

# Supply Chain Report

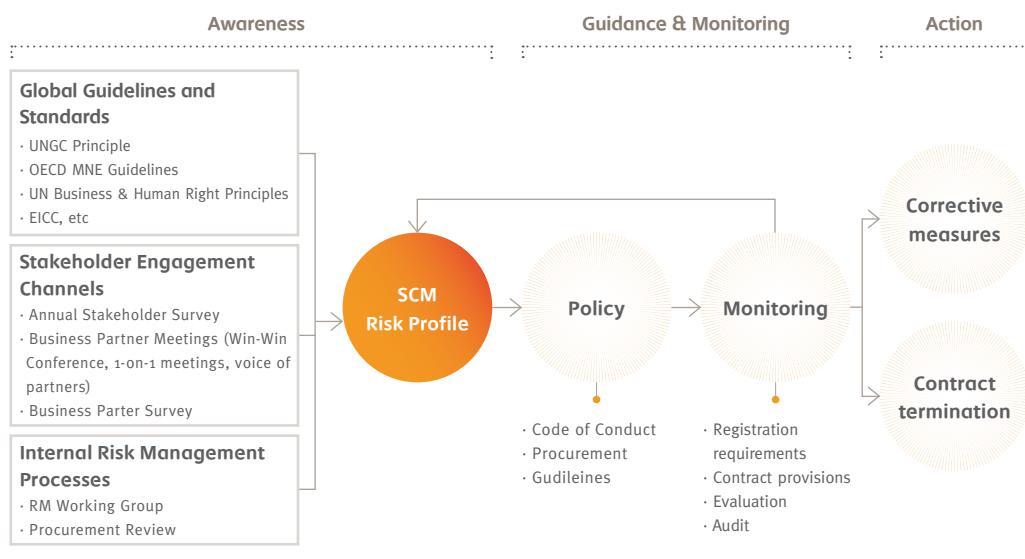
## Competitiveness through a responsible value chain

### 1. Context

This Report discloses SK Telecom’s supply chain sustainability management policies and processes, and has been written to provide information to stakeholders related to responsibility and assurance for

the products and services value chain. In the process of its business operation, SK Telecom depends upon a variety of suppliers for the development and spread of network devices, building and operating the network infrastructure as well as providing and developing platform content. This Report contains information regarding SK Telecom’s efforts to review and resolve significant risk factors of suppliers in the supply chain as well as support enhancement of the ability to discover possible opportunities.

### Processes for Responsible Supply Chain Management at SK Telecom



### 2. Analysis of Supply Chain Risk Exposure

SK Telecom has identified the core supply chain through the task of procurement analysis, and analyzed the key supply chain risks. The areas analyzed have been categorized into procurement categories that include equipment (network and infrastructure), services (software and solution development), goods, and construction partners, which account for 100% of the amount of procurement. SK Telecom has designated a ‘critical supplier’ group having comprehensively considered the impact on the compa-

ny’s continued operations as well as the degree to which the company depends upon the transactions.

SK Telecom’s critical suppliers are comprehensively considered, categorized and managed according to their 1) relevance to the company’s core businesses and reliability, 2) high level of transaction amounts, 3) possession of proprietary technology for which substitution is not possible. Accordingly, as of 2015, 325 companies are categorized into the critical supplier group out of a total 2,346 registered partners.

### 3. Identification of Key Supply Chain Risks

SK Telecom comprehensively reflects the risk factors discovered through internal risk processes including business partner surveys such as the biannual Win-Win Growth Satisfaction Survey, partner company meetings, listening to the voice of partners and risk management working groups, and reviews

the results of the risk gap analysis of each supplier group and risk mapping by supplier at the monthly ‘procurement performance analysis and improvement meeting.’ SK Telecom defines the main risks that may occur in the supply chain as follows, and reflects these in the supply chain sustainability process.

#### Supply Chain Risk Identification (2015)

| Risks               | Main Risk Factors  | Risk Level | Sourcing Group                              | Rate of Tier 1 Suppliers Risk Exposure |
|---------------------|--|------------|---|--|
| Economic Risks      | Ethical and Anti-Corruption Principle Violations in the Contract Process   | High       | All Suppliers                               | 100%                                   |
|                     | Collusion or Other Unfair Trade Practices  | High       | All Suppliers                               | 100%                                   |
|                     | Delayed Payment to Subcontractors  | High       | All Suppliers                               | 100%                                   |
|                     | Unsound Financial Structure (low credit rating)  | High       | All Suppliers                               | 100%                                   |
| Social Risks        | Violation of ILO Labor Regulations and Reasonable Labor Practices (compliance with work hours, wage payment, and other labor rights) | Moderate   | Service Partners<br>Construction Partners   | 95%                                    |
|                     | Conflict Minerals  | Low        | Equipment Partners                          | 23%                                    |
| Environmental Risks | Violation of Environmental Regulations   | Moderate   | Equipment Partners                          | 23%                                    |
|                     | High GHG Emissions   | Moderate   | Equipment Partners                          | 23%                                    |
|                     | Failure to Adopt an Environmental Management System  | Low        | Construction Partners<br>Equipment Partners | 40%                                    |

### 4. Policy and Engagement

The identified risk factors have been formalized in the ‘Supply Chain ESG Policy’ and ‘CSR Practice Agreement for Fair Trade’ and apply to 100% of SK Telecom’s registered suppliers. While SK Telecom requires compliance with these principles in the contract process, it also takes a variety of steps including requesting corrective measures and contract termination through the long-term monitoring process.

#### 4.1 Policy

SK Telecom’s Supply Chain ESG policy is composed of three parts including scope, risk management process and policy. The Supply Chain ESG policy applies to all business partners that have contract relationships with SK Telecom. All business partners are requested to apply the principles to their subcontractors as well. SK Telecom further requests its partner companies to ensure that suppliers and busi-

ness partners are also in compliance with the agreed upon principles. Items that compose the Supply Chain ESG Policy, including 1) anti-corruption, 2) fair trade compliance, 3) data privacy and protection, 4) financial transparency, 5) appropriate participation in public policies, 6) respect for customer value, 7) environmental protection, 8) employees’ welfare and safety, 9) community involvement, and 10) human rights, are disclosed through SK Telecom’s homepage (<http://www.sktelecom.com/supplychain>).

#### 4.2 Screening

The CSR Practice Agreement for Fair Trade is an official document that requests compliance and agreement with the Supply Chain ESG Policy. SK Telecom requests that all partner companies comply with such policies across the contract process through the CSR Practice Agreement for Fair Trade on the Open2U System (an online contract system) regarding the company’s supply chain policies.

### 4.3 Reflection in Contracts

SK Telecom's contracts with partners all reflect principles of compliance with the official supply chain policy. Furthermore, the company is also extending compliance with SK Telecom's Code of Conduct to partners' transactions with sub-suppliers and within their overall business practice.

### 4.4 Cooperative Initiatives with NGOs such as 3rd Parties and International Organizations

As a representative company of UNGC LEAD, SK Telecom reflects the UNGC principles in its supply chain guidelines, on the foundation of its UNGC LEAD activities. SK Telecom's supply chain guidelines refer to the global e-sustainability initiative e-Gesi's JAC (Joint Audit Cooperation) Guidelines.

## 5. Risk Assessment and Evaluation, Monitoring and Measures

### 5.1 Advance Monitoring

In 2015, 100% of newly registered partner companies were screened according to the CSR Practice Agreement for Fair Trade through Open2U, SK Telecom's electronic contract system.

### 5.2 Ongoing Monitoring, Diagnostics and Assessments

SK Telecom is confirming the key diagnostic and assessment activity indicators of the proportion of registered partners that have undergone written surveys and on-site surveys. In 2015, among the 2,346 tier 1 suppliers, 1,270 have done written surveys, 212 have undergone on-site surveys (includes separate visits and meetings with partners and 1-on-1 meetings). Among these, the partners that were judged to be exposed to 'high risk' in the risk identification process were given 100% risk assessments to prevent risks in advance. In 2015, additional 100 partners that were candidates for mutual growth cooperation participated in a third-party external review conducted by the Korean Commission on Cooperative Partnership. The company is also currently applying its supply chain policy and performance indicators to both domestic and international suppliers. Due to the majority of SK Telecom's total procurement amount (KRW 4.38 trillion) being

made up of domestic suppliers, with international procurement making up roughly 0.46% at 18.5 billion KRW, performance indicators are also managed with a focus on Korea.

### 5.3 Incentives, Support, Corrective Measures

Every year, based on the results of diagnostics and assessments, programs for capability improvement and various incentive programs are implemented for exemplary partners. Programs to improve capabilities include technological support such as technology transfer and Open Collaboration as well as security activities, and also include the SK Win-Win Academy, where partners can engage in CEO seminars, MBA courses and training support for risk reduction. Risk reduction training includes topics such as mutual growth partnerships and includes training regarding procurement policies and policy compliance. For outstanding partners, the details of the incentive and support programs include unit price adjustment, funding (financial) assistance, technology and training support, and welfare.

In the event of a partner company failing to meet SK Telecom evaluation standards, SK Telecom creates a plan for corrective measures and requests that partner companies make effort to improve their ESG performance. Despite these efforts, in 2015, a total of 2 companies received corrective measures according to the diagnosis and assessment results, and due to the seriousness of their policy violations including fair trade violations, and occurrence of unethical issues, a permanent suspension of transactions was implemented against the two companies.

**Supply Chain Risk Assessment (Screening)** (Unit: Company)

|  | 2013 | 2014 | 2015 | 2016 Target | Notes  |
|--|------|------|------|-------------|--|
| Total Number of Newly Registered Partners                        | 346  | 712  | 706  | 710         |  |
| Number of Human Rights-Environment · Ethics · Social Assessments | 346  | 712  | 706  | 710         | * Service/Construction/ Equipment/Goods partners |
| Rate of Advance Assessments                                      | 100% | 100% | 100% | 100%        |  |

**Supply Chain Risk Assessment (Audit)** (Unit: Company)

|  | 2013  | 2014  | 2015  | 2016 Target     | Notes  |
|--|-------|-------|-------|-----------------|--|
| Total Number of Registered Partners            | 1,496 | 1,510 | 2,346 | 2,567           |  |
| Number of Partners Surveyed in Writing (Audit) | 974   | 815   | 1,270 | More than 1,200 |  |
| Number of Partners Surveyed On-Site (Audit)    | 162   | 205   | 212   | 250             | * Includes separate discussions with Construction/Equipment Partners and 1-on-1 meetings |
| Number of Partners Surveyed by Third-Parties   | -     | -     | 100   | 100             | * Partner experience survey conducted by the Korean Commission for Corporate Partnership |

**Supply Chain ESG Performance Management Indicators**

|   | 2013 | 2014 | 2015 | 2016 Target | Notes |
|---|------|------|------|-------------|-------|
| Average Number of Days to Pay Sub-Suppliers   | 8.7  | 7.1  | 8.7  | 8.7         |       |
| Number of Suppliers that Improved the Management Environment through Mutual Growth Partnerships | 201  | 291  | 323  | 204         |       |

**Risk-related Corrective Measures for Partners**

|  | 2013 | 2014 | 2015 | Notes  |
|--|------|------|------|--|
| Suppliers who Received Corrective Measures | 2    | 2    | 2    | Reviewed by the Procurement Review Committee |
| Banned Temporarily                         | 1    | 1    | 0    | 2 year suspension                            |
| Banned Permanently                         | 1    | 1    | 2    | Permanent suspension                         |

**6. Case Study- Procurement Strategy and Supply Chain Sustainability**

The priorities of SK Telecom’s procurement strategy are 1) gaining competitiveness by improving the procurement structure through TCO (Total Cost Ownership), 2) revitalizing strategic integrated procurement through a ‘procurement synergy consultative group’ with SK subsidiaries and invested companies, 3) improving cost efficiency by checking the production cost structure from the zero-base perspective, 4) optimizing and enhancing business-friendly procurement processes, and 5) creating an environment for advance procurement risk management and fair trade compliance. Through this strategy, SK Telecom ensures that its partners and the company maximize their creation of resources, while removing any inefficient practices, formalities or procedures from the procurement processes. Next, the following business case will explain how responsible supply chain risk management can manifest itself to create strategic procurement achievements for the company.

**Business Case 1. Cost Reduction Through Re-use/cycle of Unused Antennas**

In 2015, SK Telecom implemented recycling projects involving its unused antennas by melting down and selling aluminum and plastic modules, and reusing brackets when installing new antennas in an effort called the ‘SCM Re-Use/Cycle Initiative,’ effectively lowering costs. Quantitative achievements added up to a 30% profit for partner suppliers, raw material conservation of up to 8% for antenna suppliers, and a 30% recorded improvement in cost efficiency for SK Telecom’s sales and procurement departments. In terms of qualitative achievements, partner suppliers were able to improve their eco-friendly image by supporting and participating in environmental initiatives that utilized government-approved technology and superior recycled materials.

**Business Case 2. Executing Competitive Procurement by Improving TCO**

As SK Telecom’s procurement expenses are not one-time transaction expenses, the company is pursuing

risk management and cost efficiency through a mid-to long-term procurement expense analysis including pre/post investigation, maintenance and compensation expenses. In particular, regarding companywide integrated expense efficiency, the company has carried out supply chain expense analyses in 2015 and has reduced expenses (KRW 300 million) by simplifying the donor development for the high-capacity repeater (MiBos) and also reduced new investment expenses (KRW 7.6 billion) by recycling idle repeaters and products in warehouse storage.

In addition, SK Telecom has integrated affiliated businesses such as electricity, air-conditioning, fire extinguishing systems, rectifiers, uninterruptible power supply (UPS) generators with the main business and reduced maintenance expenses (KRW 2

billion) by carrying out batch ordering from multiple small businesses, and achieved a total annual expense reduction of KRW 11 billion from efforts including the reduction of KRW 500 million through signing annual integrated contracts for 15 repeat-purchase items such as distribution network visual merchandisers.

In terms of qualitative results, SK Telecom has improved business relationships by building supply chain relationships on the basis of long-term cooperation such as batch ordering/integrated ordering for exemplary businesses. It has also contributed to an efficient procurement process by discovering potential suppliers as well as reducing time and expenses for maintenance and compensation.

### **CSR PRACTICE AGREEMENT FOR FAIR TRADE / TRANSPARENT TRANSACTIONS (2015)**

As a party to a transaction with SK Telecom, we, the undersigned hereby agree to actively cooperate with SK Telecom's CSR Practice Agreement (corporate social responsibility), which includes ethical management, and to enable a fair and transparent transaction culture to take root, we agree to the following.

1. Regarding transactions with SK Telecom, we will not offer any bribes, entertainment or conveniences either directly or through a third-party in order to influence transactions including to influence the transaction's establishment or to set favorable transaction conditions.
2. In the case that an SK Telecom employee requests offers such as bribes, entertainment or convenience during transactions, we will promptly report it to SK Telecom's Ethical Counseling Center (<http://www.sktelecom.com>, Tel.080-801-6262, Fax. 080-801-6272).
3. Regarding SK Telecom's management information including subscriber information made known to us during transactions with SK Telecom, we will not use such information for transactions with other businesses without prior consent, nor share the information with any third-parties.
4. We will not engage in unfair trade practices including collusion practices.
5. We will actively participate in practicing CSR in transactions with SK Telecom.
  - 1) We will prohibit wrongful labor practices including forced/compulsory labor and child labor.
  - 2) We will prohibit discrimination on the basis of sex, race, religion, disability and maternity.
  - 3) We will respect political, religious, physical freedom as well as civil rights.
  - 4) We will recognize our responsibility regarding environmental protection and pursue the development of eco-friendly technology.
  - 5) We will cooperate in enabling fair and transparent trade and the spread of mutual growth.
  - 6) We will comply with all labor principles that the International Labour Organization (ILO) recommends and that which the government ratifies regarding safety, welfare and work hours.
6. In the case that we violate this agreement, we agree to accept responsibility for the measures SK Telecom may take, including limiting the volume of transactions and contract termination, according to the degree of the violation and internal standards.