |
| Borrowing for housing               | Kookmin Bank  |  |  |                              | 10                           |
| Borrowings for childcare facilities | NongHyup Bank   | 2.00   |  | 123                          | 185                          |
| Funds for equipment                 | Korea Development Bank (formerly Korea Finance Corporation) | Industrial financial debentures (4 years) + 0.93 |  | 166,667                      | 250,000                      |
| Funds for equipment <sup>2</sup>    | KEB Hana Bank (formerly Korea Exchange Bank)                | CD (91days) +1.31                                |  | 40,000                       | 50,000                       |
| Commercial paper                    | KEB Hana Bank (formerly Korea Exchange Bank)                |  |  |                              | 200,000                      |
| Finance lease liabilities           | Hansu Technical Service Ltd.                                | 3.70   |  | 42,775                       |                              |
| Finance lease liabilities           | ME Semiconductor Rental First L.L.C.                        | 5.00   |  | 74,898                       | 147,870                      |
|                                     |   |  |  | 324,463                      | 648,065                      |
| <b>Foreign currency borrowings:</b> |   |  |  |                              |                              |
| General borrowings                  | Export-Import Bank of Korea                                 | 3M LIBOR + 1.00 ~ 3.15                           |  | 488,333                      | 274,800                      |
| General borrowings                  | Standard Chartered Bank Korea Ltd.                          |  |  |                              | 12,366                       |
| General borrowings                  | Woori Bank  | 3M LIBOR + 0.98                                  |  | 175,800                      |                              |
| General borrowings                  | Korea Development Bank                                      | Exchange equalization fund rate + 0.60           |  | 117,200                      | 109,920                      |
| General borrowings                  | Korea Development Bank                                      | 3M LIBOR + 0.95                                  |  | 175,800                      |                              |
| General borrowings                  | NongHyup Bank and others                                    | Exchange equalization fund rate + 0.63           |  | 187,520                      | 175,872                      |
| General borrowings                  | NongHyup Bank and others                                    | 3M LIBOR + 3.19                                  |  | 234,400                      | 274,800                      |
| General borrowings                  | Agricultural Bank of China and other                        |  |  |                              | 182,841                      |
| Syndicated loans                    | Development Bank of China and others                        | 3M LIBOR + 2.95                                  |  | 65,340                       | 209,348                      |
| Funds for equipment                 | Standard Chartered Bank Korea Ltd.                          | 3M LIBOR + 3.45                                  |  | 172,688                      | 118,653                      |
| Mortgage loans                      | HITECH Semiconductor (Wuxi) Co., Ltd.                       |  |  |                              | 18,162                       |
| Finance lease liabilities           | Goodmemory First L.L.C.                                     | 4.70   |  | 36,020                       | 59,415                       |
|                                     |   |  |  | 1,653,101                    | 1,436,177                    |
|                                     |   |  |  | 1,977,564                    | 2,084,242                    |

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|                                 |           |           |
|---------------------------------|-----------|-----------|
| Less: Discount on present value |           | (615)     |
| Current maturities              | (465,561) | (820,855) |
|                                 | 1,512,003 | 1,262,772 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****17. Borrowings, continued**

<sup>1</sup> As of December 31, 2015, the interest rates are as follows:

| Type                                      | Interest rate per annum as of<br>December 31, 2015 |
|---|--|
| Exchange equalization fund rate           | 1.14%  |
| Industrial financial debentures (4 years) | 3.05%  |
| CD (91 days)                              | 1.67%  |
| 3M LIBOR                                  | 0.61%  |
| KORIBOR (30 days)                         | 1.55%  |

<sup>2</sup> The Group entered into interest swap contracts with KEB Hana Bank (formerly Korea Exchange Bank) to hedge interest rate risk from the local currency loans.

(4) Details of debentures as of December 31, 2015 and 2014 are as follows:

|   | Maturity date | Interest rate per<br>annum in 2015 (%) | 2015<br>(In millions of won) | 2014      |
|---|---------------|--|------------------------------|-----------|
| <b>Unsecured notes in local currency:</b> |               |  |                              |           |
| 210th                                     | Jan. 14, 2015 | 6.35                                   |                              | 200,000   |
| 211th                                     | May 6, 2016   | 6.20                                   | 400,000                      | 400,000   |
| 212th                                     | May 30, 2019  | 5.35                                   | 450,000                      | 450,000   |
| 213th                                     | Sep. 4, 2017  | 3.72                                   | 200,000                      | 200,000   |
| 214-1st                                   | Aug. 26, 2020 | 2.27                                   | 210,000                      |           |
| 214-2nd                                   | Aug. 26, 2022 | 2.63                                   | 140,000                      |           |
| 215-1st                                   | Nov. 25, 2018 | 2.26                                   | 70,000                       |           |
| 215-2nd                                   | Nov. 25, 2020 | 2.56                                   | 100,000                      |           |
| 215-3rd                                   | Nov. 25, 2020 | 2.75                                   | 10,000                       |           |
| <b>Secured notes in foreign currency</b>  |               |  |                              |           |
| Foreign 8th <sup>1</sup>                  | Jun. 20, 2017 | 3M LIBOR + 2.85                        | 117,200                      | 109,920   |
|   |               |  | 1,697,200                    | 1,359,920 |
| Less: Discounts on debentures             |               |  | (4,117)                      | (2,953)   |
| Current portion                           |               |  | (399,863)                    | (200,000) |
|   |               |  | 1,293,220                    | 1,156,967 |

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<sup>1</sup> The Group is provided with USD100 million of payment guarantee from Shinhan Bank as of December 31, 2015.  
(5) Finance lease liability

Lease liabilities are effectively secured as the rights to the leased asset belong to the lessor.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****17. Borrowings, continued**

Details of future minimum lease payments to the lessor as of December 31, 2015 and 2014 are as follows:

|                                    | 2015                 | 2014     |
|------------------------------------|----------------------|----------|
|                                    | (In millions of won) |          |
| <b>Total minimum lease payment</b> |                      |          |
| No later than 1 year               | 98,927               | 106,318  |
| Between 1 and 5 years              | 66,779               | 116,277  |
|                                    | 165,706              | 222,595  |
| <b>Discount on present value</b>   | (12,013)             | (16,346) |
| <b>Net minimum lease payment</b>   |                      |          |
| No later than 1 year               | 93,770               | 97,567   |
| Between 1 and 5 years              | 59,923               | 108,682  |
|                                    | 153,693              | 206,249  |

(6) Details of book value and fair value of non-current borrowings as of December 31, 2015 and 2014 are as follows:

|                      | 2015                 |            | 2014       |            |
|----------------------|----------------------|------------|------------|------------|
|                      | Book value           | Fair value | Book value | Fair value |
|                      | (In millions of won) |            |            |            |
| Long-term borrowings | 1,512,003            | 1,517,683  | 1,262,772  | 1,271,718  |
| Debentures           | 1,293,220            | 1,338,481  | 1,156,967  | 1,217,236  |
|                      | 2,805,223            | 2,856,164  | 2,419,739  | 2,488,954  |

**18. Other Current and Non-current Liabilities**

Details of other current and non-current liabilities as of December 31, 2015 and 2014 are as follows:

|                   | 2015                 | 2014   |
|-------------------|----------------------|--------|
|                   | (In millions of won) |        |
| <b>Current</b>    |                      |        |
| Advance receipts  | 2,867                | 2,682  |
| Unearned income   | 374                  | 322    |
| Withholdings      | 35,938               | 67,174 |
| Deposits received | 1,256                | 858    |

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|                                   |         |         |
|-----------------------------------|---------|---------|
| Others                            | 4,008   | 163     |
|                                   | 44,443  | 71,199  |
| <b>Non-current</b>                |         |         |
| Other long-term employee benefits | 61,149  | 59,464  |
|                                   | 105,592 | 130,663 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****19. Provisions**

(1) Details of changes in provisions for the years ended December 31, 2015 and 2014 are as follows:

|                     | Beginning<br>balance | Increase | 2015                                |          |                    | Ending<br>balance |
|---------------------|----------------------|----------|-------------------------------------|----------|--------------------|-------------------|
|                     |                      |          | Utilization<br>(In millions of won) | Reversal | Other <sup>1</sup> |                   |
| Warranty            | 6,886                | 2,910    | (4,346)                             | (2,514)  |                    | 2,936             |
| Sales returns       | 14,646               | 53,642   | (53,552)                            |          |                    | 14,736            |
| Legal claims        | 4,400                | 1,440    | (4,370)                             | (30)     | 83                 | 1,523             |
| Emission allowances |                      | 6,081    |                                     |          |                    | 6,081             |
|                     | 25,932               | 64,073   | (62,268)                            | (2,544)  | 83                 | 25,276            |

<sup>1</sup> Others include foreign exchange rate differences.

|               | Beginning<br>balance | Increase | 2014                                |          |                    | Ending<br>balance |
|---------------|----------------------|----------|-------------------------------------|----------|--------------------|-------------------|
|               |                      |          | Utilization<br>(In millions of won) | Reversal | Other <sup>1</sup> |                   |
| Warranty      | 13,914               | 10,862   | (17,890)                            |          |                    | 6,886             |
| Sales returns | 12,564               | 51,148   | (49,066)                            |          |                    | 14,646            |
| Legal claims  | 26,106               |          | (21,031)                            |          | (675)              | 4,400             |
|               | 52,584               | 62,010   | (87,987)                            |          | (675)              | 25,932            |

(2) Provisions for warranty

The Group estimates the expected warranty costs based on historical results and accrues provisions for warranty.

(3) Provisions for sales returns

The Group estimates the expected sales returns based on historical results and adjusts sales and cost of sales, respectively. Accordingly, related gross profit and estimated expenses related to the return (such as transportation costs) are recorded as provisions for sales returns.

(4) Provisions for legal claims

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated.

(5) Provision for emission allowances

The Group recognizes estimated future payment for the number of emission certificates required to settle the Group's obligation exceeding the actual number of certificates on hand as emission allowances according to the Act on Allocation and Trading of Greenhouse Gas Emission Permits.

**20. Defined Benefit Liabilities**

Under the defined benefit plan, the Group pays employee benefits to retired employees in the form of a lump sum that are based on their salaries and years of service at the time of their retirement. Accordingly, the Group is

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exposed to a variety of actuarial assumption risks such as risk associated with expected years of service, interest risk, and market (investment) risk.

(1) Details of defined benefit liabilities as of December 31, 2015 and 2014 are as follows:

|  | <b>2015</b>                 | <b>2014</b> |
|--|-----------------------------|-------------|
|  | <b>(In millions of won)</b> |             |
| Present value of defined benefit obligations | 1,055,340                   | 887,277     |
| Fair value of plan assets                    | (570,363)                   | (421,927)   |
|  | 484,977                     | 465,350     |

(2) Principal actuarial assumptions as of December 31, 2015 and 2014 are as follows:

|  | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|
| Discount rate for defined benefit obligations <sup>1</sup> | 2.89% ~ 4.10% | 3.19% ~ 4.50% |
| Expected rate of salary increase                           | 2.20% ~ 5.52% | 4.92% ~ 5.81% |

<sup>1</sup> As of December 31, 2015, discount rate of 2.89% was applied for SK hystec Inc., which comprises 0.7% of total defined benefit liabilities, and 3.30% to 4.10% was applied for the others in defined benefit liabilities. As of December 31, 2014, discount rate of 3.19% was applied for SK hystec Inc., which comprises 0.8% of total defined benefit liabilities, and 4.50% was applied for the others.

(3) Weighted average durations of defined benefit obligations as of December 31, 2015 and 2014 are 12.39 and 12.67 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2015 and 2014 are as follows:

|  | <b>2015</b>                 | <b>2014</b> |
|--|-----------------------------|-------------|
|  | <b>(In millions of won)</b> |             |
| <b>Beginning balance</b>                           | 887,277                     | 656,080     |
| Current service cost                               | 139,486                     | 109,403     |
| Interest cost                                      | 39,243                      | 35,442      |
| Benefits paid                                      | (24,459)                    | (35,529)    |
| Remeasurements:                                    |                             |             |
| Demographic assumption                             | (1,860)                     | 7           |
| Financial assumption                               | 33,632                      | 119,206     |
| Adjustment based on experience                     | (18,561)                    | 262         |
| Business combinations and disposal of a subsidiary |                             | 1,711       |
| Transfer from associates                           | 576                         | 757         |

|                                       |           |         |
|---------------------------------------|-----------|---------|
| Effect of movements in exchange rates | 6         | (62)    |
| <b>Ending balance</b>                 | 1,055,340 | 887,277 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****20. Defined Benefit Liabilities, continued**

(5) Changes in plan assets for the years ended December 31, 2015 and 2014 are as follows:

|  | 2015                 | 2014    |
|--|----------------------|---------|
|  | (In millions of won) |         |
| <b>Beginning balance</b>                           | 421,927              | 20,340  |
| Interest income                                    | 18,545               | 1,413   |
| Contributions                                      | 153,566              | 402,894 |
| Benefits paid                                      | (15,137)             | (1,385) |
| Remeasurements                                     | (8,661)              | (399)   |
| Business combinations and disposal of a subsidiary |                      | (1,133) |
| Transfer from associates                           | 123                  | 197     |
| <b>Ending balance</b>                              | 570,363              | 421,927 |

(6) The amounts recognized in profit or loss for the years ended December 31, 2015, 2014 and 2013 are as follows:

|                      | 2015                 | 2014    | 2013    |
|----------------------|----------------------|---------|---------|
|                      | (In millions of won) |         |         |
| Current service cost | 139,486              | 109,403 | 98,095  |
| Net interest expense | 20,698               | 34,029  | 27,400  |
|                      | 160,184              | 143,432 | 125,495 |

(7) The amounts in which defined benefit plan related expenses are included for the years ended December 31, 2015, 2014 and 2013 are as follows:

|                                     | 2015                 | 2014    | 2013    |
|-------------------------------------|----------------------|---------|---------|
|                                     | (In millions of won) |         |         |
| Cost of sales (manufacturing costs) | 88,415               | 82,922  | 73,950  |
| Selling and administrative expenses | 71,769               | 60,510  | 51,545  |
|                                     | 160,184              | 143,432 | 125,495 |

(8) Details of plan assets as of December 31, 2015 and 2014 are as follows:

|  | 2015 | 2014 |
|--|------|------|
|--|------|------|

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|          | (In millions of won) |         |
|----------|----------------------|---------|
| Deposits | 568,790              | 420,300 |
| Other    | 1,573                | 1,627   |
|          | 570,363              | 421,927 |

Actual return on plan assets for the year ended December 31, 2015 amounted to 9,884 million (2014: 1,014 million and 2013: 492 million).

(9) As of December 31, 2015, the Group funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies. The Group's minimum required contribution to the plan assets for the year ending December 31, 2016 is 239,780 million under the assumption that the Group maintains the defined benefit plan.

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(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2015 to changes in the principal assumptions is as follows:

|   | Effects on defined benefit obligation |                  |
|---|---------------------------------------|------------------|
|   | Increase of rate                      | Decrease of rate |
|   | (In millions of won)                  |                  |
| Discount rate (if changed by 1%)                    | (115,409)                             | 136,562          |
| Expected rate of salary increase (if changed by 1%) | 136,638                               | (117,540)        |

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

(11) Information about the maturity profile of the defined benefit obligation as of December 31, 2015 is as follows:

|               | Less than 1 year     | 1 - 5 years | 2015         |               | Total     |
|---------------|----------------------|-------------|--------------|---------------|-----------|
|               |                      |             | 5 - 10 years | 10 - 20 years |           |
|               | (In millions of won) |             |              |               |           |
| Benefits paid | 32,397               | 208,589     | 592,188      | 2,567,869     | 3,401,043 |

Information about the maturity profile is based on undiscounted amount of defined benefit obligation and classified to employee's expected years of remaining services.

**21. Deferred Income Tax**

(1) Changes in deferred taxes for the years ended December 31, 2015 and 2014 are as follows:

|                            | 2015                 | 2014    |
|----------------------------|----------------------|---------|
|                            | (In millions of won) |         |
| <b>At January 1</b>        | 268,639              | 198,570 |
| Recorded in profit or loss | 81,265               | 69,176  |
| Exchange differences       | 3,718                | 893     |
| <b>At December 31</b>      | 353,622              | 268,639 |

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(2) Changes in deferred income tax assets and liabilities for the years ended December 31, 2015 and 2014 without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

|   | January 1,<br>2015   | Profit or<br>loss | 2015<br>Currency<br>translation<br>differences | December 31,<br>2015 |
|---|----------------------|-------------------|--|----------------------|
|   | (In millions of won) |                   |  |                      |
| <b>Deferred tax liabilities:</b>                  |                      |                   |  |                      |
| Advanced depreciation provision                   | (55,666)             |                   |  | (55,666)             |
| Valuation of derivatives                          | (208)                | 135               |  | (73)                 |
| Gains on foreign currency translation             | (2,325)              | 1,513             | (25)   | (837)                |
| Plan assets                                       | (96,902)             | (33,524)          |  | (130,426)            |
| Others  | (16,967)             | 7,041             | (133)  | (10,059)             |
|   | (172,068)            | (24,835)          | (158)  | (197,061)            |
| <b>Deferred tax assets:</b>                       |                      |                   |  |                      |
| Loss on valuation of inventories                  | 18,001               | 22,329            | 5  | 40,335               |
| Valuation of equity-method investments            | 250,682              | (17,550)          | 4,477  | 237,609              |
| Accumulated depreciation                          | 79,819               | (757)             | 416  | 79,478               |
| Net defined benefits                              | 186,627              | 36,492            | 16   | 223,135              |
| Deemed investments and others                     | 161,995              |                   |  | 161,995              |
| Provisions and others                             | 1,066                | (716)             |  | 350                  |
| Impairment of available-for-sale financial assets | 37,238               | (735)             |  | 36,503               |
| Losses on foreign currency translation            | 2,522                | (2,329)           |  | 193                  |
| Property, plant and equipment                     | 3,381                | (3,960)           |  | (579)                |
| Losses on valuation of derivative                 | 386                  | (148)             |  | 238                  |
| Tax loss carryforwards                            | 23,581               | 7,277             | 1,562  | 32,420               |
| Others  | 246,606              | (49,816)          | 9,976  | 206,766              |
|   | 1,011,904            | (9,913)           | 16,452   | 1,018,443            |
| Deferred tax assets, net                          | 839,836              | (34,748)          | 16,294   | 821,382              |
| Deferred tax assets not recognized                | (750,313)            | 165,453           | (12,788)                                       | (597,648)            |
| Tax credit carryforwards recognized               | 179,116              | (49,440)          | 212  | 129,888              |
| <b>Deferred tax assets recognized</b>             | <b>268,639</b>       | <b>81,265</b>     | <b>3,718</b>                                   | <b>353,622</b>       |

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|   | January 1,<br>2014 | Profit or<br>loss<br>(In millions of won) | 2014<br>Currency<br>translation<br>differences | December 31,<br>2014 |
|---|--------------------|---|--|----------------------|
| <b>Deferred tax liabilities:</b>                  |                    |   |  |                      |
| Advanced depreciation provision                   | (55,666)           |   |  | (55,666)             |
| Valuation of derivatives                          | (5,452)            | 5,244                                     |  | (208)                |
| Gains on foreign currency translation             | (2,597)            | 261                                       | 11   | (2,325)              |
| Conversion rights adjustment                      | (6,827)            | 6,827                                     |  |                      |
| Plan assets                                       | (725)              | (96,177)                                  |  | (96,902)             |
| Others  | (13,897)           | (2,996)                                   | (74)   | (16,967)             |
|   | (85,164)           | (86,841)                                  | (63)   | (172,068)            |
| <b>Deferred tax assets:</b>                       |                    |   |  |                      |
| Loss on valuation of inventories                  | 18,876             | (873)                                     | (2)  | 18,001               |
| Valuation of equity-method investments            | 216,334            | 35,920                                    | (1,572)  | 250,682              |
| Accumulated depreciation                          | 120,960            | (41,917)                                  | 776  | 79,819               |
| Net defined benefits                              | 137,578            | 49,091                                    | (42)   | 186,627              |
| Deemed investments and others                     | 162,390            | (395)                                     |  | 161,995              |
| Provisions and others                             | 5,816              | (4,750)                                   |  | 1,066                |
| Impairment of available-for-sale financial assets | 40,134             | (2,896)                                   |  | 37,238               |
| Losses on foreign currency translation            | 2,546              | (24)                                      |  | 2,522                |
| Property, plant and equipment                     | 15,217             | (11,836)                                  |  | 3,381                |
| Losses on valuation of derivative                 | 31,367             | (30,981)                                  |  | 386                  |
| Tax loss carryforwards                            | 72,736             | (50,412)                                  | 1,257  | 23,581               |
| Others  | 209,967            | 30,701                                    | 5,938  | 246,606              |
|   | 1,033,921          | (28,372)                                  | 6,355  | 1,011,904            |
| Deferred tax assets, net                          | 948,757            | (115,213)                                 | 6,292  | 839,836              |
| Deferred tax assets not recognized                | (827,313)          | 82,399                                    | (5,399)  | (750,313)            |
| Tax credit carryforwards recognized               | 77,126             | 101,990                                   |  | 179,116              |
| <b>Deferred tax assets recognized</b>             | 198,570            | 69,176                                    | 893  | 268,639              |

(3) Deferred tax assets are recognized for deductible temporary differences, tax loss carryforwards and tax credit carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

As of December 31, 2015 the Group did not recognize deferred tax assets of 597,648 million (2014: 750,313 million) associated with deductible temporary differences amounting to 2,469,626 million (2014: 3,100,467 million).

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As of December 31, 2015, the unused tax credits that were not recognized as deferred tax assets amounted to 234,632 million (2014: 387,088 million).

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(4) Expiration schedule of tax credit carryforwards that were not recognized as deferred tax assets as of December 31, 2015 is as follows:

|      | <b>Tax credit carryforwards<br/>(In millions of won)</b> |
|------|--|
| 2018 | 10,277   |
| 2019 | 120,010  |
| 2020 | 104,345  |
|      | 234,632  |

**22. Derivative Financial Instruments**

(1) Details of derivative financial liabilities as of December 31, 2015 and 2014 are as follows:

|                     | <b>2015</b>                 | <b>2014</b> |
|---------------------|-----------------------------|-------------|
|                     | <b>(In millions of won)</b> |             |
| <b>Current</b>      |                             |             |
| Interest rates swap |                             | 30          |
| <b>Non-current</b>  |                             |             |
| Interest rates swap | 683                         | 708         |
|                     | 683                         | 738         |

(2) Details of gains and losses from derivative instruments for the years ended December 31, 2015, 2014 and 2013 are follows:

|                     | <b>2015</b>                      |                              |                                |                                |
|---------------------|----------------------------------|------------------------------|--------------------------------|--------------------------------|
|                     | <b>Gain<br/>on<br/>valuation</b> | <b>Loss on<br/>valuation</b> | <b>Gain on<br/>transaction</b> | <b>Loss on<br/>transaction</b> |
|                     | <b>(In millions of won)</b>      |                              |                                |                                |
| Interest rates swap | 25                               |                              | 1,672                          | 2,058                          |
|                     | <b>2014</b>                      |                              |                                |                                |
|                     | <b>Gain<br/>on<br/>valuation</b> | <b>Loss on<br/>valuation</b> | <b>Gain on<br/>transaction</b> | <b>Loss on<br/>transaction</b> |
|                     | <b>(In millions of won)</b>      |                              |                                |                                |
| Interest rates swap | 215                              | 980                          | 2,955                          | 237                            |

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|  |     |         |       |       |
|--|-----|---------|-------|-------|
| Embedded derivative instruments <sup>1</sup> |     | 171,016 |       | 2,691 |
|  | 215 | 171,996 | 2,955 | 2,928 |

|  |                         | 2013                 |                        |                        |
|--|-------------------------|----------------------|------------------------|------------------------|
|  | Gain<br>on<br>valuation | Loss on<br>valuation | Gain on<br>transaction | Loss on<br>transaction |
|  | (In millions of won)    |                      |                        |                        |
| Foreign currency forward contract            |                         |                      | 3,630                  | 5,308                  |
| Interest rates swap                          | 2,507                   |                      | 26                     | 1,242                  |
| Embedded derivative instruments <sup>1</sup> |                         | 93,085               |                        |                        |
|  | 2,507                   | 93,085               | 3,656                  | 6,550                  |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****22. Derivative Financial Instruments, continued**

<sup>1</sup> The Group bifurcated convertible options and separately accounted for them as derivative instruments which were embedded in the foreign-currency convertible bond. These convertible options were measured at fair value and changes in therein were recognized in profit or loss.

**23. Capital Stock, Capital Surplus and Other Equity**

(1) Details of capital stock, capital surplus and other equity as of December 31, 2015 and 2014 are as follows:

|                                     | <b>2015</b>  | <b>2014</b> |
|-------------------------------------|--|-------------|
|                                     | <b>(In millions of won,<br/>thousands of shares)</b> |             |
| Authorized shares                   | 9,000,000  | 9,000,000   |
| Issued shares <sup>1</sup>          | 731,530  | 731,530     |
| Capital stock:                      |  |             |
| Common stock                        | 3,657,652  | 3,657,652   |
| Capital surplus:                    |  |             |
| Additional paid in capital          | 3,625,797  | 3,625,797   |
| Consideration for conversion rights | 42,928   | 42,928      |
| Others                              | 475,011  | 475,011     |
|                                     | 4,143,736  | 4,143,736   |
| Other equity                        |  |             |
| Acquisition cost of treasury shares | (771,913)  | (24)        |
| Number of treasury shares           | 22,001   | 1           |

<sup>1</sup> As of December 31, 2015, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the result of stock retirement.

(2) Changes in number of outstanding shares as of December 31, 2015 and December 31, 2014 are as follows:

|   | <b>2015</b>                     | <b>2014</b> |
|---|---------------------------------|-------------|
|   | <b>(In thousands of shares)</b> |             |
| <b>Beginning</b>  | 728,002                         | 710,201     |
| Issue of ordinary shares related to the acquisition of a subsidiary |                                 | 1,358       |
| Exercise of conversion rights                                       |                                 | 16,443      |
| Acquisition of treasury shares                                      | (22,000)                        |             |
| <b>Ending</b>   | 706,002                         | 728,002     |

**24. Accumulated Other Comprehensive Loss**

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(1) Details of accumulated other comprehensive loss as of December 31, 2015 and 2014 are as follows:

|  | 2015                 | 2014     |
|--|----------------------|----------|
|  | (In millions of won) |          |
| Equity-accounted investees' share of other comprehensive income (loss) | 1,856                | (4,631)  |
| Foreign operations' foreign currency translation differences           | (3,456)              | (37,184) |
|  | (1,600)              | (41,815) |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****24. Accumulated Other Comprehensive Loss, continued**

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2015 and 2014 are as follows:

|   | Beginning            | 2015<br>Change | Ending  |
|---|----------------------|----------------|---------|
|   | (In millions of won) |                |         |
| Equity-accounted investees share of other comprehensive income (loss) | (4,631)              | 6,487          | 1,856   |
| Foreign operations foreign currency translation differences           | (37,184)             | 33,728         | (3,456) |
|   | (41,815)             | 40,215         | (1,600) |

|   | Beginning            | 2014<br>Change | Ending   |
|---|----------------------|----------------|----------|
|   | (In millions of won) |                |          |
| Available-for-sale financial assets unrealized net change in fair value | 7,824                | (7,824)        |          |
| Equity-accounted investees share of other comprehensive loss            | (8,337)              | 3,706          | (4,631)  |
| Foreign operations foreign currency translation differences             | (108,294)            | 71,110         | (37,184) |
|   | (108,807)            | 66,992         | (41,815) |

**25. Retained Earnings and Dividends**

(1) Details of retained earnings as of December 31, 2015 and 2014 are as follows:

|                                    | 2015                 | 2014       |
|------------------------------------|----------------------|------------|
|                                    | (In millions of won) |            |
| Legal reserve <sup>1</sup>         | 30,694               | 8,854      |
| Discretionary reserve <sup>2</sup> | 235,506              | 235,506    |
| Unappropriated retained earnings   | 14,092,788           | 10,032,544 |
|                                    | 14,358,988           | 10,276,904 |

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial year, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for

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cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit.

<sup>2</sup> Discretionary reserve is a reserve for technology development.

(2) Dividends of the Parent Company

(a) Details of dividends for the years ended December 31, 2015, 2014 and 2013 are as follows:

| Type of dividends           | 2015  | 2014           | 2013    |
|-----------------------------|---|----------------|---------|
|                             | (In millions of won and In thousands of shares) |                |         |
|                             | Cash Dividends                                  | Cash Dividends |         |
| Outstanding ordinary shares | 706,002   | 728,002        | 710,201 |
| Par value (in won)          | 5,000   | 5,000          | 5,000   |
| Dividend rate               | 10%   | 6%             |         |
| Total dividends             | 353,001   | 218,401        |         |

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(b) Dividend payout ratio for the years ended December 31, 2015, 2014 and 2013 is as follows:

|   | 2015      | 2014<br>(In millions of won) | 2013      |
|---|-----------|------------------------------|-----------|
| Dividends   | 353,001   | 218,401                      |           |
| Profit attributable to owners of the Parent Company | 4,322,356 | 4,195,456                    | 2,872,470 |
| Dividend payout ratio                               | 8.17%     | 5.21%                        |           |

(c) Dividend yield ratio for the years ended December 31, 2015, 2014 and 2013 is as follows:

|                      | 2015   | 2014<br>(In won) | 2013   |
|----------------------|--------|------------------|--------|
| Dividends per share  | 500    | 300              |        |
| Closing stock price  | 30,750 | 47,750           | 36,800 |
| Dividend yield ratio | 1.63%  | 0.63%            |        |

**26. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2015, 2014 and 2013 are as follows:

|                              | 2015      | 2014<br>(In millions of won) | 2013      |
|------------------------------|-----------|------------------------------|-----------|
| Salaries                     | 385,281   | 351,318                      | 265,137   |
| Defined benefit plan related | 25,499    | 22,801                       | 19,132    |
| Employee benefits            | 81,606    | 60,277                       | 60,459    |
| Commission                   | 212,129   | 211,111                      | 158,107   |
| Depreciation                 | 89,879    | 58,608                       | 51,240    |
| Amortization                 | 239,227   | 169,844                      | 155,313   |
| Research and development     | 1,620,324 | 1,409,530                    | 968,804   |
| Freight and custody charge   | 41,999    | 37,453                       | 33,201    |
| Legal cost                   | 7,722     | 7,210                        | 11,374    |
| Rental                       | 18,698    | 11,521                       | 14,650    |
| Taxes and dues               | 18,436    | 15,145                       | 17,912    |
| Training                     | 20,314    | 42,737                       | 26,863    |
| Sales promotional            | 46,169    | 31,018                       | 28,414    |
| Utility                      | 13,595    | 5,673                        | 10,804    |
| Supplies                     | 51,630    | 42,737                       | 26,863    |
| Repair                       | 9,629     | 9,994                        | 19,890    |
| Other                        | 64,408    | 67,398                       | 52,567    |
|                              | 2,946,545 | 2,554,375                    | 1,920,730 |





**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****27. Expenses by Nature**

Nature of expenses for the years ended December 31, 2015, 2014 and 2013 is as follows:

|   | 2015                 | 2014 <sup>2</sup> | 2013 <sup>2</sup> |
|---|----------------------|-------------------|-------------------|
|   | (In millions of won) |                   |                   |
| Changes in finished goods and work-in-process | (290,904)            | (216,403)         | 292,330           |
| Raw materials and consumables                 | 3,537,227            | 2,857,555         | 2,312,998         |
| Employee benefit                              | 2,485,372            | 2,353,196         | 1,896,843         |
| Depreciation and amortization                 | 3,887,900            | 3,413,636         | 2,928,559         |
| Royalty                                       | 210,902              | 167,167           | 187,611           |
| Commission                                    | 802,432              | 712,492           | 442,628           |
| Utility                                       | 656,251              | 608,523           | 543,516           |
| Repair  | 625,383              | 749,949           | 1,012,702         |
| Outsourcing                                   | 982,358              | 1,017,970         | 952,336           |
| Other   | 564,977              | 352,015           | 215,794           |
| <b>Total<sup>1</sup></b>                      | <b>13,461,898</b>    | <b>12,016,100</b> | <b>10,785,317</b> |

<sup>1</sup> Total expenses consist of cost of sales and selling and administrative expenses.<sup>2</sup> Expenses for the years ended December 31, 2014 and 2013 were reclassified to conform with the classification for the year ended December 31, 2015.**28. Finance Income and Expenses**

Finance income and expenses for the years ended December 31, 2015, 2014 and 2013 are as follows:

|  | 2015                 | 2014           | 2013           |
|--|----------------------|----------------|----------------|
|  | (In millions of won) |                |                |
| <b>Finance income:</b>   |                      |                |                |
| Interest income  | 40,715               | 52,122         | 66,410         |
| Dividend income  | 1,265                | 1,233          | 2,381          |
| Gain on disposal of available-for-sale financial assets                    |                      | 10,054         | 205            |
| Gain on disposal of financial assets at fair value through profit or loss  | 33,814               | 28,493         |                |
| Foreign exchange differences   | 766,981              | 576,577        | 485,411        |
| Gain from derivative instruments   | 1,697                | 3,170          | 6,163          |
| Gain on valuation of financial assets at fair value through profit or loss | 2,280                | 6,921          |                |
|  | <b>846,752</b>       | <b>678,570</b> | <b>560,570</b> |

**Finance expenses:**

|   |               |                  |                  |
|---|---------------|------------------|------------------|
| Interest expenses                                       | 118,505       | 170,363          | 256,623          |
| Loss on disposal of available-for-sale financial assets |               | 3,500            |                  |
| Foreign exchange differences                            | 709,350       | 448,060          | 391,071          |
| Loss on redemption of debentures                        |               | 2,924            |                  |
| Loss from derivative instruments                        | 2,058         | 174,924          | 99,635           |
|   | 829,913       | 799,771          | 747,329          |
| <b>Net finance income (expense)</b>                     | <b>16,839</b> | <b>(121,201)</b> | <b>(186,759)</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****29. Other Income and Expenses**

Other income for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015                 | 2014    | 2013    |
|---|----------------------|---------|---------|
|   | (In millions of won) |         |         |
| Gain on disposal of property, plant and equipment | 16,554               | 5,611   | 9,560   |
| Gain on disposal of intangible assets             |                      |         | 191     |
| Insurance compensation <sup>1</sup>               |                      | 587,429 | 327,659 |
| Other   | 23,925               | 25,644  | 31,103  |
|   | 40,479               | 618,684 | 368,513 |

Other expenses for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015                 | 2014    | 2013    |
|---|----------------------|---------|---------|
|   | (In millions of won) |         |         |
| Loss on disposal of property, plant and equipment   | 19,540               | 11,522  | 7,952   |
| Loss on disposal of intangible assets               | 5,493                | 9,522   | 17,278  |
| Donation  | 55,131               | 16,111  | 3,222   |
| Loss on disposal of trade receivables               | 1,413                | 3,756   | 3,317   |
| Loss on impairment of property, plant and equipment | 22,055               | 25,397  |         |
| Loss on impairment of intangible assets             | 1,771                | 529     | 183     |
| Casualty losses <sup>1</sup>                        |                      | 123,957 | 450,752 |
| Other <sup>2</sup>                                  | 43,536               | 391,630 | 23,166  |
|   | 148,939              | 582,424 | 505,870 |

<sup>1</sup> For the year ended December 31, 2014, the Group recognized casualty losses of 123,957 million (2013: 450,752 million) caused by a fire in the manufacturing facilities located in Wuxi, China, which includes impairment losses on property, plant and equipment, impairment losses on inventories, depreciation of temporarily idle property, plant and equipment and others. In 2014, the Group and insurance companies reached an agreement about the insurance compensation amounting to USD560 million ( 587,429 million equivalent), which was recognized as other income (2013: 327,659 million).

<sup>2</sup> For the year ended December 31, 2014, expenses related to settlement of trade secret lawsuit alleged by Toshiba Corporation amounting to USD 278 million ( 306,161 million equivalent) are included.

**30. Income Tax Expense**

(1) Income tax expense for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015                 | 2014           | 2013           |
|---|----------------------|----------------|----------------|
|   | (In millions of won) |                |                |
| <b>Current tax:</b>                               |                      |                |                |
| Current tax on profits for the year               | 1,026,791            | 922,228        | 22,728         |
| Adjustments in respect of prior years             |                      | (551)          | (1,588)        |
|   | 1,026,791            | 921,677        | 21,140         |
| <b>Deferred tax:</b>                              |                      |                |                |
| Origination and reversal of temporary differences | (81,265)             | (69,176)       | 180,928        |
| <b>Income tax expense</b>                         | <b>945,526</b>       | <b>852,501</b> | <b>202,068</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****30. Income Tax Expense, continued**

(2) The relationship between income tax expense and accounting profit for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015                 | 2014      | 2013      |
|---|----------------------|-----------|-----------|
|   | (In millions of won) |           |           |
| <b>Profit before tax</b>  | 5,269,121            | 5,047,670 | 3,074,925 |
| <b>Tax calculated at domestic tax rates applicable to profits in the respective countries</b> | 1,266,293            | 1,181,621 | 744,847   |
| <b>Tax effects of:</b>  |                      |           |           |
| Tax-exempt income   | (24)                 | (13)      | 76        |
| Non-deductible expenses   | 6,614                | 71,531    | 13,545    |
| Tax credit  | (104,425)            | (148,052) | (108,433) |
| Changes in unrecognized deferred tax assets   | (252,088)            | (260,437) | (450,113) |
| Others  | 29,156               | 7,851     | 2,146     |
| <b>Income tax expense</b>   | 945,526              | 852,501   | 202,068   |

(3) The income taxes recorded directly in equity for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015                 | 2014 | 2013 |
|---|----------------------|------|------|
|   | (In millions of won) |      |      |
| Recognized in other comprehensive income: Gains on valuation of available-for-sale financial assets |                      |      | 311  |

**31. Earnings Per Share**

(1) Basic earnings per share for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015  | 2014        | 2013        |
|---|---|-------------|-------------|
|   | (In millions of won, except for shares and per share amounts) |             |             |
| Profit attributable to ordinary shareholders                        | 4,322,356   | 4,195,456   | 2,872,470   |
| Weighted average number of outstanding ordinary shares <sup>1</sup> | 720,143,294   | 718,197,377 | 710,200,891 |
| <b>Basic earnings per share</b>                                     | 6,002   | 5,842       | 4,045       |

<sup>1</sup> Weighted average number of outstanding ordinary shares is calculated as follows:

| 2015        | 2014 | 2013 |
|-------------|------|------|
| (In shares) |      |      |

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|   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| Outstanding ordinary shares   | 728,001,795        | 710,200,891        | 694,155,767        |
| Exercise of conversion rights                                       |                    | 7,051,443          | 16,045,124         |
| Issue of ordinary shares related to the acquisition of a subsidiary |                    | 945,393            |                    |
| Acquisition of treasury shares                                      | (7,858,501)        | (350)              |                    |
| <b>Weighted average number of outstanding ordinary shares</b>       | <b>720,143,294</b> | <b>718,197,377</b> | <b>710,200,891</b> |

(2) There is no potential ordinary shares with dilutive effect during the years ended December 31, 2015, 2014 and 2013. Accordingly, diluted earnings per share for the years ended December 31, 2015, 2014 and 2013 are the same as basic earnings per share.

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****32. Related Party Transactions**

(1) Details of joint venture and other related parties as of December 31, 2015 are as follows:

| Type                  | Name of related parties  |
|-----------------------|--|
| Associates            | Stratio, Inc., Gemini Partners Pte. Ltd.   |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd.  |
| Other related parties | SK Telecom Co., Ltd., which has significant influence over the Group, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries |

(2) Significant transactions for the years ended December 31, 2015, 2014 and 2013 are as follows:

| Company               | 2015                                    |                              |                 |                   |           |
|-----------------------|---|------------------------------|-----------------|-------------------|-----------|
|                       | Operating revenue and others            | Operating expense and others | Dividend income | Asset acquisition |           |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd.   | 1,364                        | 675,112         | 15,780            |           |
| Other related parties | SK Telecom Co., Ltd. <sup>1</sup>       | 2,384                        | 52,944          |                   | 3,984     |
|                       | SK Holdings Co., Ltd. <sup>2</sup>      | 199                          | 81,997          |                   | 76,398    |
|                       | ESSEN CORE Limited                      | 147,992                      |                 |                   |           |
|                       | SK Engineering & Construction Co., Ltd. | 1,923                        | 1,378           |                   | 1,084,554 |
|                       | SK Energy Co., Ltd.                     | 5,245                        | 44,893          |                   |           |
|                       | SK Networks Co., Ltd.                   |                              | 3,627           |                   |           |
|                       | Ko-one energy service Co., Ltd.         |                              | 2,685           |                   | 7         |
|                       | SKC solmics Co., Ltd.                   |                              | 36,055          |                   | 269       |
|                       | Chungcheong energy service Co., Ltd.    |                              | 24,292          |                   |           |
|                       | HAPPYNARAE Co., Ltd.                    | 3,176                        | 83,258          |                   | 21,448    |
|                       | Others                                  | 493                          | 63,845          |                   | 14,516    |
|                       |   | 162,776                      | 1,070,086       | 15,780            | 1,201,176 |

<sup>1</sup> Operating expense and others include dividend payments of 43,830 million.<sup>2</sup> The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty for the use of SK brand in proportion to sales amount. For the year ended December 31, 2015, royalty paid for the use of the SK brand amounted to 34,597 million (2014: 28,780 million and 2013: 18,251 million). Meanwhile, on August 1, 2015, SK C&C Co., Ltd. merged with SK Holdings Co., Ltd. and changed its name to SK Holdings Co., Ltd.

**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****32. Related Party Transactions, continued**

|                       | Company                                    | 2014<br>Operating<br>revenue<br>and<br>others<br>(In millions of won) | Operating<br>expense and<br>others | Dividend<br>income | Asset<br>acquisition |
|-----------------------|--|---|------------------------------------|--------------------|----------------------|
| Associate             | Siliconfile Technologies Inc. <sup>1</sup> | 25,109  | 411                                | 236                |                      |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd.      | 1,734   | 612,890                            | 15,664             |                      |
| Other related parties | SK Telecom Co., Ltd.                       | 3,391   | 7,493                              |                    | 2,685                |
|                       | SK Holdings Co., Ltd.                      |   | 33,273                             |                    |                      |
|                       | SK C&C Co., Ltd. <sup>2</sup>              | 70  | 5,879                              |                    | 12,225               |
|                       | SK Engineering & Construction Co., Ltd.    | 481   | 44,928                             |                    | 959,985              |
|                       | SK Energy Co., Ltd.                        | 5,121   | 44,664                             |                    |                      |
|                       | SK Networks Co., Ltd.                      |   | 2,777                              |                    | 2,772                |
|                       | Ko-one energy service Co., Ltd.            |   | 3,074                              |                    |                      |
|                       | SKC solmics Co., Ltd.                      |   | 28,023                             |                    | 718                  |
|                       | Chungcheong energy service Co., Ltd.       |   | 27,496                             |                    |                      |
|                       | HAPPYNARAE Co., Ltd.                       | 53  | 63,398                             |                    | 10,187               |
|                       | Others                                     | 427   | 19,837                             |                    | 1,548                |
|                       |  | 36,386  | 894,143                            | 15,900             | 990,120              |

<sup>1</sup> Siliconfile Technologies Inc. became a subsidiary through the Parent Company's additional acquisition of the remaining interest on April 22, 2014.

<sup>2</sup> SK C&C Co., Ltd. was excluded from related party after April 2014 due to change in CEO.

|                       | Company                                 | 2013<br>Operating<br>revenue<br>and<br>others<br>(In millions of won) | Operating<br>expense and<br>others | Dividend<br>Income | Asset<br>acquisition |
|-----------------------|---|---|------------------------------------|--------------------|----------------------|
| Associate             | Siliconfile Technologies Inc.           | 100,975   | 1,585                              |                    |                      |
| Joint venture         | HITECH Semiconductor (Wuxi) Co., Ltd.   | 61,368  | 581,374                            | 15,033             |                      |
| Other related parties | SK Telecom Co., Ltd.                    | 954   | 2,811                              |                    | 230                  |
|                       | SK Holdings Co., Ltd.                   |   | 20,583                             |                    |                      |
|                       | SK C&C Co., Ltd.                        | 150   | 22,374                             |                    | 30,522               |
|                       | SK Engineering & Construction Co., Ltd. | 637   | 12,056                             |                    | 166,423              |
|                       | SK Energy Co., Ltd.                     | 13,103  | 28,258                             |                    |                      |
|                       | SK Networks Co., Ltd. <sup>1</sup>      |   | 927                                |                    | 112,360              |



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|                                      |     |        |         |         |
|--------------------------------------|-----|--------|---------|---------|
| Ko-one energy service Co., Ltd.      |     | 20,452 |         |         |
| SKC solmics Co., Ltd.                |     | 24,041 |         | 300     |
| Chungcheong energy service Co., Ltd. |     | 28,231 |         |         |
| HAPPYNARAE Co., Ltd.                 | 62  | 59,624 |         | 7,763   |
| Others                               | 261 | 9,095  |         | 332     |
|                                      |     |        | 177,510 | 811,411 |
|                                      |     |        |         | 15,033  |
|                                      |     |        |         | 317,930 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****32. Related Party Transactions, continued**

<sup>1</sup> The Group acquired 5,745 shares of Sky Property Management Ltd. at 112,360 million from SK Networks Co., Ltd., a related party during 2013 and recognized them as available-for-sale securities.

(3) The balances of significant transactions as of December 31, 2015 and December 31, 2014 are as follows:

|                       |   | 2015                 | Trade<br>receivables<br>and<br>others | Other<br>payables and<br>others |
|-----------------------|---|----------------------|---------------------------------------|---------------------------------|
| Company               |   | (In millions of won) |                                       |                                 |
| Joint venture         | HITECH Semiconductor (Wuxi)<br>Co., Ltd. <sup>1</sup> |                      | 15,628                                | 108,519                         |
| Other related parties | SK Telecom Co., Ltd.                                  |                      | 155                                   | 2,797                           |
|                       | SK Holdings Co., Ltd.                                 |                      | 103                                   | 98,798                          |
|                       | ESSENCORE Limited                                     |                      | 142                                   |                                 |
|                       | SK Engineering & Construction Co., Ltd.               |                      | 1,049                                 | 236,875                         |
|                       | SK Energy Co., Ltd.                                   |                      | 474                                   | 5,962                           |
|                       | SK Networks Co., Ltd.                                 |                      |                                       | 954                             |
|                       | SKC solmics Co., Ltd.                                 |                      |                                       | 9,544                           |
|                       | Chungcheong energy service Co., Ltd.                  |                      |                                       | 1,425                           |
|                       | HAPPYNARAE Co., Ltd.                                  |                      | 275                                   | 24,148                          |
|                       | Others  |                      | 102                                   | 29,339                          |
|                       |   |                      | 17,928                                | 518,361                         |

<sup>1</sup> The Parent Company repaid remaining balance of borrowings from HITECH Semiconductor (Wuxi) Co., Ltd. in the amount of 22,552 million for the year ended December 31, 2015.

|                       |  | 2014                 | Trade<br>receivables<br>and<br>others | Other<br>payables and<br>others | Borrowings <sup>1</sup> |
|-----------------------|--|----------------------|---------------------------------------|---------------------------------|-------------------------|
| Company               |  | (In millions of won) |                                       |                                 |                         |
| Joint venture         | HITECH Semiconductor (Wuxi)<br>Co., Ltd. |                      | 18,393                                | 113,257                         | 22,552                  |
| Other related parties | SK Telecom Co., Ltd.                     |                      | 2,763                                 | 2,622                           |                         |
|                       | SK Holdings Co., Ltd.                    |                      |                                       | 3,080                           |                         |

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|   |        |         |        |
|---|--------|---------|--------|
| SK Engineering & Construction Co., Ltd. | 23     | 561,004 |        |
| SK Energy Co., Ltd.                     | 462    | 5,961   |        |
| SK Networks Co., Ltd.                   |        | 479     |        |
| SKC solmics Co., Ltd.                   |        | 9,258   |        |
| Chungcheong energy service Co., Ltd.    |        | 3,295   |        |
| HAPPYNARAE Co., Ltd.                    | 1      | 14,606  |        |
| Others                                  | 32     | 14,455  |        |
|   | 21,674 | 728,017 | 22,552 |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****32. Related Party Transactions, continued****(4) Key management compensation**

Key management includes directors, members of the board of directors, chief financial officer, subsidiary's executives and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2015, 2014 and 2013 are as follows:

| Details                               | 2015                 | 2014   | 2013   |
|---------------------------------------|----------------------|--------|--------|
|                                       | (In millions of won) |        |        |
| Salaries                              | 73,013               | 74,599 | 30,909 |
| Defined benefit plan related expenses | 7,250                | 7,061  | 4,546  |
| Others                                | 15                   | 19     | 6      |
|                                       | 80,278               | 81,679 | 35,461 |

**33. Commitments and Contingencies****(1) Significant pending litigations and claims of the Group as of December 31, 2015 are as follows:****(a) Lawsuit from SanDisk Corporation ( SanDisk )**

SanDisk filed a lawsuit against the Parent Company and its subsidiaries (SK hynix America Inc. and SK hynix memory solutions Inc.) in Santa Clara Superior Court of the United States of America, alleging misappropriation of trade secrets jointly owned by SanDisk and Toshiba Corporation, on March 13, 2014 ( SanDisk lawsuit ). Meanwhile on August 4, 2015, SanDisk agreed to withdraw the lawsuit against the Parent Company and its subsidiaries, and therefore, the lawsuit has been terminated.

**(b) Lawsuit regarding ordinary wages**

On August 1, 2014, some of the Parent Company's employees filed a lawsuit against the Parent Company to the Suwon District Court, seeking additional payment of overtime allowance in relation to ordinary wages. The Parent Company submitted a written response on September 5, 2014 and oral pleading has been processed several times after that date. The court's decision to exclude additional payment such as regular bonus from ordinary wages has been made as of November 12, 2015. Since the plaintiff decided not to appeal the case, the lawsuit has been terminated.

**(c) Other patent infringement claims and litigation**

The Group is involved in various alleged patent infringement claims and litigation. No provisions have been made as the final outcome of these matters cannot be determined or predicted given that these claims and litigation are at their the early stage as of December 31, 2015.

**(2) Technology and patent license agreements**

The Group has entered into a number of patent license agreements with several companies. The related royalties are paid in a lump-sum or running basis in accordance with the respective agreements. Lump-sum royalties are expensed over the contract period using the straight-line method.

**(3) *Contract for supply of industrial water***

In March 2001, the Group and Veolia Water Industrial Development Co., Ltd. ( VWID ) entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. In December 2006, the contract was extended to March 2018, and subsequently amended due to the establishment

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of additional plants. According to the amended contract, the Group is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the amount of water used.

**(4) Post-process service contract with HITECH**

In 2009, the Group entered into an agreement with HITECH to be provided with post-process service by HITECH. The conditions of the service provided includes package, package test, modules and others. As the agreement has been expired in June, 2015, the Group extended the agreement for the next five years and main terms of the agreement such as the conditions of the service and preemptive rights to use HITECH equipments are equivalent to those of the former agreement. According to the agreement, the Group is liable to guarantee a certain level of margin to HITECH.

**(5) Assets provided as collateral**

Details of assets provided as collateral as of December 31, 2015 are as follows:

|           | Book value<br>(In millions of won) | Pledged amount | Remark                              |
|-----------|------------------------------------|----------------|-------------------------------------|
| Land      | 45,750                             |                |                                     |
| Buildings | 115,194                            | 1,404,275      | Borrowings for equipment and others |
| Machinery | 872,957                            |                |                                     |
|           | 1,033,901                          | 1,404,275      |                                     |

Other than the above assets provided as collateral, the finance lease assets of the Group are pledged as collateral for the finance lease liabilities in accordance with the finance lease contracts.

**(6) Financing agreements**

Details of credit lines with financial institutions as of December 31, 2015 are as follows:

|                    | Financial Institution | Commitment   | Currency | Amount<br>(In millions of won and<br>millions of foreign currencies) |
|--------------------|-----------------------|--|----------|--|
| The Parent Company | KEB Hana              | Import finance including usance                    | USD      | 200  |
|                    | Bank and others       | Export finance including bills bought              | USD      | 350  |
|                    |                       | Comprehensive limit contract for import and export | USD      | 1,305  |

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|  |                                       |   |     |       |
|--|---------------------------------------|---|-----|-------|
| SK Hynix Semiconductor (China) Ltd. (SKHYCL)           | Agricultural Bank of China and others | Import finance including usance   | RMB | 1,895 |
|  |                                       |   | USD | 1,397 |
| SK Hynix America Inc. (SKHYA) and other sales entities | Citibank and others                   | Accounts receivable factoring contracts which have no right to recourse | USD | 139   |
| Domestic subsidiaries                                  | KEB Hana Bank                         | Export finance including bills bought                                   | KRW | 5,000 |
|  |                                       | Guarantee   | KRW | 2,000 |
|  |                                       | Foreign currency forward  | USD | 1     |

The Group has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted corresponding to 3,076 million as of December 31, 2015 (as of December 31, 2014: 220,663 million). The Group is obliged to redeem discounted receivables to financial

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****33. Commitments and Contingencies, continued**

institutions in case of the default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

(7) *Details of guarantees provided to others as of December 31, 2015 are as follows:*

|           | Amount<br>(In millions of won) | Remark   |
|-----------|--------------------------------|--|
| Employees | 8                              | Guarantees for employees borrowings relating to employee stock ownership |

**(8) Capital commitments**

As of December 31, 2015, the Group has 300,041 million (as of December 31, 2014: 348,802 million) of commitments in relation to the capital expenditures on fixed assets.

**34. Cash Generated from Operating Activities**

(1) Reconciliations between profit for the year and net cash inflow from operating activities for the years ended December 31, 2015, 2014 and 2013 are as follows:

|   | 2015      | 2014<br>(In millions of won) | 2013      |
|---|-----------|------------------------------|-----------|
| <b>Profit for the year</b>  | 4,323,595 | 4,195,169                    | 2,872,857 |
| <b>Adjustment</b>   |           |                              |           |
| Income tax expense  | 945,526   | 852,501                      | 202,068   |
| Defined benefit plan related expenses                                 | 160,184   | 143,432                      | 125,495   |
| Depreciation of property, plant and equipment and investment property | 3,695,158 | 3,269,705                    | 2,922,245 |
| Amortization  | 258,078   | 174,275                      | 156,276   |
| Loss on impairment of property, plant and equipment                   | 22,055    |                              |           |
| Loss on foreign currency translation                                  | 143,768   | 116,726                      | 24,415    |
| Interest expense  | 118,505   | 170,363                      | 256,623   |
| Gain on foreign currency translation                                  | (58,658)  | (79,678)                     | (94,175)  |
| Interest income   | (40,715)  | (52,122)                     | (66,410)  |
| Loss on derivative instruments, net                                   | 361       | 171,754                      | 93,473    |
| Gain on equity method investments, net                                | (24,642)  | (12,506)                     | (19,256)  |
| Others, net   | (18,231)  | 13,072                       | 116,735   |
| <b>Changes in operating assets and liabilities</b>                    |           |                              |           |
| Decrease (increase) in trade receivables                              | 1,260,172 | (1,628,665)                  | (278,141) |
| Decrease (increase) in loans and other receivables                    | 724,149   | (753,278)                    | (214,701) |
| Decrease (increase) in inventories                                    | (414,830) | (314,547)                    | 333,179   |
| Increase in other assets  | (177,316) | (10,210)                     | (239,553) |
| Increase (decrease) in trade payables                                 | (156,074) | 69,290                       | 113,552   |
| Increase (decrease) in other payables                                 | (60,252)  | (105,971)                    | 74,666    |



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|   |                   |                  |                  |
|---|-------------------|------------------|------------------|
| Increase (decrease) in other non-trade payables | (147,392)         | 498,152          | 309,974          |
| Decrease in provisions                          | (6,889)           | (26,793)         | (127,052)        |
| Increase (decrease) in other liabilities        | (29,327)          | 51,598           | 8,567            |
| Payment of defined benefit liabilities          | (6,392)           | (34,144)         | (45,171)         |
| Contribution to plan assets                     | (153,566)         | (402,894)        | (4,113)          |
| <b>Cash generated from operating activities</b> | <b>10,357,267</b> | <b>6,305,229</b> | <b>6,521,553</b> |

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**Table of Contents****SK HYNIX, INC. and Subsidiaries****Notes to the Consolidated Financial Statements****December 31, 2015, 2014 and 2013****34. Cash Generated from Operating Activities, continued**

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2015 and 2014 are as follows:

|  | 2015                 | 2014    | 2013    |
|--|----------------------|---------|---------|
|  | (In millions of won) |         |         |
| Other payables related to acquisition of property, plant and equipment                   | 588,435              | 190,667 | 190,667 |
| Issue of ordinary shares related to the acquisition of a subsidiary                      | 54,070               | 54,070  | 54,070  |
| Exercise of conversion rights  | 772,590              | 432,434 | 432,434 |
| Transferred to non-current convertible bond due to expiration of early redemption rights |                      | 486,569 | 486,569 |

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**SK TELECOM CO., LTD.**

*(Registrant)*

/s/ Sung Hyung Lee

Name: Sung Hyung Lee

Title: Senior Vice President

Financial Strategy & Management

Date: April 29, 2016