

# **“SK Telecom, targeting growth**

## **COMPANY REPORT**



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- **Evolving ICT space creating new growth opportunities in B2B solutions, platform, media, and personalized services**
  - **Telcos are actively pursuing these new businesses, leveraging their core competencies**
  - **SK Telecom is taking purposeful steps, executing on its growth strategy, to differentiate and firmly position the businesses as the next growth engines**
  - **SK Telecom, at the forefront of the ICT wave, will continue to lead the growth of new emerging businesses**
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### **Telcos, actively searching for new growth engines**

Previously, telcos' entries into new businesses were ancillary to their primary MNO business. However, the change in the ICT industry, brought about by the growth in smartphone (user-friendly UI, various embedded sensors, faster processing speed and high-quality displays) usage and the expansion of LTE services, has created new applications and service opportunities of significant potential. As a result, the telecom industry is witnessing operators aggressively moving into new growth businesses such as B2B solutions, platforms, media and personalized services

### **Telcos have the core competencies to capitalize on the shift in ICT trend**

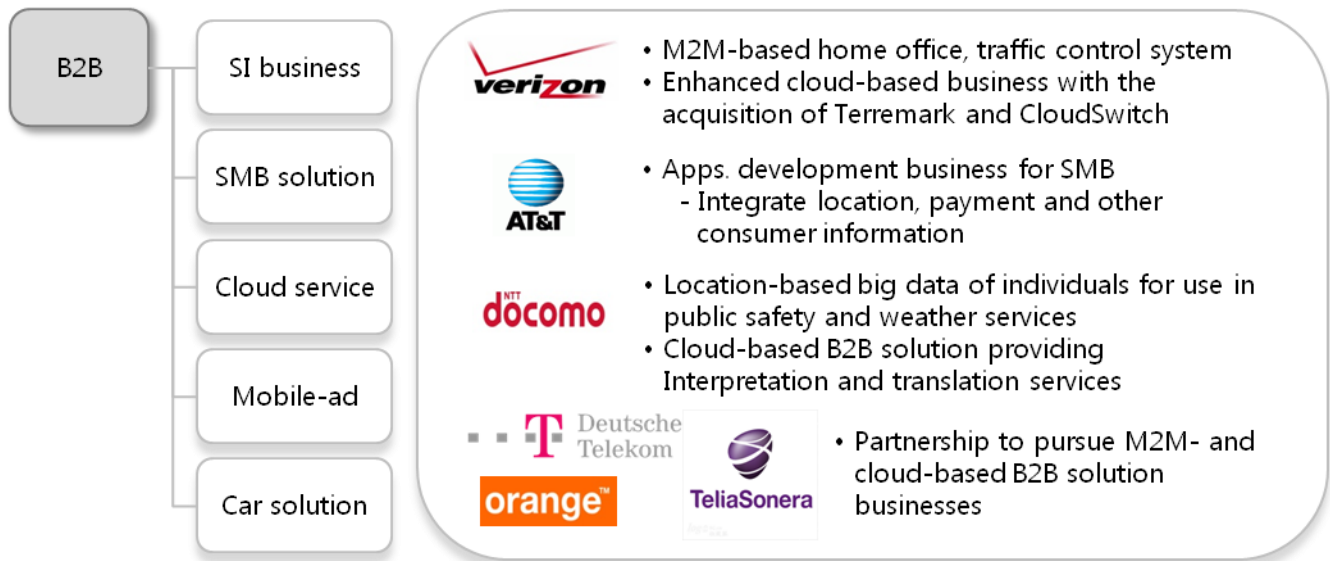
The projected size of these new markets is in itself a convincing reason for expansion. But the fact that telcos can further leverage their core competencies to lower entry costs and gain a competitive edge are more compelling factors for entry

#### **□ B2B solutions: Customer trust and an integrated B2B2C offering are key**

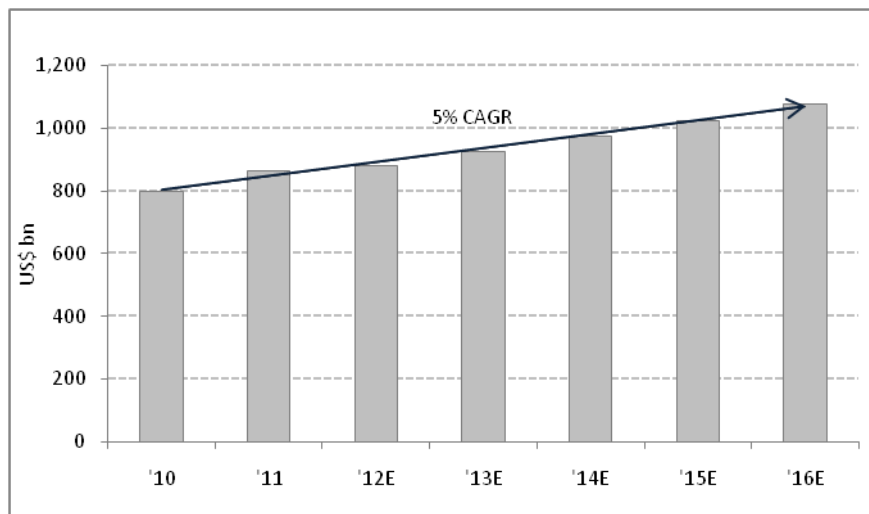
Telcos, although relatively new to the B2B solutions market, have an established strong trust relationship with their clients, which are reflected in their scale of operations and branding position. Cited as one of the key factors for a successful B2B business by Gartner (2012), the rising demand for wireless network-centric M2M, cloud and other wireless connectivity services also act to enhance the competitive edge of telcos. Indeed, Verizon and NTT Docomo went beyond provisioning of B2B infrastructure to provide new value-added cloud-based services to large corporate clients to improve efficiency

Another area where telcos have a clear competitive advantage is its extensive subscriber data – purchasing preferences, payment methods, location information and memberships – which has valuable big data applications. By integrating consumer information with B2B solutions, retail-oriented clients can conduct target marketing/advertising to enhance sales and efficiency

## [ B2B Solution Business ]



## [ SI Service Market Trend ]



Source: Gartner (4Q12)

### □ Platforms: Large user-base and strong developers

The ability to continually attract end-users, high-quality developers, and create a self-sustaining virtuous cycle is key ingredients to a successful platform strategy, according to Harvard Business Review (2013). In an effort to build such platforms, telcos with large subscriber-bases including Telefonica and NTT Docomo are actively engaged in building and strengthening their respective platforms.

Global SNS, e-commerce, search engine and other such top-tier Internet-based services may have larger user-bases than those of many large telcos that have pockets of subscribers in different services and networks. However, if telcos merge their respective isolated pools of subscribers under a single umbrella, it creates a subscriber-base of compelling size. Furthermore, the inherent need for telcos to localize

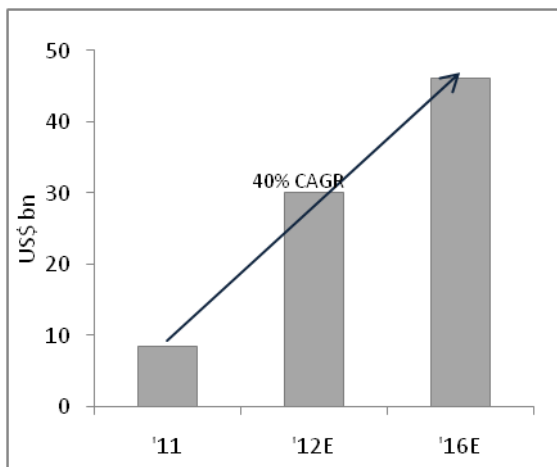
operations means they are more attuned to local trends and demands, and have stronger relationships with leading local developers/vendors; attributes that are difficult to replicate by the global service providers. Bringing these two parties together on to one platform enhances the monetization potential with the use of telcos' various payment options, including phone bills, membership points, or credit/debit cards. The fact that telcos have localized operations with access to subscribers and vendors are strong differentiating factors compared to global platform providers who may not have the bandwidth to cater to the needs of each market. The ability for telcos to localize platforms also enhances mobile-ad opportunities

### [ Platform Business ]



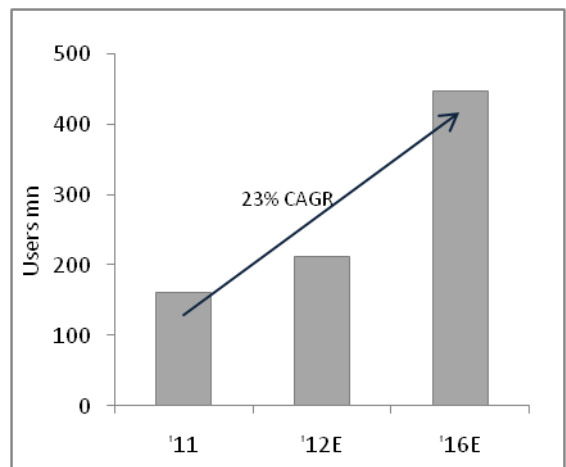
### [ Platform Market ]

<App. Revenue>



\* Source: ABI Research (Dec. '12)

<Mobile Payment Users >



\* Source: Gartner (May '12)

## □ Media and personalized services: Partnerships and customized services

High-speed LTE services and increased use of smartphones are creating new growth opportunities in wireless pay-TV. Much like traditional pay-TV, strong partnerships with CPs, financial resources to secure killer content and a reliable delivery network remains as key ingredients for a successful wireless pay-TV service. However, the ability to deliver rich-media over a wireless network is an additional differentiating factors for the wider wireless pay-TV uptake, which lends to other data monetization opportunities

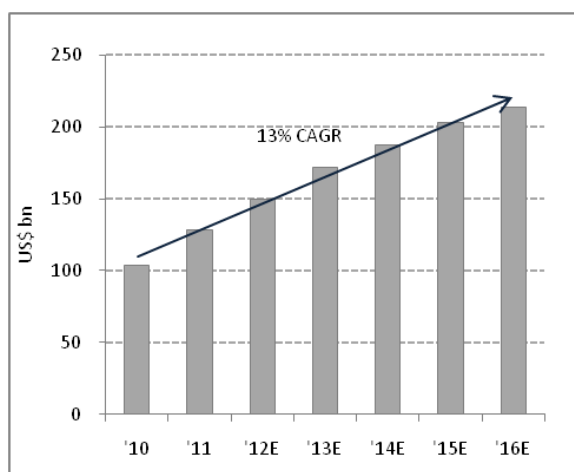
Healthcare, a traditional offline personal service is starting to go online, the market size for which continues to be upwardly revised. A recent study by research2guidance forecasts that mHealth apps market alone will reach US \$26 billion in 2017. Leveraging the strength of wireless, telcos are partnering with medical device manufactureres and hospitals to develop mHealth services; NTT Docomo and Verizon are providing wireless connected medical devices to offer remote-diagnostics and health maintenance services

### [ Telco's Media-Contents Businesses ]



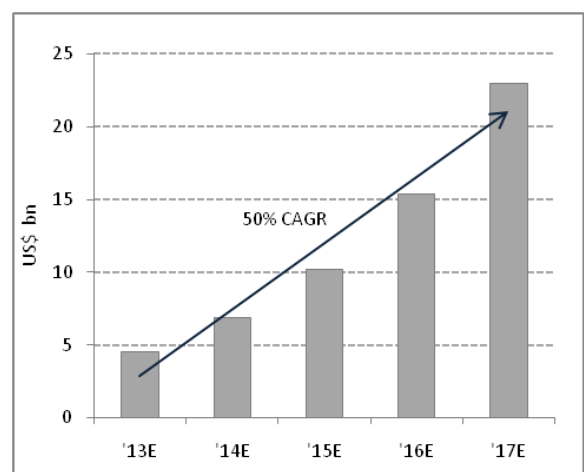
### [ Media-Service Market ]

#### < Mobile Media >



\* Source: Strategic Analytics (Apr, '12)

#### < Mobile Healthcare >



\* Source: GSMA (Feb. '12)

### [ Key Factors for Success ]

	General	Telco advantage
B2B	<ul style="list-style-type: none"> <li>◆ Service reliability (trust)</li> <li>◆ High-quality, well-managed network</li> <li>◆ Total solution delivery</li> <li>◆ Integrate B2B and B2C to improve clients' productivity and profitability</li> </ul>	<ul style="list-style-type: none"> <li>◆ Brand power and wide market presence</li> <li>◆ Expertise in wireless network operations</li> <li>◆ Core competency in solution provisioning</li> <li>◆ Access to subscriber database to deliver a merged B2B2C service offering</li> </ul>
Platform	<ul style="list-style-type: none"> <li>◆ Attract consumers and developers to create a virtuous circle</li> <li>◆ Monetization through advertisements, payment and membership point services</li> <li>◆ Customized search function</li> <li>◆ Ease of access through different platforms, eg. RCS and SNS</li> </ul>	<ul style="list-style-type: none"> <li>◆ Users on different networks and services collectively creates critical mass</li> <li>◆ Long relationship with strong local partners</li> <li>◆ Increased use of HTML5 and different OS to change current OS-oriented competitive dynamics</li> <li>◆ Access to subscriber database for big data analysis</li> </ul>
Media/ Personalized Services	<p><u>Media</u></p> <ul style="list-style-type: none"> <li>◆ Partnerships with CPs/3<sup>rd</sup> parties</li> <li>◆ Funding resources</li> <li>◆ Reliable delivery network/platform</li> </ul> <p><u>Healthcare</u></p> <ul style="list-style-type: none"> <li>◆ Personalized/ customized contents and services</li> <li>◆ Service oriented devices and UI</li> </ul>	<p><u>Media</u></p> <ul style="list-style-type: none"> <li>◆ Strong relationship with CPs</li> <li>◆ Access to subscriber database for big data analysis</li> <li>◆ Able to forge major partnerships due to brand power and wide market presence</li> </ul>

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## Time to revisit SK Telecom's growth proposition

At the forefront of telcos' move to new growth businesses is SK Telecom ("SKT"). Executing its well-defined growth strategy for B2B solutions, platform, IPTV, and healthcare, SKT is taking purposeful steps to establish a strong foundation for growth

### ☐ **B2B solutions: Long-standing reliable service and comprehensive solution offerings yielding results**

In 2012, SKT's B2B solution business generated sales of KRW 272 billion, and is targeting KRW 1.5 trillion by 2015. As the largest mobile operator with 16 consecutive years of customer satisfaction titles to its name, SKT is unmatched in network management expertise and brand position. To date, SKT's B2B solutions for large corporates called Smart Work, includes well known names as Hyundai Heavy Industry, DSME, POSCO, Kumho Asiana, Dongbu group and CJ group. Since its first 3G-based solution delivery to Hyundai Heavy Industry in 2010, SKT has strengthened its relationship with the installation of a LTE-based solution for production and distribution management system in 2011, and security solutions for various smart devices in 2012

SKT's energy solution called Cloud BEMS (Building Energy Management System) provides monitoring, analysis and control tools for optimal building energy management. The Cloud BEMS is already installed and used by Hyundai Department Store, Jeju National University Hospital, and Cheju Halla Hospital. SKT also signed a MOU with the Seoul Hospital Association to expand the business to other hospitals in Seoul

For SMEs, SKT has Smart Store, branded as My Shop. Primarily for franchises and retailers, SKT's provides POS hardware, as well as various packaged solutions ranging from customer care, marketing, inventory management, accounting to performance monitoring solutions. Currently, My Shop is being provided to Cocohodo, a walnut confectionery franchise, Golfzon, a popular indoor screen golf franchise, a traditional Korean market place and is gaining the attention of other SMEs attracted by the investment light solution

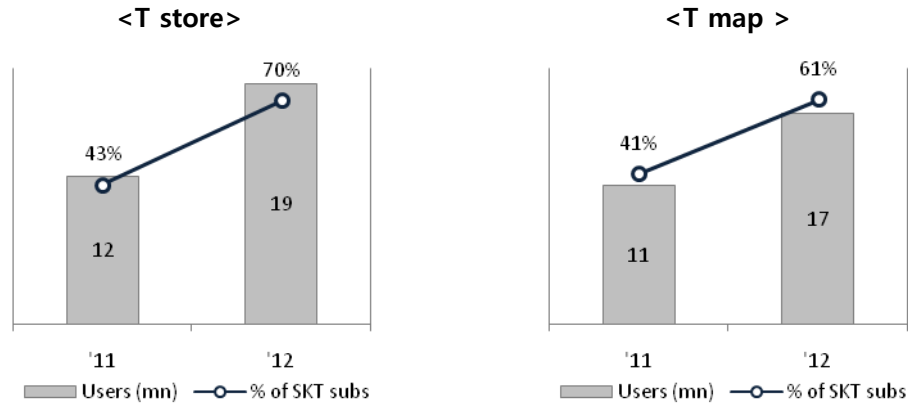
### ☐ **Platform: SKT's high-quality subscriber-base coupled with SKP's strong platform offering**

SKT's 27 million mobile subscriber-base, which already provides a solid foundation for its platform business, is reinforced by the "One-ID" strategy that aggregates various users of SKT services under a single ID and password, i.e. broadening SKT's reach to other non-SKT mobile subscribers. This will continue to feed SK Planet's ("SKP", wholly-owned by SKT) market leading apps, e-commerce and navigation platforms, keeping them a positively sloped growth path

Sales at SKP's 11<sup>th</sup> Street e-commerce platform remain strong, buoyed by the rapid increase in sales from its mobile segment. T store, an Android app store, with its upgraded UI, is strengthening its presence in games - publishing, tie-up with popular developers, social games – to further differentiate the platform. SKP also plans to link-up its platforms, including the T map navigation platform, to offer virtual and real goods

SKT also expects the merger between SKP and SK M&C to create sizeable synergy. In addition to access to Korea's largest offline membership program of 36m members and over 30,000 partnerships, SK M&C's ad business will further differentiate SKP's platforms. The resulting rise in platform traffic will draw mobile advertisers, the market for which is forecast to grow over 90% YoY to KRW416bn in 2013

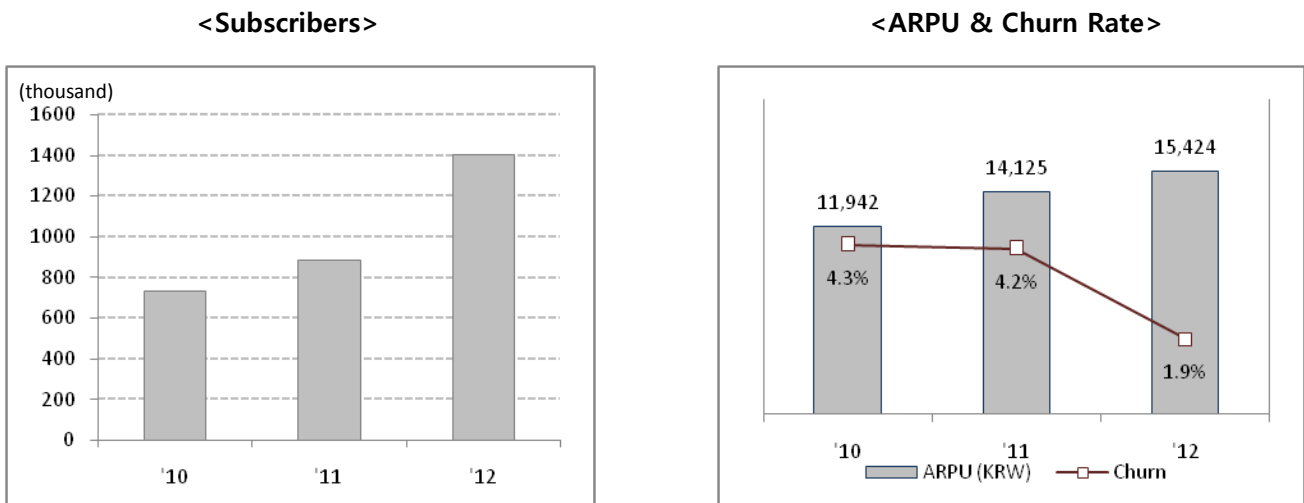
## [ SKT's Platform Subscribers ]



### □ Media and personalized services: Strong partnerships to source content and infrastructure for customized offering

Korea's shift to digital broadcasting, rising demand for VOD services, coupled with competitive bundled offerings are driving the growth of the IPTV market. The bundled wireless and IPTV service has generated strong demand for SK Broadband's IPTV service (branded Btv), which generated strong subscriber and ARPU growth. The continuing pay-TV industry trend favoring the IPTV market bodes well for the media businesses, which SKT has earmarked as one of its growth engines. The increasing use of smartphones to access the Internet (+1.5 hours/day) will also drive SK Broadband's mobile Btv offering

## [ SK Broadband's Btv ]

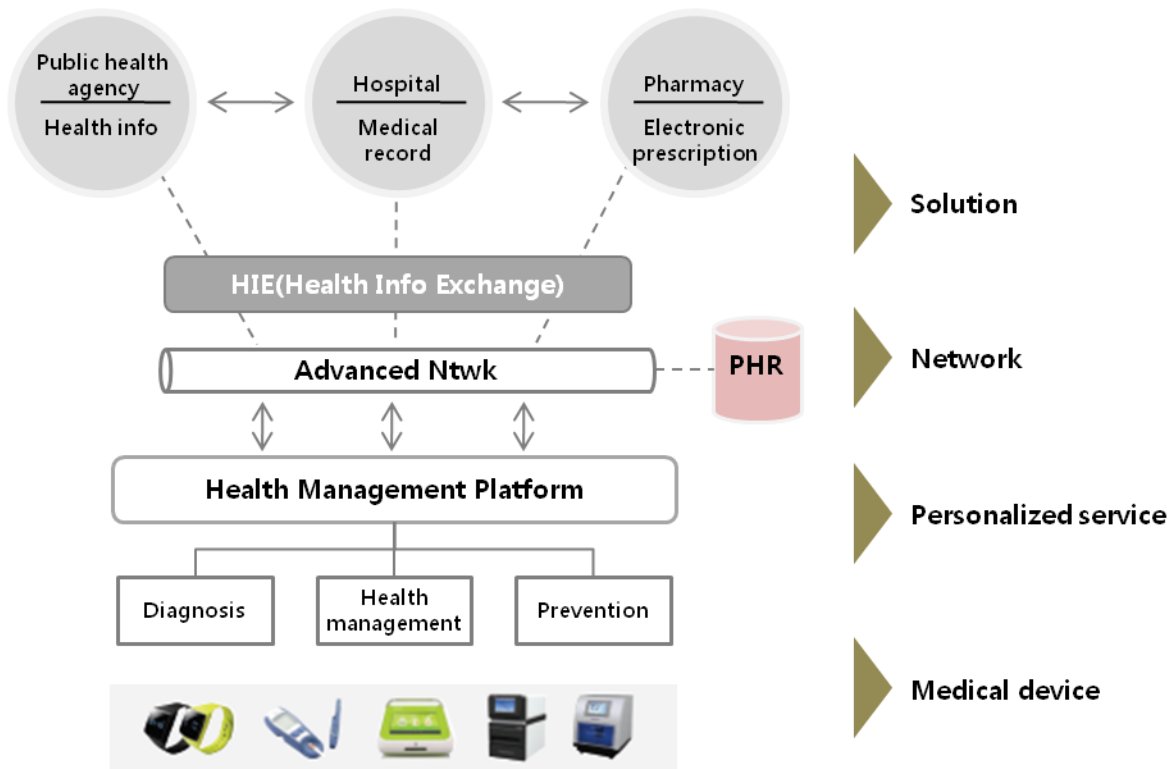


Personalized healthcare business, which SKT aims to grow over the longer term, is composed of three strategic segments - personal healthcare, smart hospital solution and diagnostic device development. SKT, in collaboration with Seoul National University Hospital, has established a joint venture called Health Connect to pursue the personal healthcare business. Health-On, an online monitoring system that tracks an individual's activities and diet is expected to be commercialized shortly



Smart Hospital is a solution that has been implemented at Seoul National University Hospital in Bundang. The service includes wireless appointment, prescription, payment, location, dining menu selection, surgery schedule and other services, making the hospital experience simple and convenient

#### [ Healthcare Service Plan ]



To build a strong base for the medical diagnostic business, SKT invested in NanoEnTek in 2011, X'ian Tianlong Science and Technology in 2012, and formed a strategic alliance with Seegen, a molecular diagnosis company. FREND, a device co-developed with NanoEnTek, is able to quickly detect certain types of cancer, heart illnesses amongst other disorders from a single drop of blood. SKT will continue to work closely with companies in the medical field to establish an early foothold in the healthcare market

#### □ SKT's solid growth prospects warrants a re-rating

As the leading telco in Korea, SKT plans to maintain stable growth of its MNO business, while actively engaging to grow B2B solutions, platform, media and healthcare businesses. By delivering high-quality services, SKT aims to push the bounds of these new growth businesses and set the benchmark for others to follow. In view of SKT's strong position in the evolving global ICT space, clear-cut strategy, and prospects for solid growth, the time has neared to revalue SKT

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## [ Appendix: MWC 2013, Encountering Telco's new growth potential ]

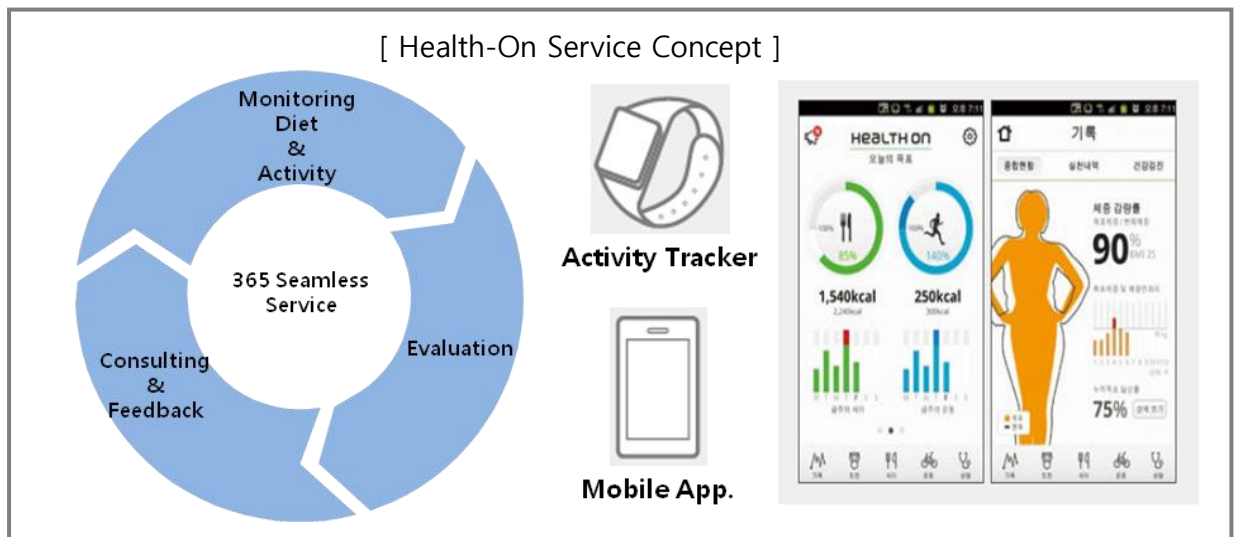
- ◆ Under the "The New Mobile Horizon" theme, MWC 2013 became a place for telcos to actively exchange ideas and showcase their latest efforts to develop the next growth engine
- ◆ The accelerating convergence of industries has sprung new mobile-based connective services, i.e. "Connected-" car, payment, healthcare and home

Connected Car & City	<ul style="list-style-type: none"><li>• AT&amp;T &amp; GM to produce automobiles with LTE-based features including security, diagnosis and infotainment starting in 2014</li><li>• Deutsche Telekom &amp; IBM to provide a system to optimize traffic management to municipalities</li></ul>
Healthcare Home Network	<ul style="list-style-type: none"><li>• Orange presented a healthcare service that secures access to patient data anytime, anywhere and to any device</li><li>• Samsung Electronics extended mobile connectivity to various household appliance system and educational tools</li></ul>

- ◆ A number of companies displayed their new mobile OS, a trend that may lead to a number of different mobile ecosystems
  - Firefox OS: HTML5-based system that makes app. development more convenient. Manufacturers such as ZTE and Alcatel displayed the Firefox OS on their smartphones, which is expected to be introduced through Telefonica and Sprint this year
  - Tizen: Developed by Samsung Electronics and Intel, Huawei's Tizen handsets are scheduled to be shipped to NTT Docomo and Orange
  - Ubuntu: Received significant attention for its innovative UI and the versatility of the OS across devices

- ◆ Displayed LTE network solutions and new growth services
- ◆ Received MWC Global Mobile Award for SKT's proprietary LTE solution "PETA"

Healthcare	<ul style="list-style-type: none"> <li>➢ Health-On, developed with Seoul National University Hospital ("SNUH")</li> <li>➢ FREND, a blood testing device to detect cancer, cardiac and other disorders</li> <li>➢ DSSH(Decision Support System for Home-healthcare) mobile platform that connects the patient with the doctor/hospital</li> </ul>
Smart guide	<ul style="list-style-type: none"> <li>➢ Smart location guide, an indoor location service to be used at Incheon Int'l Airport and SNUH Bundang. Service for shoppers in development with E-mart</li> </ul>
Personalized service	<ul style="list-style-type: none"> <li>➢ Infant educational robot 'Atti'</li> <li>➢ NFC stadium is a NFC-based ticketing and parking location finder</li> <li>➢ Pickat, a social information app for restaurants, shops, transportation etc.</li> <li>➢ Styletag, a fashion SNS</li> <li>➢ Cloud streaming is an encryption service for data sent from a handset</li> <li>➢ Cymera, a portrait camera app.</li> <li>➢ SK VIP(SK Vehicle Infotainment Platform) uses the smartphone as a connection hub to provide navigation, entertainment, mileage and other information</li> </ul>



### < Smart Health Display >



### < Smart Robot Display >



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