

SK TELECOM CO LTD

Form 6-K

April 23, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 6-K  
REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO  
RULE 13a-16 OR 15d-16 OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE MONTH OF APRIL 2007**

**SK Telecom Co., Ltd.**

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

11, Euljiro2-ga, Jung-gu

Seoul 100-999, Korea

*(Address of principal executive offices)*

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

Form 20-F  Form 40-F

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

*Note:* Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

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

*Note:* Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submission to furnish a report or other document that the registration foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If Yes is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b): 82-

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ANNUAL REPORT

(From January 1, 2006 to December 31, 2006)

THIS IS A SUMMARY OF THE ANNUAL REPORT ORIGINALLY PREPARED IN KOREAN AND IS IN SUCH FORM AS REQUIRED BY THE KOREAN FINANCIAL SUPERVISORY COMMISSION.

IN THE TRANSLATION PROCESS, SOME PARTS OF THE REPORT WERE REFORMATTED, REARRANGED OR SUMMARIZED FOR THE CONVENIENCE OF READERS.

UNLESS EXPRESSLY STATED OTHERWISE, ALL INFORMATION CONTAINED HEREIN IS PRESENTED ON A NON-CONSOLIDATED BASIS IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN KOREA, OR KOREAN GAAP, WHICH DIFFER IN CERTAIN RESPECTS FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CERTAIN OTHER COUNTRIES, INCLUDING THE UNITED STATES. WE HAVE MADE NO ATTEMPT TO IDENTIFY OR QUANTIFY THE IMPACT OF THESE DIFFERENCES.

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**Business Objectives**

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10. Tourism
11. Other businesses related to the above

**2. Company History**

**A. Changes Since Incorporation**

(1) Date of Incorporation

- March 29, 1984 (date of shareholders meeting for the incorporation): Incorporated as Korea Mobile Communications Service Co., Ltd.

(Authorized capital: Won 500 million / Paid-in capital: Won 250 million)

(2) Location of Headquarters

- 22 Dohwa-dong, Mapo-gu, Seoul (July 11, 1988)
- 16-49 Hangang-ro 3-ga, Yongsan-gu, Seoul (November 19, 1991)
- 267 Namdaemun-ro 5-ga, Jung-gu, Seoul (June 14, 1995)
- 99 Seorin-dong, Jongro-gu, Seoul (December 20, 1999)
- 11, Euljiro 2-ga, Jung-gu, Seoul (December 13, 2004)

**B. Mergers**

(1) Target: Shinsegi Communication Co., Ltd.

- Date: January 13, 2002
- Registration: January 16, 2002

(2) Target: SK IMT Co., Ltd.

- Date: May 1, 2003
- Registration: May 7, 2003

**C. Significant Recent Business Events**

(1) Provision of Subsidies to Long-term Subscribers

Pursuant to the Telecommunications Business Act, as amended, telecommunications service providers may provide a one-time subsidy to subscribers who have contracts with terms of over 18 consecutive months within 2 years, beginning March 27, 2006. The Company has stated in its standard subscription contract the Company's obligation to

notify the subscribers at least 30 days prior to the cancellation of such subsidy provision.

**Table of Contents****(2) Acquisition of China Unicom Convertible Bonds**

On July 5, 2006, the Company purchased zero coupon convertible bonds of China Unicom Ltd. (principal amount US\$1,000,000,000) at the purchase price of Won 995,119 million, with the objective of fostering business cooperation that will build a foundation for the Company's entry into the Chinese market. The conversion rights of the bonds are exercisable beginning on the 1 year anniversary of the issuance up to 7 days prior to the maturity date. The number of common shares of China Unicom which the Company would acquire pursuant to conversion would be 899,745,075 shares, which would represent, post-conversion, 6.67% of the outstanding common shares of China Unicom.

**(3) Cancellation of Treasury Stock**

Pursuant to the resolutions of the Company's board of directors dated July 28, 2006 and August 31, 2006, the Company acquired 491,000 shares of the Company's common stock (at a purchase price of Won 92,518,373,000) between August 1 and August 14, 2006 and 592,000 shares of the Company's common stock (at a purchase price of Won 116,559,060,000) between September 4 and September 27, 2006, respectively, and cancelled such shares of treasury stock as of August 17 and September 29, 2006, respectively.

**3. Information Regarding Shares****A. Total number of shares**

(As of December 31, 2006)

(Unit: shares)

Classification	Share type		Remarks
	Common shares	Total	
<b>I. Total number of issuable shares</b>	220,000,000	220,000,000	
<b>II. Total number of shares issued to date</b>	89,278,946	89,278,946	
<b>III. Total number of shares retired to date</b>	8,085,235	8,085,235	
<b>1. Capital reduction</b>			
<b>2. Share cancellation</b>	8,085,235	8,085,235	
<b>3. Redeemed shares</b>			
<b>4. Others</b>			
<b>IV. Total number of shares (II-III)</b>	81,193,711	81,193,711	
<b>V. Number of treasury shares</b>	8,526,252	8,526,252	
<b>VI. Number of shares outstanding (IV-V)</b>	72,667,459	72,667,459	

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## B. Capital Stock and Price per Share

(As of December 31, 2006)

(Unit: Won, shares)

Classification	Type	Capital (total face value)			Par value per share (b)	Price per share	
		Capital amount in financial statements (a)	Total number of issued shares (IV of A×b)	Total amount of distributed shares (VI of A×b)		Capital/ Total number of issued shares (a / IV of A.)	Capital/ Number of distributed shares (a / VI of A.)
<b>Registered</b>	<b>Common</b>						
<b>Total</b>	<b>shares</b>	44,639,473,000	40,596,855,500	36,333,729,500	500	549.8	614.3
		44,639,473,000	40,596,855,500	36,333,729,500	500	549.8	614.3

C. Acquisition and  
Disposition of  
Treasury Shares(1) Status of  
Acquisition and  
Disposition of  
Treasury Shares

Acquisition method	Type of share	Amount at the			Retirement (-)	Amount at the end of period
		beginning of period	Acquisition (+)	Disposition (-) <sup>(1)</sup>		
<b>Direct acquisition pursuant to Article 189-2 (1) of the relevant Act</b>	Common share	4,697,735	1,083,000	136,163	1,083,000	4,561,572
<b>Direct acquisition based on causes other than those stipulated in Article 189-2 (1) of the relevant Act</b>	Common share	77,970				77,970
	Preferred share					
	Common share	4,775,705	1,083,000	136,163	1,083,000	4,639,542
<b>Sub-total</b>						



	Preferred share					
<b>Indirect acquisition</b>	Common share	3,886,710				3,886,710
<b>through trust and other agreements</b>	Preferred share					
	Common share	8,662,415	1,083,000	136,163	1,083,000	8,526,252
<b>Total</b>	Preferred share					

*Notes:*

- (1) Dispositions of 99,361 common shares in the second quarter of 2006 and 36,802 common shares in the fourth quarter of 2006 were made due to the conversion of the Company's convertible bonds.

\* Of the 4,639,542 shares of treasury stocks directly acquired based on causes other than those provided in Article 189-2 (1) of the relevant Act, 1,649,014 shares were deposited with the Korea Securities Depository as of December 31, 2006 for any exchange of the Company's overseas exchangeable bonds.

**Table of Contents****D. Employee Stock Ownership Program****(1) Transactions with the Employee Stock Ownership Program**

a) On August 23, 1999, the Company lent Won 118.6 billion of purchase funds for employee stock ownership to the Employee Stock Ownership Program, and the Employee Stock Ownership Program re-lent the amount to the Company's employees in accordance with its internal allotment standards.

Terms of the loan: 8-year installment repayment plan following a three-year grace period

The loan is deducted from wages for each individual to repay the Employee Stock Ownership Program, and is subsequently repaid to the company.

b) Repayment amount for the year ended December 31, 2006: Won 7,056,652

Details of the loan repayment

(As of December 31, 2006)

(Unit: in thousand Won)

<b>Classification</b>	<b>Amount</b>	<b>Remarks</b>
<b>Initial loan amount</b>	118,577,755	Lent on August 23, 1999 to 3,540 persons
<b>Accumulated repayment amount</b>	111,048,200	Includes Won 7.06 billion repaid during 2006
<b>Balance</b>	7,529,555	Expected full repayment by July 2010

**(2) Voting Rights of the Employee Stock Ownership Program**

During a designated period, to be 7 days or longer, each individual member of the Program may exercise his voting rights by expressing his intention on the shareholders' meeting agenda through a written power of attorney to a designated proxy.

**(3) Shareholdings of the Employee Stock Ownership Program**

(Unit: shares)

<b>Account classification</b>	<b>Types of share</b>	<b>Balance at the beginning of period</b>	<b>Balance at the end of period</b>
E.S.O.P. account			
Member account	Common share	297,246	197,240

\* As the relevant law requires an immediate transfer of the shares directly purchased by the employees to the account of the individual purchasers, the Company transfers and holds the employees' stocks in separate individual accounts within the program once the number of shares for each individual member is determined.

**Table of Contents****4. Status of Voting Rights**

(As of December 31, 2006)

(Unit: shares)

Classification		Number of shares	Remarks
<b>Total outstanding shares (A)</b>	Common share	81,193,711	
	Preferred share		
<b>Number of shares without voting right (B)</b>	Common share	8,526,252	Treasury shares
	Preferred share		
<b>Shares with restricted voting right under the Stock Exchange Act and other laws (C)</b>	Common share		
	Preferred share		
<b>Shares with reestablished voting right (D)</b>	Common share	72,667,459	
	Preferred share		

(E = A - B - C + D)

**5. Dividends and Others**

(Unit: in million Won except per share value)

Classification	Year ended December 31,		
	2006	2005	2004
Par value per share	500	500	500
Current net income	1,446,598	1,871,380	1,494,852
Net income per share	19,734	25,421	20,307
Income available for distribution as dividend	1,608,891	1,930,626	1,377,007
Total cash dividend	582,386	662,529	758,227
Total stock dividend			
Percentage of cash dividend to available income (%)	40.3	35.4	50.7
Cash dividend yield ratio(%)	Common share	3.6	5.2
	Preferred share	4.9	
Stock dividend yield ratio (%)	Common share		
	Preferred share		
Cash dividend per share	8,000	9,000	10,300
Stock dividend per share	Common share		
	Preferred share		

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\* The total amount of cash dividend for the year ended December 31, 2006 includes the interim dividend amount of Won 73,714 million, and the cash dividend amount per share of Won 8,000 for the same period includes the interim dividend amount of Won 1,000 per share.

\* The total amount of cash dividend for the year ended December 31, 2005 includes the interim dividend amount of Won 73,614 million, and the cash dividend amount per share of Won 9,000 for the same period includes the interim dividend amount of Won 1,000 per share.

\* The cash dividend per share of Won 10,300 for the year ended December 31, 2004 includes the regular dividend of Won 5,100 (including the interim dividend amount of Won 1,000) and a special dividend of Won 5,200.

**II. BUSINESS****1. Business Summary****A. Industry Status****(1) Characteristics of the Industry**

As of December 31, 2006, the number of domestic mobile phone subscribers reached 40.2 million and with a 83.2% penetration rate, and the Korean mobile communication market can be considered to have reached its maturation stage. However, considering the number of European countries with penetration rates exceeding 90%, additional future growth of the domestic market may be possible.

The Korean mobile communications market continues to improve with the help of advances in network-related technology evidenced by the world's first commercialization of CDMA2000 1x, CDMA 1x EV-DO, and the development of highly advanced handsets that enables the provision of convergence services for multimedia contents, mobile commerce, telematics, satellite DMB, digital home services and other related contents.

**(2) Industry Growth**

(Unit: 1,000 persons)

		<b>End of 2006</b>	<b>End of 2005</b>	<b>End of 2004</b>	<b>End of 2003</b>	<b>End of 2002</b>
<b>Classification</b>						
<b>Penetration rate (%)</b>		83.2	79.4	75.9	70.1	67.9
	<b>SK</b>					
	<b>Telecom</b>	20,271	19,530	18,783	18,313	17,220
	<b>PCS</b>	19,926	18,812	17,803	15,279	15,123
<b>Number of subscribers</b>	<b>Total</b>	40,197	38,342	36,586	33,592	32,342

(Data: Ministry of Information and Communication website)

**Table of Contents****(3) Market Characteristics**

The Korean mobile communication market includes the entire population of Korea with mobile communication service needs, and almost every Korean is considered a potential user. With the market penetration rate reaching as high as 83.2% (as of the end of December 2006), the customer base is continuing to expand to include elementary school and pre-school children. Although demand to date has primarily been in the domestic market, as the business territory expands to overseas market, the size of overseas sales is expected to grow in the near future. Seasonal and economic fluctuations have much less impact on the Korean mobile communication market compared to other industries.

**B. Company Status****(1) Market Share**

\* Historical market share of the Company

(Unit: %)

<b>Classification</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Mobile phone</b>	50.4	50.9	51.3

\* Comparative market share

(As of December 31, 2006)

(Unit:%)

<b>Classification</b>	<b>SK Telecom</b>	<b>KTF</b>	<b>LG Telecom</b>
Market share	50.4	32.1	17.5

(Data: Ministry of Information and Communication website)

**(2) New Business Contents and Prospects****a) Expansion of U.S. market operations through commencement of Helio service**

Resolution for capital investment regarding Mobile Virtual Network Operator (MVNO) service in the U.S. (January 26, 2005)

Investment amount: US\$220 million (From 2005 to 2007)

Investment method: Establishment of a joint venture with EarthLink, which is one of the three major Internet service providers in the U.S.

Service provided: MVNO (Mobile Virtual Network Operator)

Subscriber recruitment and service provision based on service facilities and fee plans

Combination of the Company's mobile communications business capabilities and data service technology with the local customer base, marketing infrastructure and brand power of EarthLink

Planning to provide additional services related with music, games and messaging for target customers

Status: As of December 31, 2006, the Helio service had approximately 70,000 subscribers and average revenue per user (ARPU) of approximately US\$100.

**b) Commencement of Commercial High Speed Downlink Packet Access ( HSDPA ) Service (May, 2006)**

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Building on an advanced WCDMA network for data transmission, improve the Company's long-term growth base through the development of new products with strong visual components (such as video phones and other video content) and the expansion of global roaming services;

Planning to increase customer preference for HSDPA by capturing the early adopter and heavy user markets and to raise awareness of HSDPA as a premium service;

Nationwide HSDPA network expected to be completed in March 2007.

c) Commencement of Commercial Wireless Broadband ( WiBro ) Service (June 2006)

On January 20, 2005, the Company, along with Korea Telecom, obtained rights to the WiBro business following the review of the Information and Communications Policy Review Committee

Currently servicing six HotZone areas in the Korea University, Shinchon, Hanyang University, Myungdong and Euljiro areas in Seoul;

Plan to expand HotZone service and to introduce partial flat rate plans in light of various customers' different usage patterns.

## 2. Major Products

### A. Status of Major Products as of December 31, 2006

(Unit: in million Won, %)

Business field	Sales type	Item	Major trademarks	Sales amount (ratio)
Information and communication		Mobile phone	June, NATE and others	10,497,773
		Services		(98.56%)
		Others	Others	153,179 (1.44%)

### B. Price Trend of Major Products

Item	During 2006	During 2005	During 2004
Mobile phone Basic fee (per month)	13,000	13,000	13,000
(Based on standard call charge) Service fee (per 10 seconds)	20	20	20

\* Caller ID service became free of charge beginning January 2006.

**Table of Contents****3. Investment Status**

## A. Investments in Progress

Business field	Classification	Investment period	Subject of investment	Investment effect	Amount	
					Total investments	already invested
				Capacity increase and quality improvement; systems improvement		
Network/Common	Upgrade/ New installation	2006	Network, systems and others		16,000	15,175

(Unit: Won 100 million)

\* Amount already invested is the cumulative amount expended through the year ended December 31, 2006.

## B. Future Investment Plan

Business field	Expected investment amount		Expected investment for each year		Investment effect
	Asset type	Amount	2007	2008	
Network/Common	Network, systems and others	15,500	15,500	N/A	Upgrades to the existing services and provision of new services
<b>Total</b>		15,500	15,500	N/A	

(Unit: Won 100 million)

\* The expected investment amount of Won 1,550.0 billion is the planned future investment amount for 2007.

**4. Derivative Products and Others**

## A. Derivatives Contracts

(1) FX Swap

- a) Purpose of Contracts: Currency Exchange Risk Hedging  
 b) Contract Terms  
 - Cross Currency Swap

(As of December 31, 2006)

(Unit: in million Won)  
**Income/loss on**

<b>Contract amount</b>	<b>Contract party</b>	<b>Contract date</b>	<b>Proceeds payment method</b>	<b>valuation</b>
US\$125 million	Citibank	March 23, 2004	Exchange on the date immediately preceding the principal and interest payment date	(37,470)
US\$125 million	Credit Suisse	March 23, 2004	Same as above	(37,289)
US\$50 million	BNP Paribas	March 23, 2004	Same as above	(14,962)
US\$100 million	Calyon	October 10, 2006	Same as above	(747)
Total: US\$400 million				(90,468)



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\* Income/loss on valuation was calculated using the cash flow hedge accounting and was appropriated for capital adjustment.

- FX Swap

(As of December 31, 2006)

(Unit: in million Won)

<b>Contract amount</b>	<b>Contract party</b>	<b>Contract date</b>	<b>Proceeds payment method</b>	<b>Income on valuation</b>
US\$100 million	Credit Suisse	May 27, 2004	Exchange before principal payment date	(22,503)
US\$300 million	Hana Bank			
US\$140 million	Shinhan Bank			
	Woori Bank			
		June 30, 2006	Payment of US Dollars and receipt of Korean Won on July 5, 2007	16,660
US\$140 million	Korea Exchange Bank			
US\$140 million	Citibank			
US\$140 million	Barclays Capital			

(2) Interest Rate Swap

a) Purpose of Contracts: Interest Rate Risk Hedging

b) Contract Terms

- IRS

(As of December 31, 2006)

(Unit: in million Won)

<b>Contract amount</b>	<b>Contract party</b>	<b>Contract date</b>	<b>Proceeds payment method</b>	<b>Income/loss on valuation</b>
2,000	Shinhan Bank	June 28, 2006	Fixing of interest payment date / exchange of floating interest rate	(454)

\* Income/loss on valuation was calculated using the cash flow hedge accounting and was appropriated for capital adjustment.



Table of Contents**5. R&D Investments**

		(Unit: in thousand Won)			
	Category	2006	2005	2004	Remarks
<b>Raw material</b>		184,969	234,889	255,320	
<b>Labor</b>		33,986,701	35,191,759	36,026,539	
<b>Depreciation</b>		134,461,257	121,335,301	122,097,858	
<b>Commissioned service</b>		83,751,223	86,536,635	85,646,995	
<b>Others</b>		35,680,197	41,730,732	39,951,341	
<b>Total R&amp;D costs</b>		288,064,347	285,029,316	283,978,053	
	<b>Sales and administrative expenses</b>				
<b>Accounting</b>		277,807,352	273,223,885	272,290,385	
	<b>Development expenses (Intangible assets)</b>				
		10,256,995	11,805,431	11,687,668	
<b>R&amp;D cost / sales amount ratio (Total R&amp;D costs / Current sales amount×100)</b>		2.70%	2.81%	2.93%	

**6. Other Matters**

## A. External Fund Procurement Summary

\* Domestic procurement

Source of procurement	Beginning balance	New procurement	Reduction from repayment	(Unit: in million Won) Ending balance	Remarks
<b>Bank</b>		200,000		200,000	
<b>Insurance company</b>					
<b>Merchant banking</b>					
<b>Loan specialty financial company</b>					
<b>Mutual savings bank</b>					
<b>Other financial institutions</b>	24,543		14,704	9,839	
<b>Total procurement from financial institutions</b>	24,543	200,000	14,704	209,839	
<b>Corporate bond (public offering)</b>	2,500,000	200,000	800,000	2,100,000	
<b>Corporate bond (private offering)</b>					
<b>Paid-in capital increase (public offering)</b>					

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	<b>Beginning</b>	<b>New</b>	<b>Reduction</b>	<b>(Unit: in million Won)</b>	
<b>Source of procurement</b>	<b>balance</b>	<b>procurement</b>	<b>from</b>	<b>Ending</b>	<b>Remarks</b>
			<b>repayment</b>	<b>balance</b>	
<b>Paid-in capital increase (private offering)</b>					
<b>Asset backed securitization (public offering)</b>					
<b>Asset backed securitization (private offering)</b>					
<b>Others</b>					
<b>Total procurement from capital market</b>	2,500,000	400,000	800,000	2,100,000	
<b>Borrowings from shareholder, officer and affiliated company</b>					
<b>Others</b>					
<b>Total</b>	2,524,543	600,000	814,704	2,309,839	

\* Overseas procurement

	<b>Beginning</b>	<b>New</b>	<b>Reduction</b>	<b>(Unit: in million Won)</b>	
<b>Procurement source</b>	<b>balance</b>	<b>procurement</b>	<b>in</b>	<b>Ending</b>	<b>Remarks</b>
			<b>repayment</b>	<b>balance</b>	
			<b>and</b>		
			<b>others</b>		
<b>Financial institutions</b>		94,800	1,840	92,960	Exchange rate adjustment
<b>Overseas securities(Corporate bonds)</b>	303,900		25,020	278,880	Exchange rate adjustment
<b>Overseas securities (shares and others)</b>	385,885		29,529	356,356	Stock conversion
<b>Asset backed securitization</b>					
<b>Others</b>					
<b>Total</b>	689,785	94,800	56,389	728,196	

**Table of Contents**B. Credit Ratings  
(1) Corporate Bonds

<b>Credit rating date</b>	<b>Subject of valuation</b>	<b>Credit rating</b>	<b>Credit rating entity (Credit rating range)</b>	<b>Evaluation classification</b>
March 12, 2004	Corporate bond	AAA	Korea Ratings	Current valuation
March 15, 2004	Corporate bond	AAA	National Information on Credit Evaluation, Inc.	Current valuation
April 23, 2004	Corporate bond	AAA	Korea Investors Service, Inc.	Current valuation
April 23, 2004	Corporate bond	AAA	Korea Ratings	Current valuation
December 6, 2004	Corporate bond	AAA	Korea Investors Service, Inc.	Current valuation
December 6, 2004	Corporate bond	AAA	National Information on Credit Evaluation, Inc.	Current valuation
March 11, 2005	Corporate bond	AAA	Korea Investors Service, Inc.	Current valuation
March 11, 2005	Corporate bond	AAA	Korea Ratings	Current valuation
March 14, 2005	Corporate bond	AAA	Korea Ratings	Regular valuation
June 14, 2005	Corporate bond	AAA	National Information on Credit Evaluation, Inc.	Regular valuation
June 13, 2006	Corporate bond	AAA	National Information on Credit Evaluation, Inc.	Regular valuation
June 21, 2006	Corporate bond	AAA	Korea Ratings	Regular valuation
June 22, 2006	Corporate bond	AAA	Korea Investors Service, Inc.	Regular valuation
September 1, 2006	Corporate bond	AAA	National Information on Credit Evaluation, Inc.	Current valuation
September 1, 2006	Corporate bond	AAA	Korea Ratings	Current valuation
September 1, 2006	Corporate bond	AAA	Korea Investors Service, Inc.	Current valuation
October 27, 2006	Corporate bond	AAA	National Information on Credit Evaluation, Inc.	Current valuation
October 27, 2006	Corporate bond	AAA	Korea Ratings	Current valuation

\* Rating definition: AAA The certainty of principal and interest payment is at the highest level with extremely low

investment risk,  
and is stable in  
that there is no  
influence of any  
environmental  
change under  
reasonable  
expectation  
conditions.

(2) Commercial Paper ( CP )

<b>Credit rating date</b>	<b>Subject of valuation</b>	<b>Credit rating</b>	<b>Credit rating entity (Credit rating range)</b>	<b>Evaluation classification</b>
January 26, 2004	CP	A1	National Information on Credit Evaluation, Inc.	Regular valuation
June 8, 2004	CP	A1	National Information on Credit Evaluation, Inc.	Current valuation
June 11, 2004	CP	A1	Korea Ratings	Current valuation
June 11, 2004	CP	A1	Korea Investors Service, Inc.	Current valuation

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<b>Credit rating date</b>	<b>Subject of valuation</b>	<b>Credit rating</b>	<b>Credit rating entity (Credit rating range)</b>	<b>Evaluation classification</b>
June 13, 2005	CP	A1	Korea Investors Service, Inc.	Current valuation
June 14, 2005	CP	A1	National Information on Credit Evaluation, Inc.	Current valuation
June 16, 2005	CP	A1	Korea Ratings	Current valuation
June 13, 2006	CP	A1	Korea Investors Service, Inc.	Current valuation
June 21, 2006	CP	A1	National Information on Credit Evaluation, Inc.	Current valuation
June 22, 2006	CP	A1	Korea Investors Service, Inc.	Current valuation
September 1, 2006	CP	A1	Korea Ratings	Current valuation
December 27, 2006	CP	A1	National Information on Credit Evaluation, Inc.	Current valuation
December 27, 2006	CP	A1	Korea Investors Service, Inc.	Current valuation

\* Rating definition: A1 Timely repayment capability is at the highest level with extremely low investment risk, and is stable in that there is no influence of any environmental change under reasonable expectation conditions.

## (3) International Credit Ratings

<b>Date of credit rating</b>	<b>Subject of valuation</b>	<b>Credit rating of securities</b>	<b>Credit rating company (Credit rating range)</b>	<b>Evaluation type</b>
June 14, 2005	Issuer Rating	A	Fitch (England)	Current valuation
July 14, 2005	Global Bonds	A2	Moody s (U.S.A.)	Current valuation
July 14, 2005	Exchangeable Bonds	A2	Moody s (U.S.A.)	Current valuation
July 27, 2005	Global Bonds	A	S&P (U.S.A.)	Current valuation
July 27, 2005	Exchangeable Bonds	A	S&P (U.S.A.)	Current valuation

**III. FINANCIAL INFORMATION**

## 1. Summary Financial Statements

(Unit: in million Won)

<b>Classification</b>	<b>Year ended December 31,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Current assets</b>	4,189,325	4,172,485	3,854,345	3,460,706	2,746,991
<b>Quick assets</b>	4,172,887	4,166,500	3,843,384	3,452,682	2,736,273
<b>Inventory</b>	16,438	5,985	10,961	8,024	10,718

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<b>Fixed assets</b>	11,624,728	10,349,191	10,166,360	9,915,253	9,974,227
<b>Investments</b>	3,801,458	2,366,760	2,112,488	1,763,359	3,132,330
<b>Tangible assets</b>	4,418,112	4,595,884	4,605,253	4,551,626	4,451,548
<b>Intangible assets</b>	3,405,158	3,386,547	3,448,619	3,600,268	2,390,350

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(Unit in million Won)

Classification	Year ended December 31,				
	2006	2005	2004	2003	2002
<b>Total assets</b>	15,814,053	14,521,676	14,020,705	13,375,959	12,721,218
<b>Current liabilities</b>	2,985,620	2,747,268	2,859,711	4,231,974	4,015,859
<b>Fixed liabilities</b>	3,522,006	3,516,528	4,033,902	3,202,147	3,168,412
<b>Total liabilities</b>	6,507,626	6,263,796	6,893,613	7,434,121	7,184,271
<b>Capital</b>	44,639	44,639	44,639	44,639	44,576
<b>Capital surplus</b>	2,962,699	2,966,198	2,983,166	2,915,964	2,884,385
<b>Surplus from share issuance</b>	2,915,887	2,915,887	2,915,887	2,915,964	2,884,385
<b>Other capital surplus</b>	46,812	50,311	67,279		
<b>Income surplus</b>	7,844,753	7,269,861	6,156,708	5,140,349	4,897,099
<b>Capital adjustment</b>	(1,545,664)	(2,022,817)	(2,057,422)	(2,159,114)	(2,289,112)
<b>Total capital</b>	9,306,427	8,257,881	7,127,091	5,941,838	5,536,948
<b>Sales</b>	10,650,952	10,161,129	9,703,681	9,520,244	8,634,049
<b>Operation income</b>	2,584,370	2,653,570	2,359,581	3,080,660	2,683,676
<b>Ordinary income</b>	2,021,643	2,554,613	2,115,778	2,714,194	2,179,993
<b>Current net income</b>	1,446,598	1,871,380	1,494,852	1,942,750	1,511,278

\* See the attached  
Korean GAAP  
Non-consolidated  
Financial  
Statements.

**IV. AUDITOR S OPINION****1. Auditor**

	2006	2005	2004
Deloitte Anjin LLC		Deloitte Anjin LLC	Deloitte Hana Anjin LLC

**2. Audit Opinion**

	Term	Auditor s opinion	Issues noted
Year ended December 31, 2006		Appropriate	
Year ended December 31, 2005		Appropriate	
Year ended December 31, 2004		Appropriate	

**Table of Contents****3. Remuneration for Independent non-executive Auditors for the Past Three Fiscal Years**

## A. Audit Contracts

(Unit: in thousand Won)

<b>Term</b>	<b>Auditors</b>	<b>Contents</b>	<b>Fee</b>	<b>Total hours</b>
<b>Year ended December 31, 2006</b>	Deloitte Anjin LLC	Semi-annual review Quarterly review Non-consolidated financial statements audit Consolidated financial statements audit	656,000	6,206 (excluding time spent on consolidated and US GAAP audit)
<b>Year ended December 31, 2005</b>	Deloitte Anjin LLC	Semi-annual review Quarterly review Non-consolidated financial statements audit Consolidated financial statements audit	447,000	5,177
<b>Year ended December 31, 2004</b>	Deloitte Hana Anjin LLC	Semi-annual review Quarterly review Non-consolidated financial statements audit Consolidated financial statements audit	360,000	4,808

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## B. Non-Audit Services Contract with External Auditors

(Unit: in thousand Won)

<b>Term</b>	<b>Contract date</b>	<b>Service provided</b>	<b>Service period</b>	<b>Fee</b>
<b>Year ended December 31, 2006</b>	January 1, 2006	Tax consulting service for fiscal year 2006	25 days	20,000
	February 7, 2006	Tax training for employees of authorized exclusive dealers	50 days	45,000
	April 30, 2006	Tax consulting	7 days	45,000
	July 26, 2006	Financial consulting	7 days	40,000
	October 13, 2006	Evaluation of and preparation of recommendations for improvement of subsidiaries financial system infrastructure	10 days	49,500
	November 13, 2006	Preparation of responses to the U.S. S.E.C. comments on the Company's Form 20-F for 2005	10 days	25,500
<b>Year ended December 31, 2005</b>	February 4, 2005	Advisory service regarding the set up of the internal control	9 days	46,080
	March 30, 2005	-Form 20-F for the year ended December 31, 2003 -Response to the U.S. S.E.C. comments regarding the Form 6-K including the U.S. GAAP consolidated financial statements for the six months ended June 30, 2004	10 days	20,200
	March 31, 2005	Tax adjustment for the year ended December 31, 2004	7 days	24,920
	April 15, 2005	Tax consulting	3 days	5,000
	April 29, 2005	Tax consulting	7 days	19,000
	June 1, 2005	2004 English audit	20 days	86,000
	July 18, 2005	Tax consulting	5 days	13,500
	December 31, 2005	Tax consulting	All year (100 hours)	10,000
<b>Year ended December 31, 2004</b>	March 2, 2004	Consulting on the issuance of overseas unsecured debenture	17 days	49,500
	March 30, 2004	Tax adjustment for the year ended December 31, 2003	5 days	22,650
	April 1, 2004	Financial due diligence	6 days	6,100
	April 10, 2004	Thailand tax consulting	4 days	12,000
	April 14, 2004	Consulting on issuance of overseas exchangeable bond	15 days	48,800
	May 10, 2004	Indonesia tax consulting	4 days	9,600
	September 30, 2004	U.S. GAAP Consolidated Audit (yearly basis)	20 days	86,000
	September 30, 2004		30 days	114,000

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	U.S. GAAP Consolidated Audit (Semi-annual basis)		
October 15, 2004	Consulting on internal control recommendations	50 days	171,000

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**V. MANAGEMENT STRUCTURE**

**1. Summary of Management Structure**

A. Board of Directors

(1) Authority of the Board of Directors

- a) Authority of the board of directors under Article 7 of the Regulations of the Board of Directors
  - Convocation of shareholders meeting and submission of agenda
  - Prior approval of financial statements
  - Decisions on issuance of new shares
  - Long-term borrowings, issuance of corporate bonds and redemptions
  - Capital transfer of reserves
  - Election of CEO and representatives
  - Appointment of executive directors
  - Establishment, transfer or closure of branches
  - Enactment of and revision to the Regulations for the Board of Directors
  - Annual business plan and budgeting
  - Approval of investments of Won 15 billion or above
  - Planned budget increases and changes for investments or Won 15 billion or above
  - Diversification into new businesses
  - Investments and joint ventures of Won 15 billion or above (excluding matters subject to prior approval by independent non-executive directors)
  - Establishment of subsidiaries
  - Guarantees of Won 15 billion or above (excluding matters subject to prior approval by independent non-executive directors)
  - Transactions undertaken with related parties equal to or above the lesser of an amount equivalent to 10% of capital or Won 10 billion, and any material changes to such transactions in accordance with the Anti-trust Law and Fair Trade Act
  - Enactment of and amendment to the Internal Trading Procedures

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- Other matters considered necessary by the Board of Directors and those requiring Board of Directors approval under applicable laws

b) Reporting items under Article 7.2 of the Regulations of the Board of Directors

-The representative director must report the following to the Board of Directors within two months after the date of occurrence:

Results for the six months ended June 30 of each year

Execution of investments between Won 5 billion and Won 15 billion

New investments and joint ventures under Won 15 billion

Acquisition of non-operational fixed assets

Disposition of fixed assets of Won 15 billion or above

Matters related to guarantees of under Won 15 billion

Internal trading not subject to approval by the Board of Directors

Matters delegated to the representative director that the Board of Directors requires to be reported

(2) Publication of Information on Director Candidates Prior to the Shareholders Meeting for the Election of Directors and Shareholders Nomination

a) On February 13, 2007, in the notice of the annual general meeting of shareholders, information on Jung Nam Cho, Sung Min Ha and Dal Sup Shim, candidates for the Board of Directors, was publicly disclosed.

b) There was no nomination by the shareholders.

(3) Significant Activities of the Board of Directors

Meeting	Date	Agenda	Approval
<b>264<sup>th</sup> (the first meeting of 2006)</b>	January 23, 2006	- Financial statements for the year ended December 31, 2005	Approved as proposed
		- Annual business report for the year ended December 31, 2005	Approved as proposed
		- Organization of Independent non-executive Director Nomination Committee	Approved as proposed
		- Amendment of regulation for the Compensation Review Committee	Amendment to be proposed to the Board of Directors in April, 2006
<b>265<sup>th</sup> (the second meeting of 2006)</b>	February 14, 2006	- Convocation of the 22 <sup>nd</sup> General Meeting of Shareholders	Approved as proposed
<b>266<sup>th</sup> (the third meeting of 2006)</b>	March 31, 2006	- Election of committee members	Approved as proposed



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<b>Meeting</b>	<b>Date</b>	<b>Agenda</b>	<b>Approval</b>
<b>267<sup>th</sup> (the fourth meeting of 2006)</b>	April 26, 2006	- Amendment of regulations for the Compensation Review Committee	Approved after amendment
		- Election of committee member for the Compensation Review Committee	Approved as proposed
		- Establishment of the Service & Technology Center (STC)	Approved as proposed
		- Exercise of the iHQ call option	Approved as proposed
<b>268<sup>th</sup> (the fifth meeting of 2006)</b>	May 26, 2006	- Issuance of overseas convertible bonds and approval of related treasury stock disposition plan, as amended	Approved as proposed
<b>269<sup>th</sup> (the sixth meeting of 2006)</b>	June 20, 2006	- Acquisition of China Unicom convertible bonds	Approved as proposed
		- Long-term borrowings	Approved as proposed
<b>270<sup>th</sup> (the seventh meeting of 2006)</b>	July 28, 2006	- Interim dividends	Approved as proposed
		- Acquisition of the Company's common stock for cancellation	Approved as proposed
<b>271<sup>st</sup> (the eighth meeting of 2006)</b>	August 31, 2006	- Establishment of Global Committee and election of members	Approved after amendment
		- Issuance of corporate bonds and long-term borrowings	Approved as proposed
		- Acquisition of the Company's common stock for cancellation	Approved as proposed
		- Expansion of WCDMA investment	Approved as proposed
		- Construction of TD-SCDMA Test-bed and investment for development of related services	Approved as proposed
<b>272<sup>nd</sup> (the ninth meeting of 2006)</b>	September 29, 2006	- Report on activities in July and August 2006	
<b>273<sup>rd</sup> (the tenth meeting of 2006)</b>	October 27, 2006	- Issuance of corporate bonds	Approved as proposed
<b>274<sup>th</sup> (the eleventh meeting of 2006)</b>	November 24, 2006	- 2006 Operation Results and 2007 Plan for the Fair Trade Voluntary Compliance Program	





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<b>Meeting</b>	<b>Date</b>	<b>Agenda</b>	<b>Approval</b>
<b>275<sup>th</sup></b>		- Establishment of SKT China Holding Company	Approved as proposed
<b>(the twelfth meeting of 2006)</b>	December 22, 2006	- Participation in capital increase of TU Media; - 2007 Business Management Plan	Approved as proposed Approved as proposed
<b>276<sup>th</sup></b>		- Financial statements for the year ended December 31, 2006	Approved as proposed
<b>(the first meeting of 2007)</b>	January 25, 2007	- Annual business report for the year ended December 31, 2006	Approved as proposed
<b>277<sup>th</sup></b>		- Organization of the Independent Non-Executive Director Nomination Committee	Approved as proposed
<b>(the second meeting of 2007)</b>	February 13, 2007		
<b>278<sup>th</sup></b>		- Convocation of the 23 <sup>rd</sup> General Meeting of Shareholders	Approved as proposed
<b>(the third meeting of 2007)</b>	February 13, 2007	- Change in the Fair Trade Voluntary Compliance Program manager	Approved as proposed
<b>279<sup>th</sup></b>		- Election of the representative director and appointments of executive directors	Approved as proposed
<b>(the fourth meeting of 2007)</b>	March 9, 2007	- Election of committee members	Approved as proposed
(4) Committee Structure and Activities of the Board of Directors			
a) Independent non-executive Director Nomination Committee			
- Organization			
(As of February 13, 2007)			

<b>Number of Persons</b>	<b>Members</b>	
	<b>Company Directors</b>	<b>Independent non-executive Directors</b>
4	Shin Bae Kim, Sung Min Ha	Seung Taik Yang, Sang Jin Lee
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- Activities

<b>Meeting</b>	<b>Date</b>	<b>Number of Attendees</b>	<b>Details</b>
<b>7<sup>th</sup> Meeting (the first meeting of 2006)</b>	February 14, 2006	3 persons/4 persons	- Election of the Chairman: Jung Nam Cho - 22 <sup>nd</sup> General Meeting of Shareholders: Nomination of Independent non-executive director candidates - Yong Woon Kim, Hyun Chin Lim
<b>8<sup>th</sup> Meeting (the first meeting of 2007)</b>	February 13, 2007	4 persons /4 persons	- Election of the Chairman: Seung Taik Yang - 23 <sup>rd</sup> General Meeting of Shareholders: Nomination of Independent non-executive director candidates Dal Sup Shim

\* The Independent Non-executive Director Nomination Committee is a committee established under the provisions of the Articles of Incorporation.

b) Compensation Review Committee

- Organization

(As of March 9, 2007)

**Members**

<b>Number of Persons</b>	<b>Company Directors</b>	<b>Independent non-executive Directors</b>
8 persons	-	Dae Sik Kim, Yong Woon Kim, Dae Kyu Byun, Dal Sup Shim, Seung Taik Yang, Jae Seung Yoon, Sang Jin Lee, Hyun Chin Lim

- Activities

<b>Meeting</b>	<b>Date</b>	<b>Number of Attendees</b>	<b>Details</b>
<b>The first meeting of 2006</b>	May 25, 2006	7 persons/ 7persons	Election of chairman
<b>The second meeting of 2006</b>	June 20, 2006	5persons/ 7persons	Discussion of operation of the Compensation Review Committee
<b>The third meeting of 2006</b>	July 27, 2006	7 persons/ 7persons	same as above
<b>The fourth meeting of 2006</b>	August 30, 2006	7 persons/ 7persons	same as above
<b>The fifth meeting of 2006</b>	October 26, 2006	6persons/ 7persons	same as above

\* The Compensation Review Committee is a committee established by the resolution of the Board of Directors.

c) Capex Review Committee

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- Organization  
(As of March 9, 2007))

<b>Number of Persons</b>	<b>Company Directors</b>	<b>Members</b>	
		<b>Independent non-executive Directors</b>	
5 persons - Activities	Lee Bang Hyung	Dae Kyu Byun, Seung Taik Yang, Jae Seung Yoon, Sang Chin Lee	
<b>Meeting</b>	<b>Date</b>	<b>Number of Attendees</b>	<b>Details</b>
<b>The first meeting of 2006</b>	February 13, 2006	4 persons/5 persons	- Additional report on the investment plan for 2006
<b>The second meeting of 2006</b>	April 25, 2006	4 persons/5 persons	- Establishment of the Service & Technology Center - Exercise of the iHQ call option
<b>The third meeting of 2006</b>	April 26, 2006	4 persons/5 persons	- Election of chairman - Approval of plans for investment in contents business and restrictions thereof
<b>The fourth meeting of 2006</b>	August 30, 2006	5 persons/5 persons	- Construction of TD-SCDMA Test-bed and investment for development of related services - Expansion of WCDMA investment
<b>The fifth meeting of 2006</b>	December 21, 2006	4 persons/ 5 persons	- Investment plan for 2007

\* The Capex Review Committee is a committee established by the resolution of the Board of Directors.

d) Globalization Committee

- Organization

(As of March 9, 2007)

<b>Number of Persons</b>	<b>Company Directors</b>	<b>Members</b>	
		<b>Independent non-executive Directors</b>	
4 persons - Activities	Ha Sung Min	Dae Sik Kim, Dae Kyu Byun, Sang Chin Lee	
<b>Meeting</b>	<b>Date</b>	<b>Number of Attendees</b>	<b>Details</b>
<b>The first meeting of 2006</b>	July 27, 2006	4 persons/ 4persons	- Report on Vietnam (S-Fone) and United States (HELIO) operations - Discussion on operation of Globalization Committee
<b>The second meeting of 2006</b>	September 28, 2006	4 persons/ 4 persons	- Election of chairman

\* The Globalization Committee is a committee established by the resolution of the Board of Directors.

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e) Audit Committee: See B. Audit System below.

\* The Audit Committee is a committee established under the provisions of the Articles of Incorporation.

**B. Audit System****(1) Establishment and Organization of the Audit Committee**

- a) The Audit Committee is composed of three or more directors. However, independent non-executive directors must account for 2/3 or more, and the members are elected by the resolution of the Board of Directors each year.
- b) The Audit Committee is convened when deemed necessary by the chairman or is requested by two or more of the committee members.
- c) The quorum for resolution is majority attendance with majority consent of the attending members.

**(2) Authority of the Audit Committee**

Includes authority to inquire on the subsidiary companies, right to investigate the business operations and asset conditions, and right to request for a business status report pursuant to the Audit Committee Regulations.

**(3) Members of the Audit Committee**

Audit Committee Members are directors Dae Sik Kim, Yong Woon Kim, Dal Sup Shim and Hyun Chin Lim.

**(4) Major Activities of the Audit Committee**

<b>Meeting</b>	<b>Date</b>	<b>Agenda</b>	<b>Approval</b>	<b>Remarks</b>
<b>The first meeting of 2006</b>	January 20, 2006	- Report on operation of internal accounting controls		
<b>The second meeting of 2006</b>	February 13, 2006	- Audit report for the year ended December 31, 2005 - Evaluation of internal accounting controls	Approved as proposed Approved as proposed	
<b>The third meeting of 2006</b>	February 27, 2006	- Auditor's opinion on the internal audit system - Management audit schedule for 2006 - Proposal for the election of outside auditor for 2006-2008 period	Approved as proposed	
<b>The fourth meeting of 2006</b>	March 8, 2006	- Election of outside auditor for 2006-2008 period	Approved as proposed	
<b>The fifth meeting of 2006</b>	April 25, 2006	- Election of chairman - Remuneration for outside auditor - Collective re-approval of outside auditor's service schedule for 2006 - Management report	Approved as proposed Approved as proposed Approved as proposed	
<b>The sixth meeting of 2006</b>	May 25, 2006	- Report on issuance of overseas convertible bonds and approval of related treasury stock disposition plan, as amended		



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<b>Meeting</b>	<b>Date</b>	<b>Agenda</b>	<b>Approval</b>	<b>Remarks</b>
<b>The seventh meeting of 2006</b>	June 20, 2006	- Audit report for 2005 US GAAP financial statements		
<b>The eighth meeting of 2006</b>	July 5, 2006	- Report on operation of Ethics Counseling Center - Report on activities relating to the prevention of ethical issues - Report on the Company's current operations		
<b>The ninth meeting of 2006</b>	July 27, 2006	- Interim dividend plan - Plan to acquire the Company's common stock for cancellation - Management audit results for the first half of 2006		
<b>The tenth meeting of 2006</b>	August 30, 2006	- Plans for issuance of corporate bonds and long-term borrowings - Plan to acquire the Company's common stock for cancellation - Report on the Company's current operations		
<b>The eleventh meeting of 2006</b>	October 26, 2006	- Report on status of internal accounting controls - Plan for issuance of corporate bonds - Report on the Company's current operations		
<b>The first meeting of 2007</b>	January 24, 2007	- Financial statements for the year ended December 31, 2006 - Annual business report for the year ended December 31, 2006 - Report on operation of internal accounting controls		
<b>The second meeting of 2007</b>	February 12, 2007	- Report on K GAAP audit of the financial statements for the year ended December 31, 2006 - Report on the review of internal accounting controls for the year ended December 31, 2006 - Report on the 2006 second-half management audit and the 2007 plan - Auditor's opinion on internal controls - Audit report for the year ended	Approved as proposed Approved as proposed Approved as proposed	

December 31, 2005

- Evaluation of internal accounting  
controls

C. Exercise of Voting Rights by the Shareholders

(1) Use of the Cumulative Voting System

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a) Pursuant to the Articles of Incorporation, the cumulative voting system was first introduced in the General Meeting of Shareholders in 2003.

b) Articles of Incorporation

- Article 32 (3) (Election of Directors): Cumulative voting under Article 382-2 of the Commercial Code will not be applied for the election of directors.
- Article 4 of the 12<sup>th</sup> Supplement to the Articles of Incorporation (Interim Regulation): Article 32 (3) of the Articles of Incorporation shall remain effective until the day immediately preceding the date of the general shareholders meeting of 2003.

**D. Compensation of Officers and Others**

(1) Compensation of Directors (including Independent non-executive Directors) and Members of the Audit Committee  
(Unit: in million Won)

<b>Classification</b>	<b>Total payment</b>	<b>Total amount approved by the Meeting of Shareholders</b>	<b>Average payment per person</b>	<b>Remarks</b>
Company directors	4,847	12,000	1,212	
Independent non-executive directors	587	26	81	Including members of the Audit Committee

**Table of Contents****(2) Granting and Exercise of Stock Options**

All of the options granted by the Company in or after 2001, in the total amount of 109,550 shares, have expired and there are no options that remain outstanding. The exercise period for the stock options granted on March 8, 2002 (for 65,730 shares) was from March 8, 2005 to March 7, 2007, and all such options have expired without exercise.

**2. Affiliated Companies****(1) Summary of Corporate Group**

Name: SK Group

**(2) Capital Investments between Affiliated Companies**

(As of December 31, 2006)

\* Based on common shares

	<b>SK</b>	<b>SK</b>	<b>SK</b>	<b>Invested companies</b>			<b>SK</b>	<b>SK</b>
<b>Investing company</b>	<b>Corporation</b>	<b>Networks</b>	<b>Telecom</b>	<b>SK</b>	<b>SKC</b>	<b>SK E&amp;C</b>	<b>Shipping</b>	<b>Securities</b>
<b>SK Corporation</b>		40.59%	21.75%		44.19%		72.13%	
<b>SK Networks</b>			1.34%			0.02%	17.71%	22.71%
<b>SK Telecom</b>								
<b>SK Chemicals</b>						58.03%		
<b>SKC</b>				2.90%			10.16%	12.41%
<b>SK E&amp;C</b>								
<b>SK Shipping</b>								
<b>SK Securities</b>	0.17%				0.06%			
<b>Walkerhill</b>								
<b>SK C&amp;C</b>	11.16%							
<b>SK incheon oil</b>								
<b>Daehan City Gas</b>								
<b>SK Telink</b>								
<b>SK E&amp;S</b>								
<b>SK</b>								
<b>Communications</b>								
<b>iHQ</b>								
<b>Empas</b>								

**Total affiliated  
companies**

11.33% 40.59% 23.09% 2.90% 44.25% 58.05% 100.00% 35.12%

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Investing companies	Invested companies							
	Walkerhill	SK E&S	SK Gas	SK C&C	DOPCO	Cheongju Gas	Gumi Gas	Pohang Gas
SK Corporation		51.00%			32.38%			
SK Networks	9.68%			15.00%	4.61%			
SK Telecom				30.00%				
SK Chemicals	0.25%							
SKC	7.50%							
SK E&C								
SK Shipping								
SK Securities								
Walkerhill								
SK C&C								
SK incheon oil					5.23%			
Daehan City Gas								
SK Telink								
SK E&S			45.53%			100.00%	100.00%	100.00%
SK Communications								
iHQ								
Empas								
<b>Total affiliated companies</b>	17.43%	51.00%	45.53%	45.00%	42.23%	100.00%	100.00%	100.00%

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	Invested companies						Busan City
	Daehan City	Daehan	SK	K-Power	SK NJC	SK	
Investing companies	Gas	Engineering	Sci-tech	65.00%		Telink	Gas
SK Corporation							
SK Networks							
SK Telecom						90.77%	
SK Chemicals			50.00%		60.00%		
SKC							
SK E&C							
SK Shipping							
SK Securities							
Walkerhill							
SK C&C							
SK incheon oil							
Daehan City Gas		100.00%					0.21%
SK Telink							
SK E&S	40.00%						40.00%
SK Communications							
iHQ							
Empas							
<b>Total affiliated companies</b>	<b>40.00%</b>	<b>100.00%</b>	<b>50.00%</b>	<b>65.00%</b>	<b>60.00%</b>	<b>90.77%</b>	<b>40.21%</b>

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	<b>Invested companies</b>						
	<b>Stellar</b>	<b>Jeonnam City</b>	<b>Gangwon City</b>	<b>Iksan City Gas</b>	<b>OK Cashbag Service 96.67%</b>	<b>Chungnam City Gas</b>	<b>SK Wyverns</b>
<b>Investing companies</b>	<b>Shipping</b>	<b>Gas</b>	<b>Gas</b>	<b>Gas</b>	<b>Service</b>	<b>City Gas</b>	<b>Wyverns</b>
<b>SK Corporation</b>					96.67%		
<b>SK Networks</b>							
<b>SK Telecom</b>					1.19%		99.99%
<b>SK Chemicals</b>							
<b>SKC</b>							
<b>SK E&amp;C</b>							
<b>SK Shipping</b>	80.82%						
<b>SK Securities</b>							
<b>Walkerhill</b>							
<b>SK C&amp;C</b>							
<b>SK incheon oil</b>							
<b>Daehan City Gas</b>							
<b>SK Telink</b>							
<b>SK E&amp;S</b>		100.00%	100.00%	100.00%		100.00%	
<b>SK Communications</b>							
<b>iHQ</b>							
<b>Empas</b>							
<b>Total affiliated companies</b>	80.82%	100.00%	100.00%	100.00%	97.86%	100.00%	99.99%

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Investing companies SK Corporation	Infosec	Invested companies SK				Innoace	AirCROSS
		MRO Korea	Communications	SK Telesys			
SK Networks		51.00%					
SK Telecom			85.90%		14.25%	38.10%	
SK Chemicals							
SKC	20.63%			77.13%			
SK E&C							
SK Shipping							
SK Securities							
Walkerhill							
SK C&C	48.14%						
SK incheon oil							
Daehan City Gas							
SK Telink			1.18%				
SK E&S							
SK Communications							
iHQ							
Empas							
<b>Total affiliated companies</b>	<b>68.77%</b>	<b>51.00%</b>	<b>87.08%</b>	<b>77.13%</b>	<b>14.25%</b>	<b>38.10%</b>	

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Investing companies	Encar network	Global C&I	Invested companies			
			Paxnet	TU Media	SK Utis	SK CTA
SK Corporation	50.00%					50.00%
SK Networks						
SK Telecom		50.00%	59.74%	29.58%		
SK Chemicals					60.00%	
SKC						
SK E&C						
SK Shipping						
SK Securities		40.00%				
Walkerhill						
SK C&C						
SK incheon oil						
Daehan City Gas						
SK Telink						
SK E&S						
SK Communications						
iHQ						
Empas						
<b>Total affiliated companies</b>	50.00%	90.00%	59.74%	29.58%	60.00%	50.00%



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Investing companies	Invested companies						SK Incheon Oil
	Seoul Records	In2Gen	Independence	SK Petrochemical	SK Mobile Energy	SKC Media	
SK Corporation					88.34%		90.63%
SK Networks							
SK Telecom	60.00%						
SK Chemicals		44.56%		100.00%			
SKC					11.66%	100.00%	
SK E&C							
SK Shipping							
SK Securities							
Walkerhill							
SK C&C			67.78%				
SK incheon oil							
Daehan City Gas							
SK Telink							
SK E&S							
SK Communications							
iHQ							
Empas							
<b>Total affiliated companies</b>	<b>60.00%</b>	<b>44.56%</b>	<b>67.78%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>90.63%</b>

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Investing companies	iHQ	YTN Media	Invested companies		SK I-Media	
			I Film Co.	NTREEV Soft		
SK Corporation						
SK Networks						
SK Telecom	34.08%					
SK Chemicals						
SKC						
SK E&C						
SK Shipping						
SK Securities						
Walkerhill						
SK C&C					40.00%	
SK incheon oil						
Daehan City Gas						
SK Telink						
SK E&S						
SK Communications					60.00%	24.43%
IHQ		51.42%	45.00%	51.00%		
Empas						
<b>Total affiliated companies</b>	34.08%	51.42%	45.005	51.00%	100.00%	24.43%

**Table of Contents****VI. SHARES****1. Distribution of Shares**

## A. Shareholdings of Major Shareholders and other Related Parties

(As of December 31, 2006)

(Unit: share, %)

Name	Relationship	Types of shares	Number of shares owned (equity rate)			Ending Number of shares	Ending Ownership ratio	Cause of change	
			Beginning Number of shares	Ownership ratio	Increase/Decrease Number of shares				
<b>SK Corporation</b>	Parent company	Common stock	17,663,127	21.47		17,663,127	21.75		
<b>SK Networks</b>	Affiliated company	Common stock	1,085,325	1.32		1,085,325	1.34		
<b>Tae Won Choi</b>	Officer of affiliated company	Common stock	100	0.00		100	0.00		
<b>Shin Won Choi</b>	Officer of affiliated company	Common stock	700	0.00	70	770	0.00		
<b>Shin Bae Kim</b>	Director	Common stock	1,270	0.00		1,270	0.00		
<b>Dae Kyu Byun</b>	Director	Common stock	50	0.00		50	0.00		
<b>Jae Seung Yoon</b>	Director	Common stock	200	0.00		200	0.00		
<b>Bang Hyung Lee</b>	Director	Common stock	1,630	0.00	1,230	400	0.00		
<b>Sung Min Ha</b>	Director	Common stock	738	0.00		738	0.00		
<b>Total</b>		Common stock	18,753,140	22.79	70	1,230	18,751,980	23.10	
		Preferred stock	0	0		0	0		
		<b>Total</b>	18,753,140	22.79	70	1,230	18,751,980	23.10	
Largest shareholder:	SK Corporation				Number of related parties: 8 persons				

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## B. Shareholders with More than 5% Shareholding

(As of December 31, 2006)

(Unit: share, %)

Rank	Name (title)	Common share		Preferred share		Sub-total	
		Number of shares	Ownership ratio	Number of shares	Ownership ratio	Number of shares	Ownership ratio
1	Citibank ADR	21,649,448	26.66			21,649,448	26.66
2	SK Corporation	17,663,127	21.75			17,663,127	21.75
3	SK Telecom	8,526,252	10.50			8,526,252	10.50
<b>Total</b>		47,838,827	58.92			47,838,827	58.92

## C. Shareholder Distribution

(As of December 31, 2006)

Classification	Number of shareholders	Ratio (%)	Number of shares	Ratio (%)	Remarks
<b>Total minority shareholders</b>	21,571	99.96	29,242,806	36.01	
<b>Minority shareholders (corporate)</b>	1,077	4.99	11,103,941	13.67	
<b>Minority shareholders (individual)</b>	20,494	94.97	18,138,865	22.34	
<b>Largest shareholder</b>	1	0.00	17,663,127	21.75	
<b>Major shareholders</b>					
<b>Other shareholders</b>	8	0.04	34,287,778	42.23	
<b>Other shareholders (corporate)</b>	6	0.03	11,663,018	14.36	
<b>Other shareholders (individual)</b>	2	0.01	22,624,760	27.87	
<b>Total</b>	21,580	100.00	81,193,711	100.00	

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**Table of Contents****2. Share Price and Trading Volume in the Last Six Months**

## A. Domestic Securities Market

(Unit: Won, shares)

Types	December 2006	November 2006	October 2006	September 2006	August 2006	July 2006
<b>Common share</b>						
<b>Highest</b>	235,000	229,000	211,000	205,500	202,500	205,000
<b>Lowest</b>	211,500	205,000	194,500	189,000	179,000	188,500
<b>Monthly transaction volume</b>	3,192,160	3,534,043	3,085,835	4,634,645	5,158,605	3,069,172

## B. Overseas Securities Market

## New York Stock Exchange

(Unit: US\$, ADR)

Types	December 2006	November 2006	October 2006	September 2006	August 2006	July 2006
Depository receipt						
<b>Highest</b>	27.42	26.48	24.35	24.16	22.43	23.75
<b>Lowest</b>	25.44	24.91	22.89	22.20	21.14	21.87
<b>Monthly transaction volume</b>	11,177,000	16,392,201	15,388,604	15,993,800	18,427,807	15,287,500

**VII. EMPLOYEES**

(As of December 31, 2006)

(Unit: persons, in million Won)

Classification	Number of employees				Average service year	Total quarterly wage	Average wage per person	Remarks
	Office managerial positions	Production positions	Others	Total				
<b>Male</b>	3,796			3,796	10.4	223,304	58.8	
<b>Female</b>	553			553	8.7	25,650	46.4	
<b>Total</b>	4,349			4,349	10.1	248,954	57.2	

**VIII. TRANSACTIONS WITH RELATED PARTIES****1. Transactions with the Largest Shareholder**

## A. Provisional Payment and Loans (including loans on marketable securities)

(Unit: in million Won)

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Name (Corporate name)	Relationship	Account category	Beginning	Change details		Ending	Accrued interest	Remarks
				Increase	Decrease			
SK Wyverns B. Equity Investments	Affiliated company	Long-term and short-term loans	5,857		575	5,282	475	

(Unit: in million Won)

Name (Corporate name)	Relationship	Types of Investment	Beginning	Details			Ending	Note
				Increase	Decrease			
SLD Telecom, Pte. Ltd.	Affiliated company	Common share	93,987	97,285		191,272		
SKT U.S.A. Holdings	Affiliated company	Common share	123,214	75,833		199,047		
SK Mobile	Affiliated company	Common share		10,322		10,322		
SKT-HP Fund	Affiliated company	Common share	6,415		6,415			
iHQ	Affiliated company	Common share	14,440	27,406		41,846		
Cyworld Japan Co., Ltd.	Affiliated company	Common share	1,309	1,832		3,141		
China STC	Affiliated company	Common share		1,343		1,343		
Cyworld Inc	Affiliated company	Common share		2,672		2,672	Investment made in 4 <sup>th</sup> quarter	
Helio Inc	Affiliated company	Common share		1,100		1,100	Investment made in 4 <sup>th</sup> quarter	
SK Capital Co., Ltd.	Affiliated company	Common share	50,000		50,000		Investment liquidated in 4 <sup>th</sup> quarter	
Wider Than Co., Ltd.	Affiliated company	Common share	1,000		1,000		Investment sold in 4 <sup>th</sup> quarter	
	<b>Total</b>		290,365	217,793	57,415	450,743		

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## C. Transfer of Assets

(Unit: in thousand won)

Name (Corporate name)	Relationship	Objective	Transfer details		Amount		Remarks
			Transfer purpose	Transfer date	Transfer (out) amount	Transfer (in) amount	
		Shared subway mobile broadcast base stations	Payment of shared costs	October 31, 2006		1,179,154	
<b>TU Media Corp</b>	Affiliated company						
		Computer equipment	Return of leased assets	December 29, 2006		754,293	
<b>SKC&amp;C</b>	Affiliated company						
		Computer equipment	Return of assets	December 29, 2006		2,636,387	
<b>SKC&amp;C</b>	Affiliated company		Acquisition of assets	December 29, 2006	(25,119)		
		<b>Total</b>			(25,119)	4,569,834	

**Table of Contents****2. Transactions with Shareholders (excluding the largest shareholder and others), Officers, Employees and other Interested Parties**

## A. Provisional Payment and Loans (including loans on marketable securities)

\* Agents

(Unit: in million Won)

Name (Corporate name)	Relationship	Account category	Beginning	Change details		Ending	Accrued interest	Remarks
				Increase	Decrease			
Hong Eun and others	Agency	Long-term and	62,776	100,549	98,341	64,984	3	
		short-term loans						

## B. Overseas investment companies

(Unit: in million Won)

Name (Corporate name)	Relationship	Account category	Beginning	Change details		Ending	Accrued interest	Remarks
				Increase	Decrease			
DSS Mobile Com. (India)	Overseas Investment company	Long-term loans	18,887			18,887		Payment guarantee

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## B. Equity Investments

(Unit: in million Won)

Name (Corporate name)	Relationship	Types of Investment	Details			Remarks	
			Beginning	Increase	Decrease		Ending
Flarion Technologies, Inc.	Affiliated party	Convertible preferred share	3,638		3,638		
Qualcomm, Inc.	Affiliated party	Common share		2,756		2,756	
Mobile Welcome Co.	Affiliated party	Common share	1,000		1,000		
Cyper Casting	Affiliated party	Common share		141		141	
Wavesat Inc	Affiliated party	Preferred share		3,636		3,636	Investment made in 4 <sup>th</sup> quarter
Inance.com	Affiliated party	Common share	300		300	Investment sold in 4 <sup>th</sup> quarter	
<b>Total</b>			4,938	6,533	4,938	6,533	

**IX. OTHER RELEVANT MATTERS****1. Developments in the Items mentioned in prior Reports on Important Business Matters**

## A. Status and Progress of Major Management Events

Date of Disclosure in Korea	Title	Report	Reports status
October 26, 2001	Resolution on trust agreement for the acquisition of treasury shares and others	1. Signatories: Shinhan Bank, Hana Bank, Cho Hung Bank, Korea Exchange Bank 2. Contract amount: Won 1,300 billion 3. Purpose: to increase shareholder value	1. On December 24, 2003, cash surplus amount from the existing trust agreement was partially reduced (Won 318 billion). 2. On September 24, 2004, the Board of Directors extended the term of the specified monetary trust agreement for 3 years.

3. As of December 31, 2006, the balance of specified monetary trust for treasury shares was Won 982 billion.

**Table of Contents****2. Summary Minutes of the Shareholders Meeting**

<b>Date</b>	<b>Agenda</b>	<b>Resolution</b>
22 <sup>nd</sup> Fiscal Year Meeting of Shareholders (March 10, 2006)	1. Approval of the financial statements for the year ended December 31, 2005	Approved (Cash dividend, Won 8,000 per share)
	2. Amendment of the Articles of Incorporations	Approved (Addition of business objective: travel business)
	3. Remuneration limit for Directors	Approved (Won 12 billion)
	4. Election of Directors (Election of Independent non-executive directors as Audit Committee members)	Approved (Kim Yong Woon and Im Hyun Jin)
23 <sup>rd</sup> Fiscal Year Meeting of Shareholders (March 9, 2007)	1. Approval of the financial statements for the year ended December 31, 2006	Approved (Cash dividend, Won 7,000 per share)
	2. Remuneration limit for Directors	Approved (Won 12 billion)
	3. Election of Directors	
	Election of executive directors	Approved (Jung Nam Cho, Sung Min Ha)
	Election of independent non-executive directors as Audit Committee members	Approved (Dal Sup Shim)

**3. Contingent Liabilities****A. Material Legal Proceedings****(1) Action for Monetary Damages**

- a) Parties to the litigation: G.Mate Inc. (plaintiff) vs. the Company (defendant)
- b) Overview: G.Mate alleged that the Company had engaged G.Mate to develop and deliver certain PDA units, but that the Company subsequently refused to take delivery of such units. G.Mate sought approximately Won 4.5 billion in damages.
- c) Progress: An initial mediation process, which was requested by G.Mate, was terminated in January 2007. G.Mate commenced a lawsuit, which is currently pending at the Seoul Central District Court.
- d) Impact on business: In the event that the case is decided against the Company, there is a risk that the Company will be obligated to pay up to Won 4.5 billion in damages. But as G.Mate, to date, has been unable to produce

detailed evidence in support of its claim and calculation of requested damages, the Company expects that the likelihood of a ruling against the Company to be low and the estimated impact on the Company's operations and finances should not be large; however, the actual results of the litigation and actual impact on the Company's operations and finances may differ depending on future events.

(2) Action Seeking to Vacate Judgment of the Intellectual Property Tribunal Nullifying Patent Registration Related to Caller Ring Service

- a) Parties to the litigation: Park Won Sup (plaintiff) vs. the Company (defendant)
  
- b) Overview: Mr. Park Won Sup (the representative director of Ad Ring Systems Co., Ltd.) claimed that certain technology the Company uses to provide the caller ring service infringed upon his patent rights, and the Company sought an administrative action to nullify Mr. Park's patent rights in the Intellectual Property Tribunal. The Tribunal upheld the nullification of Mr. Park's patent rights and Mr. Park appealed the decision.

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- c) Progress: The Patent Court dismissed plaintiff's claim (September 2005), after which the plaintiff appealed.
- d) Impact on business: In the event that the case is decided against the Company, there is a risk of material future royalty obligations. However, given the progress of the proceedings, the estimated impact should not be large; however, the actual impact may differ depending on future events.
- (3) Actions for the Cancellation of the International Registration for Satellite Network
  - a) Parties to the litigation: Korea Multinet Co., Ltd. ( Korea Multinet ) vs. the Ministry of Information and Communication ( MIC ; the Company is participating in the action on behalf of MIC)
  - b) Overview: Korea Multinet brought an administrative action against MIC to cancel the Company's international satellite frequency registration related to the satellite DMB business.
  - c) Progress: The trial court found for the defendant and the appellate court affirmed the judgment of the trial court (June 30, 2004). The plaintiff appealed and the case is currently pending at the Supreme Court.
  - d) Impact on business: Given the progress of the proceedings, no significant impact on the Company's business is expected; however, the actual impact may differ depending on future events.
- (4) Actions for the Cancellation of Key Communication Business Licenses and Allotment of Satellite DMB Frequency
  - a) Parties to the litigation: Korea Multinet vs. MIC (the Company is participating in the action on behalf of MIC)
  - b) Overview: Korea Multinet brought an administrative action against MIC to cancel the Company's key communication business licenses and the allotment of the Company's satellite DMB frequency.
  - c) Progress: The Seoul Administrative Court dismissed the claim in July 2006, and Korea Multinet has appealed to the Seoul Appellate Court where the lawsuit is currently pending.
  - d) Impact on business: The Company plans to provide full support to MIC in the action although no significant impact to the Company's business is expected; however, the actual impact may differ depending on future events.

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***SK TELECOM CO., LTD.***

***NON-CONSOLIDATED FINANCIAL STATEMENTS***

***FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005***

***AND INDEPENDENT AUDITORS REPORT***

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**Independent Auditors Report**

English Translation of a Report Originally Issued in Korean

To the Stockholders and Board of Directors of

SK Telecom Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of SK Telecom Co., Ltd. (the Company) as of December 31, 2006 and 2005, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended (all expressed in Korean won). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, such financial statements referred to above presents fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations, the appropriations of its retained earnings and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Our audits also comprehended the translation of the Korean won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2(a). Such U.S. dollar amounts are presented solely for the convenience of readers outside of the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

February 14, 2007

/s/ Deloitte Anjin LLC

Seoul, Republic of Korea

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Notice to Readers

This report is effective as of February 14, 2007, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modification to the auditors' report.



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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2006 AND 2005**

A S S E T S	Korean won		Translation into U.S. dollars (Note 2)	
	December 31, 2006  (In millions)	December 31, 2005	December 31, 2006  (In thousands)	December 31, 2005
<b>CURRENT ASSETS :</b>				
Cash and cash equivalents (Notes 2 and 12)	₩ 241,100	₩ 151,766	\$ 259,247	\$ 163,189
Short-term financial instruments (Note 19)	61,953	73,062	66,616	78,561
Trading securities (Notes 2 and 3)	665,299	745,360	715,375	801,462
Current portion of long-term investment securities (Notes 2 and 3)	156		168	
Accounts receivable – trade, net of allowance for doubtful accounts of ₩88,285 million at December 31, 2006 and ₩121,319 million at December 31, 2005 (Notes 2, 12 and 22)	1,700,650	1,607,596	1,828,656	1,728,598
Short-term loans, net of allowance for doubtful accounts of ₩9,212 million at December 31, 2006 and \$648 million at December 31, 2005 (Notes 2, 5 and 22)	61,967	64,150	66,631	68,978
Accounts receivable – other, net of allowance for doubtful accounts of ₩26,708 million at December 31, 2006 and ₩14,246 million at December 31, 2005 (Notes 2, 12 and 22)	1,257,244	1,333,238	1,351,875	1,433,589
Inventories (Note 2)	16,439	5,986	17,676	6,437
Prepaid expenses	113,256	101,274	121,781	108,897
Current deferred income tax assets, net (Notes 2 and 17)	40,113	61,152	43,132	65,755
Currency swap (Notes 2 and 24)	16,660		17,914	
Accrued income and other	14,488	28,901	15,579	31,077
<b>Total Current Assets</b>	<b>4,189,325</b>	<b>4,172,485</b>	<b>4,504,650</b>	<b>4,486,543</b>
<b>NON-CURRENT ASSETS :</b>				
	4,418,112	4,595,883	4,750,658	4,941,810

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Property and equipment, net (Notes 2, 6, 21 and 22)				
Intangible assets, net (Notes 2 and 7)	3,405,159	3,386,547	3,661,461	3,641,448
Long-term investment securities (Notes 2 and 3)	2,376,268	1,203,333	2,555,127	1,293,906
Equity securities accounted for using the equity method (Notes 2 and 4)	1,161,651	925,904	1,249,087	995,596
Long-term loans, net of allowance for doubtful accounts of ₩23,148 million at December 31, 2006 and ₩23,737 million at December 31, 2005 (Notes 2, 5 and 22)	12,828	14,204	13,794	15,273
Guarantee deposits, net of allowance for doubtful accounts of ₩163 million at December 31, 2006 and ₩312 at December 31, 2005 (Notes 2, 12 and 22)	120,006	122,846	129,039	132,092
Long-term deposits and other (Note 19)	130,704	100,474	140,542	108,037
Total Non-Current Assets	11,624,728	10,349,191	12,499,708	11,128,162
TOTAL ASSETS	₩ 15,814,053	₩ 14,521,676	\$ 17,004,358	\$ 15,614,705

(Continued)

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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**December 31, 2006 AND 2005**

	Korean won		Translation into U.S. dollars (Note 2)	
	December 31, 2006 (In millions)	December 31, 2005 (In millions)	December 31, 2006 (In thousands)	December 31, 2005 (In thousands)
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES :</b>				
Accounts payable (Notes 12 and 22)	₩ 1,107,786	₩ 971,558	\$ 1,191,168	\$ 1,044,686
Income taxes payable (Note 17)	331,496	366,579	356,447	394,171
Accrued expenses (Notes 2 and 23)	373,865	321,399	402,005	345,590
Dividend payable	268	298	288	320
Withholdings	327,895	205,060	352,575	220,495
Current portion of long-term debt, net (Notes 2, 8 and 10)	794,186	809,490	853,963	870,419
Current portion of subscription deposits (Note 10)	15,760	14,875	16,946	15,995
Advanced receipts and other	34,364	17,230	36,951	18,527
 Total Current Liabilities	 2,985,620	 2,706,489	 3,210,343	 2,910,203
 <b>LONG-TERM LIABILITIES :</b>				
Bonds payable, net (Notes 2 and 8)	1,978,874	2,314,208	2,127,822	2,488,396
Long-term borrowings (Note 9)	292,960		315,011	
Subscription deposits (Note 10)	21,140	23,770	22,731	25,559
Long-term payables other, net of present value discount of ₩42,461 million at December 31, 2006 and ₩58,413 million at December 31, 2005 (Note 2)	517,539	591,587	556,494	636,115
Obligations under capital lease (Notes 2 and 11)	1,642	10,204	1,766	10,972
Accrued severance indemnities, net (Note 2)	9,568	64,029	10,288	68,848
Non-current deferred income tax liabilities, net (Notes 2 and 17)	530,454	409,715	570,381	440,554
Long-term currency swap (Notes 2 and 24)	112,970	73,450	121,473	78,978
Long-term interest rate swap (Notes 2 and 24)	454		488	
Guarantee deposits received and other (Notes 2 and 23)	56,404	70,344	60,649	75,639
 Total Long-Term Liabilities	 3,522,005	 3,557,307	 3,787,103	 3,825,061
 Total Liabilities	 6,507,625	 6,263,796	 6,997,446	 6,735,264
 <b>STOCKHOLDERS EQUITY :</b>				

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Capital stock (Notes 1 and 13)	44,639	44,639	47,999	47,999
Capital surplus (Notes 2, 13 and 16)	2,962,699	2,966,198	3,185,698	3,189,460
Retained earnings (Note 14) :				
Appropriated	6,679,234	5,470,701	7,181,973	5,882,473
Before appropriations	1,165,519	1,799,160	1,253,246	1,934,581
Capital adjustments :				
Treasury stock (Note 15)	(2,014,927)	(2,047,105)	(2,166,588)	(2,201,188)
Unrealized gains (loss) on valuation of long-term investment securities, net (Notes 2, 3 and 17)	408,521	(42,134)	439,270	(45,305)
Equity in capital adjustments of affiliates, net (Notes 2, 4 and 17)	82,200	77,119	88,387	82,924
Loss on valuation of currency swap, net (Notes 2, 17 and 24)	(16,487)	(14,178)	(17,728)	(15,245)
Loss on valuation of interest swap, net (Notes 2, 17 and 24)	(329)		(354)	
Losses on disposal of treasury stock (Notes 15 and 17)	(7,887)		(8,481)	
Stock options (Notes 2, 16 and 22)	3,246	3,480	3,490	3,742
Total Stockholders' Equity	9,306,428	8,257,880	10,006,912	8,879,441
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	₩ 15,814,053	₩ 14,521,676	\$ 17,004,358	\$ 15,614,705

See accompanying notes to non-consolidated financial statements.

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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Korean won		Translation into U.S. dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
OPERATING REVENUE (Notes 2 and 22)	₩ 10,650,952	₩ 10,161,129	\$ 11,452,637	\$ 10,925,945
OPERATING EXPENSES (Notes 2 and 22)				
Labor cost	(396,147)	(380,383)	(425,965)	(409,014)
Commissions paid	(3,316,551)	(2,895,214)	(3,566,184)	(3,113,133)
Depreciation and amortization (Notes 2, 6, 7 and 11)	(1,513,092)	(1,512,919)	(1,626,981)	(1,626,795)
Network interconnection	(955,954)	(935,217)	(1,027,908)	(1,005,610)
Leased line	(395,113)	(392,834)	(424,853)	(422,402)
Advertising	(300,829)	(260,699)	(323,472)	(280,322)
Research and development (Note 2)	(211,752)	(204,698)	(227,690)	(220,105)
Rent	(193,877)	(179,726)	(208,470)	(193,254)
Frequency usage	(158,958)	(156,098)	(170,923)	(167,847)
Repair	(146,312)	(128,311)	(157,325)	(137,969)
Cost of goods sold	(39,686)	(12,372)	(42,673)	(13,303)
Other	(438,311)	(449,088)	(471,301)	(482,890)
Sub-total	(8,066,582)	(7,507,559)	(8,673,745)	(8,072,644)
OPERATING INCOME	2,584,370	2,653,570	2,778,892	2,853,301
OTHER INCOME :				
Interest income (Note 3)	68,624	54,988	73,789	59,127
Dividends	20,351	26,515	21,883	28,511
Commissions (Note 22)	41,080	33,331	44,172	35,840
Equity in earnings of affiliates (Notes 2 and 4)	83,144	55,943	89,402	60,154
Foreign exchange and translation gains (Note 2)	2,744	1,862	2,951	2,002
Reversal of allowance for doubtful accounts	162	437	174	470
Gain on disposal of investment assets	26,975	196,522	29,005	211,314
Gain on disposal of property, equipment and				

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intangible assets	4,453	4,645	4,788	4,995
Gain on valuation of currency swap (Notes 2 and 24)	16,660	2,545	17,914	2,737
Other	46,907	33,005	50,438	35,488
 Sub-total	 311,100	 409,793	 334,516	 440,638

(Continued)

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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Korean won		Translation into U.S. dollars (Note 2)	
	2006 (In millions)	2005	2006 (In thousands)	2005
<b>OTHER EXPENSES :</b>				
Interest and discounts	₩ 237,535	₩ 252,464	(\$255,414)	(\$271,467)
Donations	(103,002)	(75,983)	(110,755)	(81,702)
Foreign exchange and translation losses (Note 2)	(2,871)	(2,223)	(3,087)	(2,390)
Loss on valuation of currency swap (Notes 2 and 24)	(9,258)		(9,955)	
Equity in losses of affiliates (Notes 2 and 4)	(212,109)	(90,801)	(228,074)	(97,635)
Loss on impairment of long-term investment securities (Notes 2 and 3)	(27,344)	(1,793)	(29,402)	(1,928)
Loss on disposal of investment assets	(3,486)	(2,265)	(3,748)	(2,435)
Loss on disposal of property, equipment and intangible assets	(16,407)	(6,079)	(17,642)	(6,537)
Special severance indemnities (Note 2)	(144,021)		(154,861)	
External research and development costs	(66,055)	(68,526)	(71,027)	(73,684)
Other	(51,739)	(8,616)	(55,633)	(9,266)
 Sub-total	 (873,827)	 (508,750)	 (939,598)	 (547,044)
 ORDINARY INCOME	 2,021,643	 2,554,613	 2,173,810	 2,746,895
 INCOME BEFORE INCOME TAXES	 2,021,643	 2,554,613	 2,173,810	 2,746,895
 PROVISION FOR INCOME TAXES (Notes 2 and 17)	 (575,045)	 (683,233)	 (618,328)	 (734,659)
 NET INCOME	 ₩ 1,446,598	 ₩ 1,871,380	 \$ 1,555,482	 \$ 2,012,236
 NET INCOME PER SHARE (In Korean won and U.S. dollars) (Note 18)	 ₩ 19,734	 ₩ 25,421	 \$ 21.219	 \$ 27.334

DILUTED NET INCOME PER SHARE

(In Korean won and U.S. dollars) (Note  
18)

₩	19,458	₩	25,015	\$	20.923	\$	26.898
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See accompanying notes to non-consolidated financial statements.

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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF**  
**APPROPRIATIONS OF RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Korean won		Translation into U.S. dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
<b>RETAINED EARNINGS BEFORE</b>				
<b>APPROPRIATIONS :</b>				
Beginning of year	₩ 1,712	₩ 1,394	\$ 1,840	\$ 1,499
Interim dividends (Note 20)	(73,714)	(73,614)	(79,262)	(79,155)
Retirement of treasury stock	(209,077)		(224,814)	
Net income for the year	1,446,598	1,871,380	1,555,482	2,012,236
End of year	1,165,519	1,799,160	1,253,246	1,934,580
<b>TRANSFER FROM VOLUNTARY</b>				
<b>RESERVES :</b>				
Reserve for research and manpower development (Note 14)	188,000	131,466	202,151	141,361
Reserve for loss on disposal of treasury stock (Note 14)	221,197		237,846	
	409,197	131,466	439,997	141,361
<b>APPROPRIATIONS :</b>				
Reserve for research and manpower development (Note 14)	(180,000)	(190,000)	(193,548)	(204,301)
Reserve for business expansion (Note 14)	(885,000)	(1,150,000)	(951,613)	(1,236,559)
Cash dividends (Note 20)	(508,672)	(588,914)	(546,959)	(633,241)
	(1,573,672)	(1,928,914)	(1,692,120)	(2,074,101)
<b>UNAPPROPRIATED RETAINED</b>				
<b>EARNINGS TO BE</b>				
<b>CARRIED FORWARD TO THE</b>				
<b>FOLLOWING YEAR</b>				
	₩ 1,044	₩ 1,712	\$ 1,123	\$ 1,840

See accompanying notes to non-consolidated financial statements.



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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Korean won		Translation into U.S. dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES :</b>				
Net income	₩ 1,446,598	₩ 1,871,380	\$ 1,555,482	\$ 2,012,236
Expenses not involving cash payments :				
Provision for severance indemnities	40,636	40,465	43,695	43,511
Depreciation and amortization	1,647,554	1,634,254	1,771,563	1,757,262
Allowance for doubtful accounts	77,188	106,130	82,998	114,118
Foreign translation loss	623	876	670	942
Loss on valuation of currency swap	9,258		9,955	
Equity in losses of affiliates	212,109	90,801	228,074	97,635
Loss on impairment of long-term investment securities	27,344	1,793	29,402	1,928
Loss on disposal of investment assets	3,486	2,265	3,748	2,435
Loss on disposal of property, equipment and intangible assets	16,407	6,079	17,642	6,537
Amortization of discounts on bonds and other	55,070	49,283	59,215	52,993
<b>Sub-total</b>	<b>2,089,675</b>	<b>1,931,946</b>	<b>2,246,962</b>	<b>2,077,361</b>
Income not involving cash receipts :				
Foreign translation gain	(245)	(143)	(263)	(154)
Reversal of allowance for doubtful accounts	(162)	(437)	(174)	(470)
Equity in earnings of affiliates	(83,144)	(55,943)	(89,402)	(60,154)
Gain on disposal of investment assets	(26,975)	(196,523)	(29,005)	(211,314)
Gain on disposal of property, equipment and intangible assets	(4,453)	(4,645)	(4,788)	(4,995)
Gain on valuation of currency swap	(16,660)	(2,545)	(17,914)	(2,737)
Other	(1,618)	(73)	(1,741)	(78)
<b>Sub-total</b>	<b>(133,257)</b>	<b>(260,309)</b>	<b>(143,287)</b>	<b>(279,902)</b>
Changes in assets and liabilities related to				

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operating activities :				
Accounts receivable trade	(146,225)	(149,119)	(157,231)	(160,343)
Accounts receivable other	59,964	30,011	64,477	32,270
Inventories	(9,971)	4,975	(10,722)	5,349
Prepaid expenses	60,271	10,504	64,808	11,295
Accrued income and other	12,712	(14,553)	13,668	(15,648)
Accounts payable	136,443	(98,890)	146,713	(106,333)
Income taxes payable	(45,536)	90,245	(48,963)	97,038
Accrued expenses	38,824	(16,125)	41,746	(17,339)
Withholdings	122,834	16,863	132,080	18,132
Current portion of subscription deposits	885	1,471	952	1,582
Advance receipts and other	17,290	(25,649)	18,591	(27,581)
Deferred income taxes	(65,081)	4,511	(69,980)	4,851
Severance indemnity payments	(259,870)	(21,985)	(279,430)	(23,640)
Deposits for group severance indemnities and other deposits	163,184	(31,742)	175,468	(34,131)
Dividend received from affiliate	1,318	785	1,417	844
Sub-total	87,042	(198,698)	93,594	(213,654)
Net Cash Provided by Operating Activities	3,490,058	3,344,319	3,752,751	3,596,041

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**SK TELECOM CO., LTD.**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Korean won		Translation into U.S. dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES :</b>				
Cash inflows from investing activities :				
Decrease in short-term financial instruments	₩ 12,246	₩	\$ 13,168	\$
Decrease in long-term financial instruments	3		3	
Disposal of trading securities	80,061		86,087	
Decrease in current portion of long-term investment		53,600		57,634
Collection of short-term loans	93,410	60,258	100,441	64,794
Proceeds from sales of long-term investment securities	304,629	16,986	327,558	18,265
Proceeds from sales of equity securities accounted	108,470	296,126	116,634	318,415
Decrease in guarantee deposits	30,054	132,298	32,316	142,256
Decrease in other non-current assets	11,030	34,827	11,860	37,448
Proceeds from disposal of property and equipment	13,731	33,928	14,765	36,482
Proceeds from disposal of intangible assets	1,362	57	1,465	61
Sub-total	654,996	628,080	704,297	675,355
Cash outflows for investing activities :				
Increase in short-term financial instruments		(55,361)		(59,528)
Increase of trading securities		(104,973)		(112,874)
Extension in short-term loans	(86,743)	(55,808)	(93,272)	(60,009)
Extension in long-term loans	(11,083)	(3,571)	(11,917)	(3,840)
Increase in long-term financial instruments	(10,000)	(1,137)	(10,753)	(1,223)
Acquisition of long-term investment securities	(1,069,172)	(309,215)	(1,149,647)	(332,489)
Acquisition of equity securities accounted for using	(217,793)	(254,699)	(234,186)	(273,870)
	(131,662)	(96,365)	(141,573)	(103,618)

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Increase in guarantee deposits and other non-current

Acquisition of property and equipment	(1,466,932)	(1,383,145)	(1,577,346)	(1,487,253)
Increase in intangible assets	(52,603)	(188,676)	(56,562)	(202,877)
Sub-total	(3,045,988)	(2,452,950)	(3,275,256)	(2,637,581)
Net Cash Used in Investing Activities	(2,390,992)	(1,824,870)	(2,570,959)	(1,962,226)

CASH FLOWS FROM FINANCING ACTIVITIES :

Cash inflows from financing activities :

Issuance of bonds	₩ 384,990	₩ 193,683	\$ 413,968	\$ 208,261
Proceeds from long-term borrowings	294,800		316,989	
Increase in guarantee deposits received and other	3,370	24,392	3,624	26,228
Sub-total	683,160	218,075	734,581	234,489

Cash outflows for financing activities :

Repayment of short-term borrowings		(400,000)		(430,108)
Repayment of current portion of long-term debt	(814,704)	(500,000)	(876,026)	(537,634)
Payment of dividends	(662,815)	(758,192)	(712,704)	(815,260)
Decrease in facility deposits	(2,630)	(7,670)	(2,828)	(8,247)
Acquisition of treasury stock(Note 15)	(209,077)		(224,814)	
Other	(3,666)	(32,862)	(3,943)	(35,335)
Sub-total	(1,692,892)	(1,698,724)	(1,820,315)	(1,826,584)

Net Cash Used in Financing Activities	(1,009,732)	(1,480,649)	(1,085,734)	(1,592,095)
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NET INCREASE IN CASH AND CASH EQUIVALENTS

89,334	38,800	96,058	41,720
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CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD

151,766	112,966	163,189	121,469
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CASH AND CASH EQUIVALENTS AT END OF THE PERIOD

₩ 241,100	₩ 151,766	\$ 259,247	\$ 163,189
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**SK TELECOM CO., LTD.**  
**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

**1. GENERAL**

SK Telecom Co., Ltd. (the Company) was incorporated in March 1984 under the laws of Korea to engage in providing nationwide cellular telephone communication services in the Republic of Korea. The Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange (formerly Korea Stock Exchange) and the New York and London Stock Exchanges, respectively. As of December 31, 2006, the Company's total issued shares are held by the following:

	Number of shares	Percentage of total shares issued (%)
SK Group	18,748,452	23.09
POSCO Corp.	2,341,569	2.88
Institutional investors and other minority shareholders	51,577,438	63.53
Treasury stock	8,526,252	10.50
	81,193,711	100.00

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying non-consolidated financial statements of the Company have been prepared in accordance with Korean Financial Accounting Standards and Statements of Korean Accounting Standards (SKAS) No. 1 through No. 20 (except for No. 11 and No. 14). The accompanying non-consolidated financial statements were approved by the Company's board of directors on February 13, 2007. Significant accounting policies followed in preparing the accompanying non-consolidated financial statements are summarized as follows.

**a. Basis of Presentation**

The accompanying non-consolidated statutory financial statements have been prepared in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea (Korean GAAP). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with accounting principles generally accepted in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

The official accounting records of the Company are maintained and expressed in Korean won, the currency of the country in which the Company is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts are included solely for the convenience of readers outside of the Republic of Korea and have been made at the rate of ₩930.0 to US\$1, the Noon Buying Rate in the City of New York for cable transfers in Korean won as certified for customs purposes by the Federal Reserve Bank of New York on the last business day of the year ended December 31, 2006. Such translations into U.S. dollars should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at the above or any other



rate.

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b. Adoptions of New Statements of Korea Accounting Standards ( SKAS )

On January 1, 2006, the Company adopted SKAS No. 18 through No. 20, which are effective from the fiscal year beginning after December 31, 2005. Such adoption of SKASs did not have an effect on the non-consolidated financial position of the Company as of December 31, 2006 and 2005 or the non-consolidated ordinary income and net income of the Company for the years then ended.

c. Cash Equivalents

Cash equivalents are highly liquid investments and short term financial instruments, which are readily convertible without significant transaction cost, do not have significant risk of changes in interest rates, and with original maturities of three months or less.

d. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on the estimated collectibility of individual accounts and historical bad debt experience.

e. Inventories

Inventories, which consist mainly of replacement units for wireless telecommunication facilities and supplies for sales promotion, are stated at the lower of cost or market value, with cost determined using the moving average method. The Company maintains perpetual inventory systems, which are adjusted to physical inventory counts performed at fiscal year end. When the market value of inventories is less than the acquisition cost, the carrying amount is reduced to the market value and any difference is charged to current operations as operating expenses. There was no such loss for the years ended December 31, 2006 and 2005.

f. Securities (excluding securities accounted for using the equity method of accounting)

Debt and equity securities are initially recorded at their acquisition costs (fair value of considerations paid) including incidental cost incurred in connection with acquisition of the related securities and classified into trading, available-for-sale and held-to-maturity securities depending on the acquisition purpose and nature.

Trading securities are stated at fair value with gains or losses on valuation reflected in current operations.

Securities classified as available-for-sale are reported at fair value. Unrealized gains or losses on valuation of available-for-sale securities are included in capital adjustments and the unrealized gains or losses are reflected in net income when the securities are sold or if impairment is other than temporary. Equity securities are stated at acquisition cost if fair value cannot be reliably measured. If the declines in the fair value of individual available-for-sale securities below their acquisition or amortized cost are other than temporary and there is objective evidence of impairment, write-downs of the individual securities are recorded to reduce the carrying value to their fair value. The related write-downs are recorded in current operations as a loss on impairment of investment securities.

Held-to-maturity securities are presented at acquisition cost after premiums or discounts are amortized or accreted, respectively. The Company recognizes write-downs resulting from other-than-temporary declines in the fair value below its book value on the balance sheet date if there is objective evidence of impairment. The related write-downs are recorded in current operations as a loss on impairment of investment securities.

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Trading securities are presented in the current asset section of the balance sheet, and available-for-sales and held-to-maturity securities are presented in the current asset section of the balance sheet if their maturities are within one year; otherwise such securities are recorded in the non-current section of the balance sheet.

g. Equity Securities Accounted for Using the Equity Method

Investment securities of affiliated companies, in which the Company has the ability to exercise significant influence, are carried using the equity method of accounting, whereby the Company's initial investment is recorded at cost and the carrying value is subsequently increased or decreased to reflect the Company's portion of stockholders' equity of the investee. Differences between the purchase cost and the acquisition date net asset fair value of the investee are amortized over 5 to 20 years using the straight-line method. When applying the equity method of accounting, unrealized inter-company gains and losses are eliminated (See Note 4). In addition, the Company provides for additional losses for those investments accounted for using the equity method that are reduced to zero to the extent that the Company has other investment assets related to the equity method investees.

When the Company's share of equity interest in the equity method investees increases as a result of capital transactions of the investees with (or without) consideration, the increase in the Company's proportionate shares in the investees are treated as goodwill or negative goodwill and when the Company's share of equity interest in the equity method investees decreases as a result of capital transactions of the investees with (or without) consideration, the decrease in the Company's proportionate shares in the investees are accounted for as gain or loss on disposal. However, if equity method investees are subsidiaries, such differences in the Company's proportionate shares in the investees are accounted for as capital adjustments of affiliates in the Company's shareholders' equity.

In translating the foreign currency statements of the Company's investees operating overseas, the Company applies (a) the foreign exchange rate at the balance sheet date to the investee's balance sheet items (except historical rates applied for shareholders' equity), and (b) the average foreign exchange rate for the current period for income statements items. After translating the balance sheet and income statements items as noted above, the Company's portion of the amount after deducting the translated total liabilities from translated total assets and equity is recorded as capital adjustment of affiliates in the Company's shareholders' equity.

h. Property and Equipment

Property and equipment are stated at cost. Major renewals and betterments, which prolong the useful life or enhance the value of assets, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the declining balance method (except for buildings and structures acquired on or after January 1, 1995 which are depreciated using the straight-line method) over the estimated useful lives (4 ~ 30 years) of the related assets (See Note 6).

Interest expense and other financing charges for borrowings related to the manufacture or construction of property and equipment are charged to current operations as incurred.

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## i. Intangible Assets

Intangible assets are recorded at cost, less amortization computed using the straight-line method over 5 to 20 years. The amortization for the years ended December 31, 2006 and 2005 were ₩366,516 million and ₩329,360 million, respectively.

With its application for a license to provide IMT 2000 service, the Company has a commitment to pay ₩1,300,000 million to the Ministry of Information Communication ( MIC ) → ₩650,000 million was paid in March 2001 by SK IMT Co., Ltd. (a former subsidiary of the Company), which was merged into the Company on May 1, 2003, and the remainder is required to be paid over 10 years with an annual interest rate equal to the 3-year-maturity government bond rate minus 0.75% (4.04% as of December 31, 2006). The future payment obligations are ₩90,000 million (related present value discount: ₩557 million) in 2007, ₩110,000 million in 2008, ₩130,000 million in 2009, ₩150,000 million in 2010 and ₩170,000 million in 2011. On December 4, 2001, SK IMT Co., Ltd. received the IMT 2000 license from MIC, and recorded the total license cost as an intangible asset. As a result of the merger with SK IMT Co., Ltd., the Company acquired such IMT license of ₩1,259,253 million and assumed the related long-term payable with a principal amount of ₩650,000 million on May 1, 2003 (the date of merger). Amortization of the IMT license commenced when the Company started its commercial IMT 2000 service in December 2003, using the straight-line method over the estimated useful life of the IMT license which expires in December 2016. As of December 31, 2006, the present value discount related to the current portion and long-term portion of payments to be made to MIC totaled ₩557 million and ₩42,461 million, respectively.

## j. Impairment Losses

When the recoverable amount of assets (that are not recorded at fair value) including investment assets (except for trading and available for sale investments in listed companies), property and equipment, and intangible assets is significantly less than the carrying value due to obsolescence, physical damage, decline in market value or other causes, the carrying value is reduced to the recoverable amount and any difference is charged to current operation as an impairment loss. The Company recorded such impairment loss of ₩ 6,866 million and nil during the years ended December 31, 2006 and 2005, respectively.

## k. Convertible Bonds

The proceeds from issuance of convertible bonds are allocated between the conversion rights and the debt issued; and the portion allocable to the conversion rights is accounted for as capital surplus with a corresponding conversion right adjustment deducted from the related bonds. Such conversion right adjustment is amortized to interest expense using the effective interest rate method over the redemption period of the convertible bonds. The portion allocable to the conversion rights is measured by deducting the present value of the debt at time of issuance from the gross proceeds from issuance of convertible bonds, with the present value of the debt being computed by discounting the expected future cash flows (including call premium, if any) using the effective interest rate applied to ordinary or straight debt of the Company at the issue date.

## l. Discounts on Bonds

Discounts on bonds are amortized to interest expense using the effective interest rate method over the redemption period of the bonds.

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m. Valuation of Long-term Payables

Long-term payables resulting from long-term installment transactions are stated at the present value of the expected future cash flows. Imputed interest amounts are recorded in present value discount accounts which are deducted directly from the related nominal payable balances. Such imputed interest is included in operations using the effective interest rate method over the redemption period.

n. Provisions, Contingent Liabilities and Contingent Assets

The Company recognizes a provision when i) it has a present obligation as a result of a past event, ii) it is probable that a disbursement of economic resources will be required to settle the obligation, and iii) a reliable estimate can be made of the amount of the obligation (See Note 23).

The Company does not recognize the following contingent obligations as liabilities:

Possible obligations related to past events, for which the existence of a liability can only be confirmed upon occurrence of uncertain future event or events outside the control of the Company.

Present obligations arising out of past events or transactions, for which i) a disbursement of economic resources to fulfill such obligations is not probable or ii) a disbursement of economic resources is probable, but the related amount cannot be reasonably estimated.

In addition, the Company does not recognize potential assets related to past events or transactions, for which the existence of an asset or future benefit can only be confirmed upon occurrence of uncertain future event or events outside the control of the Company.

o. Accrued Severance Indemnities

In accordance with the Company's policy, all employees with more than one year of service are entitled to receive severance indemnities upon termination of their employment based on length of service and rate of pay. Accruals for severance indemnities are recorded to approximate the amount required to be paid if all employees were to terminate at the balance sheet date.

The Company has deposits with insurance companies to fund the portion of the employees' severance indemnities which is in excess of the tax deductible amount allowed under the Corporate Income Tax Law, in order to take advantage of the additional tax deductibility for such funding. Such deposits with outside insurance companies, where the beneficiaries are the Company's employees, totaling ₩ 23,895 million and ₩ 187,103 million as of December 31, 2006 and 2005, respectively, are deducted from accrued severance indemnities.

In accordance with the Korean National Pension Fund Law, the Company transferred a portion of its accrued severance indemnities to the National Pension Fund through March 1999. Such transfers, amounting to ₩ 50 million and ₩ 5,172 million as of December 31, 2006 and 2005, respectively, are deducted from accrued severance indemnities.

Actual payment of severance indemnities amounted to ₩ 259,870 million and ₩ 21,985 million for the years ended December 31, 2006 and 2005, respectively.

Effective March 31, 2006, the Company changed its policy for the severance indemnities applicable to those employees who joined the Company before or on December 31, 2002 from cumulative method,

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where employees are entitled to get paid more than one month of salary each year depending on the length of service, to simple multiplier method, where employees are paid one month of salary each year regardless of their service period in accordance with the resolution of the Company's joint labor-management conference held on March 16, 2006. As a result of such policy change, the Company has decided to distribute early settlements to those eligible employees on their accumulated severance indemnities as of March 31, 2006 on a mandatory basis. In addition, the Company paid the additional bonuses of ₩ 125,890 million for those employees who received the mandatory distribution for their early settlement as compensation for those employees. The Company recorded such compensation costs as special severance indemnities in other expenses for the year ended December 31, 2006. In addition, the Company executed the early retirement program and the related special bonus of ₩ 18,131 million were paid to eligible employees and accounted for as special severance indemnities in other expenses for the year ended December 31, 2006.

p. Accounting for Employee Stock Option Compensation Plan

The Company adopted the fair value based method of accounting for its employee stock option compensation plan (See Note 16). Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, expected dividends and the current risk-free interest rate for the expected life of the option. However, as permitted under Korean GAAP, the Company excludes the volatility factor in estimating the value of its stock options granted before December 31, 2003, which results in measurement at minimum value. The total compensation cost of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, the actual life of the option, dividends on the stock, or the risk-free interest rate. In addition, recognized compensation costs related to stock options expired due to such stock options not being exercised within the exercisable period are transferred to other capital surplus from capital adjustments (See Note 13).

q. Accounting for Leases

Lease agreements that include a bargain purchase option, result in the transfer of ownership at the end of the lease term, have a lease term equal to 75% or more of the estimated economic life of the leased property or where the present value of minimum lease payments equals or exceeds 90% of the fair value of the leased property, are accounted for as capital leases. All other leases are accounted for as operating leases.

Assets and liabilities related to capital leases are recorded as property and equipment and obligations under capital leases, respectively, and the related interest is calculated using the effective interest rate method and charged to other expenses. For operating leases, the future minimum lease payments are expensed ratably over the lease term while contingent rentals are expensed as incurred (See Note 11).

r. Research and Development Costs

The Company charges substantially all research and development costs to expense as incurred. The Company incurred internal research and development costs of ₩211,752 million and ₩204,698 million for the years ended December 31, 2006 and 2005, respectively. In addition, external research and development costs were ₩66,055 million and ₩68,526 million for the years ended December 31, 2006 and 2005, respectively.

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s. Accounting for Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded in Korean won based on the prevailing rate of exchange at the dates of transactions. Monetary assets and liabilities denominated in foreign currency are translated into Korean won at the Base Rates announced by Seoul Money Brokerage Services, Ltd. on the balance sheet date, which were ₩929.60 and ₩1,013.00 to US\$1.00 at December 31, 2006 and 2005, respectively. The resulting gains or losses arising from the translation or settlement of such assets and liabilities are included in current operations.

t. Derivative Instruments

The Company records rights and obligations arising from derivative instruments as assets and liabilities, which are stated at fair value. The gains and losses that result from the change in the fair value of derivative instruments are reported in current earnings. However, for derivative instruments designated as hedging the exposure of variable cash flows, the effective portions of the gains or losses on the hedging instruments are recorded as a separate component of stockholders' equity and credited/charged to operations at the time the hedged transactions affect earnings, and the ineffective portions of the gains or losses are credited/charged immediately to operations.

u. Revenue Recognitions

Operating revenue is recognized when cellular telephone communication services are provided.

v. Income Taxes

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets and liabilities.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred income tax assets and liabilities are classified into current and non-current based on the classification of related assets or liabilities for financial reporting purposes (See Note 17).

w. Handset Subsidiaries to Long-term Mobile Subscribers

Effective March 27, 2006, the Telecommunication Law of Korea was revised to allow wireless carriers to provide handset subsidiaries to customers who have maintained their wireless account with the same carrier for 18 months or longer. The Company commenced its handset subsidy program on the effective date of the revised Telecommunications Law and included a clause in the service contract which allows the Company to change the terms of its subsidy program, including the Company's ability to terminate the program at any time after a thirty day notice to its customers. The Company charges such handset subsidiaries to commissions paid as the related payments are made.

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## x. Reclassifications

Certain reclassifications have been made in prior period's financial statements to conform to classifications used in the current period. Such reclassifications did not have an effect on the previously reported net assets as of December 31, 2005 and ordinary income and net income for the year ended December 31, 2005.

**3. INVESTMENT SECURITIES****a. Trading Securities**

Trading securities as of December 31, 2006 and December 31, 2005 are as follows (in millions of Korean won) :

	December 31, 2006			December 31, 2005
	Acquisition cost	Fair value	Carrying amount	Fair value and carrying amount
Beneficiary certificates	₩ 665,299	₩ 665,299	₩ 665,299	₩ 745,360

**b. Long-term Investment Securities**

Long-term investment securities as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	December 31, 2006	December 31, 2005
Available-for-sale equity securities	₩ 992,455	₩ 907,069
Available-for-sale debt securities	1,383,969	296,264
Total	2,376,424	1,203,333
Less current portion	(156)	
Long-term portion	₩ 2,376,268	₩ 1,203,333



**Table of Contents****b-(1). Available-for-sale Equity Securities**

Available-for-sale equity securities as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	Number of Shares at Dec. 31, 2006	percentage (%) at Dec. 31, 2006	Acquisition cost at Dec. 31, 2006	Fair value at Dec 31, 2006	Carrying amount	
					2006	2005
<b>(Investments in listed companies)</b>						
Digital Chosunilbo Co., Ltd.	2,890,630	7.8	₩ 5,781	₩ 5,897	₩ 5,897	₩ 5,796
hanarotelecom incorporated KRTnet Corporation (Formerly Korea Radio Wave Basestation Management)	11,045,000	4.8	121,677	88,581	88,581	56,440
POSCO	234,150	4.4	1,171	2,517	2,517	2,646
Comas Interactive Co., Ltd. (Formerly INNOTG Co., Ltd.)	2,481,310	2.8	332,662	766,725	766,725	501,225
eXtended Computing Environment Co., Ltd.	59,473	0.4	1,695	83	83	83
	133,333	3.3	10	876	(note a) 876	10
Sub-total			462,996	864,679	864,679	566,200
<b>(Investments in non-listed companies)</b>						
LG Powercomm Co., Ltd. (Formerly Powercomm Co., Ltd.)	7,500,000	5.0	₩ 240,243	₩ 80,370	(note b) ₩ 80,370	₩ 77,130
Japan MBCO	54,000	7.3	27,332	(note f)		27,332
Eonex Technologies Inc.	144,000	12.3	3,600	(note c)	4,593	4,593
The Korea Economic Daily	2,585,069	13.8	13,964	(note c)	13,964	13,964
Others			122,649	(notes c and d)	25,411	22,815

Sub-total	407,788		124,338	145,834
<b>(Investments in funds)</b>				
Korea IT Fund		(note e)		190,000
Others	3,438	(note c)	3,438	5,035
Sub-total	3,438		3,438	195,035
Total	₩ 874,222		₩ 992,455	₩ 907,069

a) (note The common stocks of eXtended Computing Environment Co., Ltd. were listed on the Korea Securities Dealers Automated Quotation during the year ended December 31, 2006.

b) (note The Company recorded its investments in common stock of LG Powercomm Co., Ltd. at its fair value, which was estimated by an outside professional valuation company using the present value of expected future cash flows and the unrealized loss on valuation of investments amounting to ₩115,908 million (net of tax effect of ₩43,965 million) and ₩118,257 million (net of tax effect of ₩44,856 million) as of December 31, 2006 and 2005, respectively, were recorded as a capital adjustment.

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- c) (note) As a reasonable estimate of fair value could not be made, the investment is stated at acquisition cost. The investment in common stock of Eonex Technologies Inc. was reclassified to available-for-sale securities from equity securities accounted for using the equity method during the year ended December 31, 2003, as the Company's ownership in such investees decreased to less than 20% and the Company no longer exercises significant influence. Such securities were transferred to available-for-sale securities at the carrying amount valued using the equity method of accounting prior to the reclassification.
- d) (note) Due to the impairment of the Company's investments in common stock of TeleMerc.com, the Company recorded impairment loss on such investments of ₩1,793 million for the year ended December 31, 2005.
- e) (note) The investment in Korea IT Fund was reclassified to equity securities accounted for using the equity method during the year ended December 31, 2006 as the Company has the ability to exercise significant influence on the investee.
- f) (note) Due to the impairment of the Company's investments in common stock of Japan MBCO, the Company recorded impairment loss on such investments of ₩27,332 million for the year ended December 31, 2006.

**b-(2). Available-for-sale Debt Securities**

Available-for-sale debt securities as of December 31, 2006 and 2005 are as follows (in millions of Korean won):

	Maturity	Acquisition cost	Carrying amount	
			December 31, 2006	December 31, 2005
Public bonds	(note a)	₩ 51,305	₩ 51,300	₩ 1,590
Currency stabilization bonds	(note b)	49,882	49,894	294,674
Beneficiary certificates (note d)	2009.10.20	5,000	5,072	
Convertible bonds of Real Telecom Co., Ltd. (note c)	March, 2007	10,656		
Convertible bonds of China Unicom Ltd. (note e)	July, 2009	957,055	1,276,703	
Convertible bonds of Eonex Technologies, Inc. (note f)	October, 2008	1,000	1,000	
Total		1,074,898	1,383,969	296,264
Less current portion		(156)	(156)	
Long-term available-for-sale debt securities		₩ 1,074,742	₩ 1,383,813	₩ 296,264

The interest income incurred from available-for-sale debt securities for the years ended December 31, 2006 and 2005 were ₩7,991 million and ₩ 914 million, respectively.



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(note a) The maturities of public bonds as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

Maturity	December 31, 2006	December 31, 2005
Within one year	₩ 156	₩
After one year but within five years	51,144	1,229
After five years but within ten years		361
	₩ 51,300	₩ 1,590

(note b) The maturities of currency stabilization bonds as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

Maturity	December 31, 2006	December 31, 2005
After one year but within five years	₩ 49,894	₩ 294,674

(note c) The convertible bonds of Real Telecom Corp. with a principal amount of ₩10,656 million can be converted into 371,018 shares of common stock of Real Telecom Corp. at ₩28,721 per share during the period from September 29, 2004 to March 28, 2007. Due to the impairment of such bonds, the Company recorded an impairment loss of ₩10,656 million prior to December 31, 2004.

(note d) The return on investments in such beneficiary certificates was recorded as interest income.

(note e) On July 5, 2006, the Company purchased zero coupon convertible bonds of China Unicom Ltd. with maturity of three years and principal amount of US\$1,000,000,000 for US\$1,000,000,000. Such convertible bonds have initial conversion price of US\$1.111426 per share of common stock of China Unicom Ltd. The bond holders may redeem their notes at 102.82% of the principal amount on July 5, 2008 (2 years from the issuance date). The conversion right may be exercised during the period from July 5, 2007 to June 29, 2009 and the number of common shares to be converted as of December 31, 2006 is 899,745,075 shares. Unless either previously redeemed or converted, the notes are redeemable at 104.26% of the principal amount at maturity. The Company recorded the convertible bonds of China Unicom Ltd. at its fair value, which was estimated by an outside professional valuation company using Cox, Ross & Rubinstein Model (1979) and discount rate of 5.9138%. If all such bonds are converted, the Company's equity interest in China Unicom Ltd. will be 6.67%.

(note f) On October 11, 2006, the Company purchased convertible bonds of Eonex Technologies, Inc at face value of ₩1,000 million. Such convertible bonds can be converted into 7,142 shares of common stock of Eonex Technologies, Inc. at ₩140,000 per share during the period from April 1, 2007 to October 11, 2008. Unless either previously redeemed or converted, the notes are redeemable at 106% of the principal amount at maturity. If all such bonds are converted, the Company's equity interest in Eonex Technologies, Inc. will increase to 12.9%.

**Table of Contents****b-(3). Changes in Unrealized Gains (Losses) on Investments in Common Stock**

The changes in unrealized gains (losses) on investments in common stock during the years ended December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	For the year ended December 31, 2006			
	Beginning balance	Increase (decrease)	Transferred to realized gain (loss)	Ending balance
Available-for-sales securities:				
Digital Chosunilbo Co., Ltd.	₩ 14	₩ 101	₩	₩ 115
hanarotelecom incorporated	(65,237)	32,141		(33,096)
KRTnet Corporation	1,475	(128)		1,347
POSCO	168,563	265,500		434,063
Comas Interactive Co., Ltd.	(1,611)			(1,611)
eXtended Computing Environment Co., Ltd.		866		866
LG Powercomm Co., Ltd.	(163,113)	3,240		(159,873)
Eonex Technologies Inc.	2,011			2,011
Currency stabilization bonds	(218)	907	(677)	12
Public bonds		(5)		(5)
Convertible bonds of China Unicom Ltd.		319,648		319,648
Sub-total	(58,116)	622,270	(677)	563,477
Less tax effect	15,982	(171,124)	186	(154,956)
Total	₩ (42,134)	₩ 451,146	₩ (491)	₩ 408,521

	For the year ended December 31, 2005			
	Beginning balance	Increase (decrease)	Transferred to realized gain (loss)	Ending balance
Available-for-sales securities:				
Digital Chosunilbo Co., Ltd.	₩ (3,758)	₩ 3,772	₩	₩ 14
hanarotelecom incorporated	(50,657)	(14,580)		(65,237)
KRTnet Corporation	1,007	468		1,475
POSCO	131,343	37,220		168,563
Comas Interactive Co., Ltd.	(1,543)	(68)		(1,611)
SINJISOFT Corporation	460		(460)	
Cowon System, Inc.		585	(585)	
LG Powercomm Co., Ltd.	(168,678)	5,565		(163,113)
Eonex Technologies Inc.	2,011			2,011
WiderThan Co., Ltd.	(27)	27		
Currency stabilization bonds		(218)		(218)

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Sub-total	(89,842)	32,771	(1,045)	(58,116)
Less tax effect		(9,012)	287	15,982
Total	<del>₩</del> (89,842)	<del>₩</del> 23,759	<del>₩</del> (758)	<del>₩</del> (42,134)

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**Table of Contents****4. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD**

Equity securities accounted for using the equity method of accounting as of December 31, 2006 and 2005 are as follows (In millions of Korean won):

	Number of shares	December 31, 2006			Carrying Amount	
		Ownership percentage (%)	Acquisition cost	Net asset value	December 31, 2006	December 31, 2005
Pantech Co., Ltd.	25,570,306	22.7	₩ 26,309	₩	(note a) ₩	₩ 55,634
SK Capital Co., Ltd.						₩ 37,501
SK Communications Co., Ltd.	7,844,454	85.9	175,441	158,409		177,913
SK Telink Co., Ltd.	943,997	90.8	5,296	86,284		86,284
SK C&C Co., Ltd.	300,000	30.0	19,071	268,089		272,554
SK Wyverns Baseball Club Co., Ltd.	199,997	100.0	1,000			
STIC Ventures Co., Ltd.	1,600,000	21.9	8,000	8,651		8,651
Paxnet Co., Ltd.	5,590,452	59.7	26,563	13,643		30,807
Global Credit & Information Co., Ltd.	300,000	50.0	2,410	3,118		3,704
TU Media Corp.	12,922,266	29.6	64,611	6,232		7,016
Aircross Co., Ltd.	600,000	38.1	300	1,713		1,713
WiderThan Co., Ltd.						970
IHQ, Inc.	13,000,000	34.1	41,846	14,157		38,938
Seoul Records, Inc.	9,582,321	60.0	27,874	23,141		25,995
Harex Info Tech, Inc.	225,000	21.2	3,375	784		1,835
SK Mobile SLD Telecom PTE. Ltd.	180,476,700	42.5	10,322	4,643	(note b)	4,643
Skytel Co., Ltd.	1,756,400	73.3	191,273	118,078		118,463
SK China Company Ltd.	28,160	28.6	2,159	6,009		6,009
SK Telecom China Co., Ltd.	28,160	20.7	3,195	1,179		93
ULand Company Ltd.	6,150,000	100.0	7,340	6,536		6,536
SK Telecom USA Holdings, Inc.	14,100,100	70.1	17,511	2,260		6,761
SK Telecom International, Inc.	1,000	100.0	199,047	77,786	(note c)	77,786
SK USA, Inc.	1,099	49.0	17,467	25,146		25,146
Korea IT Fund	49	37.5	3,184	2,969	(note d)	2,969
			190,000	193,060		193,060
			3,000	3,262		3,262
						3,635



Centurion IT Investment Association					
1st Music Investment Fund of SK-PVC	69.3	6,925	7,186	7,186	6,990
2nd Music Investment Fund of SK-PVC	79.3	7,925	8,238	8,238	7,966
SK-KTB Music Investment Fund	74.3	14,850	15,311	15,311	14,999
IMM Cinema Fund	45.6	12,000	11,569	11,569	11,884
Michigan Global Cinema Fund	36.4	4,000	3,773	3,773	4,000
3rd Fund of Isu Entertainment	31.3	2,500	2,419	2,419	2,500
SKT-HP Ventures, LLC.					5,272
Other investments in affiliates		13,517	(note e)	13,017	6,083
Total		₩ 1,108,311		₩ 1,161,651	₩ 925,904

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- (note a) Pantech Co., Ltd. requested its creditor banks for a debt restructuring due to deterioration of its liquidity during the three months ended December 31, 2006.
- (note b) On March 31 2006, the Company acquired 42.5% interests of common stock of SK Mobile from Pantech Co., Ltd. and others.
- (note c) In 2005, the Company incorporated SK Telecom USA Holdings, Inc. with an investment of US\$122 million in order to invest in and manage Helio, Inc., a joint venture company in the United States of America, which was established in order to provide wireless telecommunication services in the United States of America. In addition, the Company invested an additional US\$78.9 million in SK USA Holdings, Inc. for the year ended December 31, 2006 (See Note 25).
- (note d) The investment in Korea IT Fund was reclassified to equity securities accounted for using the equity method for the year ended December 31, 2006 as the Company has ability to exercise significant influence on the investee.
- (note e) As allowed under Korean GAAP, investments in equity securities of SK Telecom Europe Limited and others were not accounted for using the equity method of accounting, as changes in the Company's portion of stockholders' equity of such investees were not expected to be material.

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Details of the changes in investments in affiliates accounted for using the equity method for the years ended December 31, 2006 and 2005 are as follows (In millions of Korean won):

		For the year ended December 31, 2006						
		Beginning	Acquisition	Equity in	Equity in	Dividend	Other	Ending
		balance		earnings	capital	received	increase	balance
				(losses)	and		(decrease)	
					surplus			
					adjustments			
Pantech Co., Ltd.	(note h)	₩ 55,634	₩	(₩55,731)	₩ 97	₩	₩	₩
SK Capital Co., Ltd.	(note b)	37,501		5			(37,506)	
SK Communications Co., Ltd.	(note a)	158,170		14,939	4,804			177,913
SK Telink Co., Ltd.	(note a)	70,863		15,384	37			86,284
SK C&C Co., Ltd.	(notes a and c)	198,251		42,075	33,218	(990)		272,554
SK Wyverns Baseball Club Co., Ltd.	(note a)			575				
STIC Ventures Co., Ltd.	(note a)	8,308		956	(613)			8,651
Paxnet Co., Ltd.	(note a)	27,372		1,707	1,728			30,807
Global Credit & Information Co., Ltd.	(note a)	3,276		428				3,704
TU Media Corp.	(note a)	32,393		(25,377)				7,016
Aircross Co., Ltd.	(note a)	970		743				1,713
WiderThan Co., Ltd.	(note d)	12,827		(500)	(55)		(12,272)	
IHQ, Inc.	(notes a and e)	13,935	27,406	(4,346)	845		1,098	38,938
Seoul Records, Inc.	(note a)	27,242		(1,247)				25,995
Harex Info Tech, Inc.	(note a)	2,568		(733)				1,835
SK Mobile	(note a)		10,322	(5,543)	(136)			4,643

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SLD Telecom PTE Ltd.	(note a)	55,358	97,286	(17,543)	(16,638)		118,463	
	(notes a and c)							
Skytel Co., Ltd.	(note c)	4,872		1,912	(447)	(328)	6,009	
SK China Company Ltd.	(note a)	483		(267)	(123)		93	
SK Telecom China Co., Ltd.	(note a)	6,927		(291)	(100)		6,536	
ULand Company Limited.	(note a)	12,564		(6,812)	1,009		6,761	
SK Telecom USA Holdings, inc.	(note a)	103,751	75,833	(92,524)	(9,274)		77,786	
SK Telecom International, Inc.	(note a)	25,957		1,284	(2,095)		25,146	
SK USA, Inc.	(note a)	3,353		(116)	(268)		2,969	
	(notes a and f)							
Korea IT Fund Centurion IT Investment Association	(note a)	3,635		2,338	722	190,000	193,060	
1st Music Investment Fund of SK-PVC	(note a)	6,990		(430)	57		3,262	
2nd Music Investment Fund of SK-PVC	(note a)	7,966		196			7,186	
SK-KTB Music Investment Fund	(note a)	14,999		272			8,238	
IMM Cinema Fund	(note a)	11,884		312			15,311	
Michigan Global Cinema Fund	(note a)	4,000		(341)	26		11,569	
3rd Fund of Isu Entertainment	(note a)	2,500		(227)			3,773	
SKT-HP Ventures, LLC	(note g)	5,272		(81)		(5,290)	2,419	
Total		₩919,821	₩210,847	(₩128,965)	₩12,794	(₩1,318)	₩136,030	₩1,148,634

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- (note a) Investments were recorded using the equity method of accounting based on unaudited and unreviewed financial statements as of and for the year ended December 31, 2006. In order to verify the reliability of such unaudited and unreviewed financial statements, the Company has performed the following procedures and found no significant errors:
- i) obtained the signature from the chief executive officer of the equity method investee asserting that the unaudited and unreviewed financial statements are accurate
  - ii) checked whether the major transactions identified by the Company, including public disclosures, were appropriately reflected in the unaudited and unreviewed financial statements
  - iii) performed an analytical review on the unaudited and unreviewed financial statements
- (note b) Investment was fully liquidated due to dissolution of SK Capital Co., Ltd. for the year ended December 31, 2006.
- (note c) The Company received dividends from SK C&C Co., Ltd. and Skytel Co., Ltd. and the corresponding amount was deducted from the carrying amount of equity method securities.
- (note d) The Company sold out all of investments in equity securities of WiderThan Co., Ltd. for the year ended December 31, 2006 and recognized gains on disposal of investment in equity securities of ₩20,456 million.
- (note e) Other increase in investments in equity securities of IHQ, Inc. represent gains on disposal of investments in equity securities, which have resulted from the dilution of the Company's ownership as a result of investees sale of their unissued shares to third parties.
- (note f) Other increase in investments in Korea IT Fund is the carrying amount transferred from available-for-sale equity securities.
- (note g) Investment was fully liquidated due to dissolution of SKT-HP Ventures, LLC for the year ended December 31, 2006.
- (note h) Investment in equity securities of Pantech Co., Ltd. was recorded using the only estimated net loss provided by Pantech Co., Ltd. because the investee's financial statements were not determined as of December 31, 2006 as due diligence procedures of credit banks for debt restructuring were in progress.

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	For the year ended December 31, 2005						
	Beginning balance (note	Acquisition	Equity in earnings (losses)	Equity in capital surplus and adjustments	Dividend received	Other increase (decrease)	Ending balance
Pantech Co., Ltd.	a) ₩ 190,896	₩	(₩19,404)	(₩ 111)	₩	(₩115,747)	₩ 55,634
SK Capital Co., Ltd.	34,891		(523)	3,133			37,501
SK Communications Co., Ltd.	143,096		12,643	2,431			158,170
SK Telink Co., Ltd.	56,182		14,649	32			70,863
SK C&C Co., Ltd.	201,353		17,501	(20,003)	(600)		198,251
SK Wyverns Baseball Club Co., Ltd.			(4,706)				
STIC Ventures Co., Ltd.	(note b) 7,321		(1,135)	759		1,363	8,308
Paxnet Co., Ltd.	25,244		2,128				27,372
Global Credit & Information Co., Ltd.	3,054		222				3,276
TU Media Corp.	34,607	25,611	(27,821)	(4)			32,393
Aircross Co., Ltd.	944		26				970
WiderThan Co., Ltd.	(note b)	3,188	1,368	61		8,210	12,827
IHQ, Inc.	(note b)	14,440	(560)	56		(1)	13,935
Seoul Records, Inc.		27,874	(632)				27,242
Harex Info Tech, Inc.	3,375		(807)				2,568
SLD Telecom PTE Ltd.	59,804	4,784	(7,351)	(1,879)			55,358
Skytel Co., Ltd.	3,633		1,355	69	(185)		4,872
SK China Company Ltd.	803		(261)	(59)			483
SK Telecom China Co., Ltd.	9,212		(2,055)	(230)			6,927
ULand Company Limited		17,511	(4,545)	(402)			12,564
SK Telecom USA Holdings, inc.		123,214	(20,885)	1,422			103,751
	21,995		4,657	(695)			25,957

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SK Telecom International, Inc. SK USA, Inc.	3,184		560	(391)		3,353
Centurion IT Investment Association	3,205		430			3,635
1st Music Investment Fund of SK-PVC		6,925	65			6,990
2nd Music Investment Fund of SK-PVC		7,925	41			7,966
SK-KTB Music Investment Fund		14,850	149			14,999
IMM Cinema Fund		12,000	(116)			11,884
SKT-QC Wireless Development Fund (note c)	5,145		1		(5,146)	
SKT-HP Ventures, LLC	5,284		148	(160)		5,272
Total	<del>₩</del> 813,228	<del>₩</del> 258,322	( <del>₩</del> 34,858)	( <del>₩</del> 15,971)	( <del>₩</del> 785)	( <del>₩</del> 111,321) <del>₩</del> 913,321

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(note a) 4,542,000 shares of SKY Teletech Co., Ltd. (formerly SK Teletech Co., Ltd.) were sold to Curitel Communications, Inc. and the Company recorded a gain of ₩175,488 million during the 3<sup>rd</sup> quarter of 2005. SKY Teletech Co., Ltd was merged into Pantech Co., Ltd. during the 4<sup>th</sup> quarter of 2005 and the Company's ownership interest decreased from 29.1% to 22.7%. In addition, the difference between the Company's portion of the merged company's equity and the carrying amount at the date of merger of ₩269 million was recorded as a loss on disposal of investment assets.

(note b) Other increase (decrease) in investments in equity securities of STIC Ventures Co., Ltd., Widerthan Co., Ltd. and IHQ, Inc. represent gains on disposal of investments in equity securities, which have resulted from the dilution of the Company's ownership as a result of investees' sale of their unissued shares to third parties.

(note c) Investment was fully liquidated due to dissolution of SKT-QC Wireless Development Fund for the year ended December 31, 2005.

Details of changes in the differences between the acquisition cost and net asset value of equity method investees at the acquisition date for the years ended December 31, 2006 and 2005 are as follows (In millions of Korean won):

	For the year ended December 31, 2006			
	Beginning balance	Increase	Amortization	Ending balance
Pantech Co., Ltd.	₩ 793	₩	(₩ 793)	₩
SK Communications Co., Ltd.	23,814		(1,397)	22,417
SK C&C Co., Ltd.	4,870		(406)	4,464
Paxnet Co., Ltd.	18,237		(1,073)	17,164
Global Credit & Information Co., Ltd.	628		(41)	587
TU Media Corp.	993		(209)	784
IHQ, Inc.	6,267	22,001	(3,488)	24,780
Seoul Records, Inc.	3,670		(815)	2,855
Harex Info Tech, Inc.	1,402		(351)	1,051
SK Mobile		3,192	(3,192)	
SLD Telecom PTE. Ltd.	406		(22)	384
ULand Company Ltd.	3,628	1,132	(258)	4,502
<b>Total</b>	<b>₩ 64,708</b>	<b>₩ 26,325</b>	<b>(₩ 12,045)</b>	<b>₩ 78,988</b>

	For the year ended December 31, 2005			
	Beginning balance	Increase/ (Decrease)	Amortization	Ending balance
Pantech Co., Ltd.	₩ 3,286	(₩ 2,381)	(₩ 112)	₩ 793
SK Communications Co., Ltd.	24,623		(809)	23,814
SK C&C Co., Ltd.	5,276		(406)	4,870
Paxnet Co., Ltd.	19,310		(1,073)	18,237
Global Credit & Information Co., Ltd.	670		(42)	628
TU Media Corp.		1,045	(52)	993
IHQ, Inc.		7,377	(1,110)	6,267
Seoul Records, Inc.		4,078	(408)	3,670



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Harex Info Tech, Inc.		1,752	(350)	1,402
SLD Telecom PTE. Ltd.	428		(22)	406
ULand Company Ltd.		3,922	(294)	3,628
Total	₩ 53,593	₩ 15,793	(₩ 4,678)	₩ 64,708

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Details of changes in unrealized inter-company gains incurred from sales of assets for the years ended December 31, 2006 and 2005 are as follows (In millions of Korean won):

Subsidiary	For the year ended December 31, 2006			Ending balance
	Beginning balance	Increase	Decrease	
Pantech Co., Ltd.	₩	₩ 270	(₩ 270)	₩
SK Communications Co., Ltd.	4,016		(1,103)	2,913
SK China Company Ltd.	1,086			1,086
Total	₩ 5,102	₩ 270	(₩ 1,373)	₩ 3,999

Subsidiary	For the year ended December 31, 2005			Ending balance
	Beginning balance	Increase	Decrease	
SK Communications Co., Ltd.	₩	₩ 4,459	(₩ 443)	₩ 4,016
SK China Company Ltd.	1,206		(120)	1,086
Total	₩ 1,206	₩ 4,459	(₩ 563)	₩ 5,102

Details of market price of the equity securities accounted for using the equity method as of December 31, 2006 are as follows (In millions of Korean won, except for market price per share):

	Market price per share (In Korean won)	Number of shares owned by the Company	Market price
Pantech Co., Ltd.	₩ 930	25,570,306	₩ 23,780
IHQ, Inc.	6,810	13,000,000	88,530
Seoul Records, Inc.	3,850	9,582,321	36,892

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The condensed financial information of the investees as of and for the year ended December 31, 2006 is as follows (In millions of Korean won):

	Total assets	Total liabilities	Revenue	Net income (loss)
SK Communications Co., Ltd.	₩ 312,743	₩ 118,748	₩ 185,489	₩ 20,094
SK Telink Co., Ltd.	146,005	51,331	195,089	18,350
SK C&C Co., Ltd.	1,913,535	1,019,904	1,107,910	101,608
SK Wyverns Baseball Club Co., Ltd.	3,983	8,177	20,245	941
STIC Ventures Co., Ltd.	53,048	13,520	12,248	4,045
Paxnet Co., Ltd.	29,009	5,569	40,331	4,166
Global Credit & Information Co., Ltd.	11,046	4,810	42,900	939
TU Media Corp.	346,463	325,395	88,736	(84,910)
Aircross Co., Ltd.	14,996	10,500	21,602	1,959
IHQ, Inc.	70,007	26,184	47,447	(4,628)
Seoul Records, Inc.	47,561	8,993	31,485	(695)
Harex Info Tech, Inc.	4,515	812	4,831	(1,627)
SK Mobile	12,003	1,078	1,319	(6,474)
SLD Telecom PTE Ltd.	218,827	57,782		(22,802)
Skytel Co., Ltd.	25,801	4,217	17,723	6,308
SK China Company Ltd.	6,276	582	4,050	(1,296)
SK Telecom China Co., Ltd.	7,438	902	15,310	(13)
ULand Company Limited	5,877	2,656	6,778	(8,840)
SK Telecom USA Holdings, Inc.	117,867	40,081		(91,899)
SK Telecom International, Inc.	27,894	2,748	13,225	1,786
SK USA, Inc.	7,150	1,092	6,394	(84)
Korea IT Fund	304,832		9,123	1,374
Centurion IT Investment Association	8,697		28	495
1st Music Investment Fund of SK-PVC	10,433	56	382	276
2nd Music Investment Fund of SK-PVC	10,446	52	396	343
SKT-KTB Music Investment Fund	20,746	107	587	425
IMM Cinema Fund	25,362	7	336	(706)
Michigan Global Cinema Fund	10,376		438	(624)
3 <sup>rd</sup> Fund of Isu Entertainment	7,740		223	(268)

**5. LOANS TO EMPLOYEES**

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Short-term and long-term loans to employees as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

		2006			2005
	Short-term	Long-term	Total		
Loans to employees stock ownership association	₩ 2,208	₩ 5,318	₩ 7,526		₩ 14,586
Loans to employees for housing and other	77	200	277		433
Total	₩ 2,285	₩ 5,518	₩ 7,803		₩ 15,019

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Property and equipment as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	Useful lives (years)	2006	2005
Land		₩ 462,393	₩ 461,513
Buildings and structures	30,15	1,488,824	1,477,838
Machinery	6	11,235,472	10,376,529
Vehicles	4	21,136	20,442
Other	4	956,670	807,534
Construction in progress		130,667	264,309
		14,295,162	13,408,165
Less accumulated depreciation		(9,877,050)	(8,812,282)
Property and equipment, net		₩ 4,418,112	₩ 4,595,883

The standard value of land declared by the government as of December 31, 2006 and 2005 are ₩506,831 million and ₩412,829 million, respectively.

Details of change in property and equipment for the years ended December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	For the year ended December 31, 2006					Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	
Land	₩ 461,513	₩ 115	(₩645)	₩ 1,410	₩	₩ 462,393
Buildings and structures	1,145,497	4,620	(824)	7,539	(55,600)	1,101,232
Machinery	2,429,564	43,869	(8,169)	1,013,305	(1,132,052)	2,346,517
Vehicles	2,786	1,460	(113)		(1,792)	2,341
Other	292,214	830,772	(16,319)	(640,111)	(91,594)	374,962
Construction in progress	264,309	586,096		(719,738)		130,667
Total	₩4,595,883	₩ 1,466,932	(₩26,070)	(₩337,595)	(₩1,281,038)	₩4,418,112

	For the year ended December 31, 2005					Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	
Land	₩ 463,656	₩ 723	(₩4,698)	₩ 1,832	₩	₩ 461,513
Buildings and structures	1,163,069	12,255	(8,095)	33,425	(55,157)	1,145,497
Machinery	2,585,118	34,334	(18,924)	992,283	(1,163,247)	2,429,564
Vehicles	4,030	982	(116)	130	(2,240)	2,786

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Other	251,377	754,542	(3,294)	(626,161)	(84,250)	292,214
Construction in progress	138,003	580,309		(454,003)		264,309
Total	<del>₩</del> 4,605,253	<del>₩</del> 1,383,145	( <del>₩</del> 35,127)	( <del>₩</del> 52,494)	( <del>₩</del> 1,304,894)	<del>₩</del> 4,595,883

**Table of Contents****7. INTANGIBLE ASSETS**

Intangible assets as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	Acquisition cost	2006 Accumulated amortization	Carrying amounts	Acquisition Cost	2005 Accumulated amortization	Carrying amounts
Goodwill	₩2,335,532	(₩ 643,310)	₩1,692,222	₩2,335,532	(₩ 514,648)	₩1,820,884
Frequency use rights	1,385,120	(308,287)	1,076,833	1,384,433	(200,141)	1,184,292
Software development costs	231,318	(190,611)	40,707	221,913	(160,657)	61,256
Computer software	858,375	(303,272)	555,103	489,807	(210,049)	279,758
Other	109,753	(69,459)	40,294	103,974	(63,617)	40,357
	₩4,920,098	(₩ 1,514,939)	₩3,405,159	₩4,535,659	(₩ 1,149,112)	₩3,386,547

Details of changes in intangible assets for the years ended December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	For the year ended December 31, 2006					
	Beginning balance	Increase	Decrease	Transfer	Amortization	Ending balance
Goodwill	₩1,820,884	₩	₩	₩	(₩ 128,662)	₩ 1,692,222
Frequency use rights	1,184,292	687			(108,146)	1,076,833
Software development costs	61,256	65		9,339	(29,953)	40,707
Computer software	279,758	46,157	(914)	323,644	(93,542)	555,103
Other	40,357	5,694	(63)	519	(6,213)	40,294
	₩3,386,547	₩52,603	(₩ 977)	₩333,502	(₩ 366,516)	₩ 3,405,159

	For the year ended December 31, 2005					
	Beginning balance	Increase	Decrease	Transfer	Amortization	Ending balance
Goodwill	₩1,949,546	₩	₩	₩	(₩ 128,662)	₩ 1,820,884
Frequency use rights	1,163,319	117,380			(96,407)	1,184,292
Software development costs	100,579	635			(39,958)	61,256
Computer software	190,745	68,252	(3)	77,645	(56,881)	279,758
Other	44,430	2,409	(289)	1,259	(7,452)	40,357
	₩3,448,619	₩188,676	(₩ 292)	₩78,904	(₩ 329,360)	₩ 3,386,547





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The book value as of December 31, 2006 and residual useful lives of major intangible assets are as follows (In millions of Korean won):

	Amount	Description	Residual useful lives
Goodwill	₩ 1,692,222	Goodwill related to acquisition of Shinsegi Telecomm, Inc.	13 years and 3 months
IMT license	964,168	Frequency use rights relating to W-CDMA Service	(note a)
WiBro license	105,948	WiBro Service	(note b)
DMB license	6,717	DMB Service	9 years and 6 months

(note a) Amortization of the IMT license commenced when the Company started its commercial IMT 2000 service in December 2003, using the straight-line method over the estimated useful life (13 years) of the IMT license which expires in December 2016.

(note b) The Company purchased the WiBro license from MIC on March 30, 2005. The license period is seven years from the purchase date. Amortization of the WiBro license commenced when the Company started its commercial WiBro services on June 30, 2006 using the straight line basis over the remaining useful life.

**8. BONDS PAYABLE**

Bonds payable as of December 31, 2006 and 2005 are as follows (in millions of Korean won and thousands of U.S. dollars) :

	Maturity year	Annual interest rate (%)	2006	2005
Domestic general bonds	2006	5.0 - 6.0	₩	₩ 800,000
	2007	5.0 - 6.0	700,000	700,000
	2008	5.0	300,000	300,000
	2009	5.0	300,000	300,000
	2010	4.0	200,000	200,000
	2011	3.0	200,000	200,000
	2013	4.0	200,000	
	2016	5.0	200,000	
Dollar denominated bonds (US\$300,000)	2011	4.25	278,880	303,900
Convertible bonds (US\$304,240)	2009		356,356	385,885
Total			2,735,236	3,189,785
Less discounts on bonds			(39,097)	(40,016)
Less conversion right adjustments			(43,629)	(65,219)
Add long-term accrued interest			22,910	24,808

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Net	2,675,420	3,109,358
Less portion due within one year	(696,546)	(795,150)
Long-term portion	₩ 1,978,874	₩ 2,314,208

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All of the above bonds will be paid in full at maturity.

On May 27, 2004, the Company issued zero coupon convertible bonds with a maturity of five years in the principal amount of US\$329,450,000 for US\$324,923,469, with an initial conversion price of ₩235,625 per share of the Company's common stock, which was greater than market value at the date of issuance. Subsequently, the initial conversion price was changed to ₩217,062 per share in accordance with anti-dilution protection. The Company may redeem their principal amount after 3 years from the issuance date if the market price exceeds 130% of the conversion price during a predetermined period. On the other hand, the bond holders may redeem their notes at 103.81% of the principal amount on May 27, 2007 (3 years from the issuance date). The conversion right may be exercised during the period from July 7, 2004 to May 13, 2009 and the number of common shares to be converted as of December 31, 2006 is 1,649,014 shares. During the year ended December 31, 2006, the conversion price was changed from ₩218,098 to ₩217,062 and the number of shares to be converted was changed from 1,677,812 shares to 1,685,816 shares due to the payment of interim dividends in accordance with the resolution of the Company's board of directors dated July 28, 2006. The number of common shares to be converted decreased to 1,649,014 shares as the convertible bonds with a principal amount of US\$6,790,000 were converted into 36,802 shares of treasury stock after such interim dividends were made.

Conversion of notes to common shares may be prohibited under the Telecommunications Law or other legal restrictions which restrains foreign governments, individuals and entities from owning more than 49% of the Company's voting stock, if this 49% ownership limitation is violated due to the exercise of conversion rights. In this case, the Company will pay a bond holder a cash settlement determined at the average price of one day after a holder exercises its conversion right or the weighted average price for the following five business days. The Company intends to sell treasury shares held in trust by the Company that corresponds to the number of shares of common stock that would have been delivered in the absence of the 49% foreign shareholding restrictions. The Company entered into an agreement with Credit Suisse First Boston International to reduce the effect of fluctuation with respect to cash settlement payments that may be more or less than the proceeds from sales of treasury shares held in trust. Unless either previously redeemed or converted, the notes are redeemable at 106.43% of the principal amount at maturity. During the year ended December 31, 2006, the convertible bonds with a principal amount of US\$25,210,000 were converted into 136,613 shares of treasury stock (See note 15), and the principal amount of the convertible bonds decreased from US\$329,450,000 to US\$304,240,000. In addition, the consideration for conversion right (capital surplus) decreased by ₩3,733 million (net of tax effect of ₩1,416 million) as a result of this conversion.

**9. LONG-TERM BORROWINGS**

Long-term borrowings as of December 31, 2006 and 2005 are as follows (In millions of Korean won and thousands of U.S. dollars):

	Lender	Final maturity year	Annual interest rate (%) (note)	2006	2005
Long-term floating rate discount bill	Shinhan Bank	June 29, 2010	91 days CD yield + 0.25%	₩200,000	₩
Long-term floating rate borrowings	Calyon Bank	October 10, 2013	6M LIBOR + 0.29%	US\$ 50,000	US\$
	DBS Bank			US\$ 25,000	
	SMBC			US\$ 25,000	
Total				US\$ 100,000 ₩200,000	
Equivalent in Korean won				₩292,960	

Less portion due within  
one year

Long-term borrowings	₩292,960	₩
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The above long-term floating rate discount bill is classified as long-term borrowing as the borrowing is to be rolled-over exceeding 1 year from December 31, 2006 in accordance with the loan agreement.

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(note) At December 31, 2006, the 91 days CD yield and the 6M LIBOR rate are 4.86% and 5.37%, respectively.

**10. SUBSCRIPTION DEPOSITS**

The Company receives subscription deposits from customers of cellular services at the subscription date. The Company has no obligation to pay interest on subscription deposits but is required to return them to subscribers upon termination of the subscription contract.

Long-term subscription deposits held as of December 31, 2006 and 2005 are as follows (in millions of Korean won except deposit per subscriber amounts) :

	Service type	Deposit per subscriber	2006	2005
Cellular		₩ 200,000	₩ 21,140	₩ 23,770

The Company offers existing and new cellular subscribers the option of obtaining credit insurance from Seoul Guarantee Insurance Company ( SGIC ) in lieu of the subscription deposits. Existing subscribers who elect this option are refunded their subscription deposits. As a result, the balance of subscription deposits has been decreasing.

**11. LEASES**

The Company acquired certain computer equipment and software from SK C&C Co., Ltd. and succeeded certain capital lease agreements between SK C&C Co., Ltd. and HP Financial Service. Details of capital lease assets acquired and liabilities assumed from SK C&C Co., Ltd. as of and for the year ended December 31, 2006 and 2005 are as follows (In millions of Korean won):

Acquisition cost	Office equipment	2006	2005
	Computer software	₩ 15,784	₩ 16,919
		7,180	7,625
		₩ 22,964	₩ 24,544
Accumulated depreciation	Office equipment	₩ 8,662	₩ 744
	Computer software	1,555	127
		₩ 10,217	₩ 871
Carrying amounts	Office equipment	₩ 7,122	₩ 16,175
	Computer software	5,625	7,498
		₩ 12,747	₩ 23,673
Depreciation expenses	Office equipment	₩ 8,071	₩ 744

Computer software	1,437	127
	₩ 9,508	₩ 871

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The Company's minimum future lease payments as of December 31, 2006 are as follows (In millions of Korean won):

	Annual lease payments	Interest	Principal
2007	₩ 8,536	(₩339)	₩ 8,197
2008	1,664	(22)	1,642
Total	₩ 10,200	(₩361)	9,839
Less: portion due within one year			(8,197)
Capital lease liabilities			₩ 1,642

**12. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

The details of monetary assets and liabilities denominated in foreign currencies (except for bonds payable and long-term borrowings denominated in foreign currencies described in Notes 8 and 9, respectively) as of December 31, 2006 and 2005 are as follows (In millions of Korean won, thousands of U.S. dollars, thousands of HK dollars, thousands of Japanese yen, thousands of Great Britain pounds, thousands of Singapore dollars, thousands of Swiss Franc, thousands of Euros and thousands of Chinese yuan):

	2006		2005	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
Cash and cash equivalents	US\$ 959 EUR 2	₩ 892 2	US\$ 4,175 EUR 3	₩ 4,229 3
Accounts receivable - trade	US\$ 16,534 EUR 248	15,370 303	US\$ 9,390 EUR 248	9,512 298
Accounts receivable - other	US\$ 1,657	1,541	US\$ 3,364	3,408
Guarantee deposits	US\$ 17 JPY 21,536	16 168	JPY 16,156	139
		₩ 18,292		₩ 17,589
Accounts payable	US\$ 16,046 JPY 18,704 HK\$ 190 GBP 48 SG\$ 6 EUR 813 CHF 250 CNY 2	14,916 146 23 88 3 993 190 1	US\$ 15,633 JPY 8,498 HK\$ 254 GBP 453 SG\$ 22 EUR 504 CHF 19	15,836 73 33 792 13 604 15





**Table of Contents****13. CAPITAL STOCK AND CAPITAL SURPLUS**

The Company's capital stock consists entirely of common stock with a par value of ₩500. The number of authorized and issued shares as of December 31, 2006 and 2005 are as follows :

	2006	2005
Authorized shares	220,000,000	220,000,000
Issued shares	81,193,711	82,276,711
Outstanding shares, net of treasury stock	72,667,459	73,614,296

Significant changes in capital stock and capital surplus during the years ended December 31, 2006 and 2005 are as follows (In millions of Korean won except for share data)

	Number of shares	Capital stock	Capital surplus
At January 1, 2005	Issued 82,276,711	₩ 44,639	₩ 2,983,166
Deferred tax liabilities deducted from capital surplus (note a)			(18,501)
Transferred from stock options in capital adjustment (note b)			1,533
At December 31, 2005	82,276,711	44,639	2,966,198
Consideration for conversion right (note c)			(3,733)
Transferred from stock options in capital adjustment (note d)			234
Retirement of treasury stock (note e)	(1,083,000)		
At December 31, 2006	81,193,711	₩ 44,639	₩ 2,962,699

(note a) The tax effects of consideration for conversion rights, which resulted in temporary differences, were deducted directly from related components of stockholders' equity, pursuant to adoption of SKAS No. 16 for the year ended December 31, 2005.

(note b) During the year ended December 31, 2005, the exercisable period for the stock options representing 17,800 shares, of which recognized compensation costs were ₩1,533 million, expired and the related stock options of ₩1,533 million in capital adjustments were transferred to capital surplus in accordance with Korean GAAP [See Note 2 (p)] .

(note c) During the year ended December 31, 2006, the convertible bonds with a face value of US\$25,210,000 were converted and the capital surplus amount (in connection with the related conversion rights) decreased by ₩3,733 million (net of tax effect of ₩1,416 million).

(note d) During the year ended December 31, 2006, the exercisable period for the stock options representing 43,390 shares, of which recognized compensation costs were ₩234 million, expired and the related stock options of ₩234 million in capital adjustments were transferred to capital surplus in accordance with Korean GAAP [See Note 2 (p)] .

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(note e) The Company retired 491,000 shares and 592,000 shares of treasury stock on August 17, 2006 and September 29, 2006, respectively, and reduced retained earnings before appropriation in accordance with Korean Commercial laws.

**14. RETAINED EARNINGS**

Retained earnings as of December 31, 2006 and 2005 are as follows (In millions of Korean won) :

	2006	2005
Appropriated	₩ 6,679,234	₩ 5,470,701
Unappropriated	1,165,519	1,799,160
	₩ 7,844,753	₩ 7,269,861

The details of appropriated retained earnings as of December 31, 2006 and December 31, 2005 are as follows (In millions of Korean won) :

	2006	2005
Legal reserve	₩ 22,320	₩ 22,320
Reserve for improvement of financial structure	33,000	33,000
Reserve for loss on disposal of treasury stock	477,182	477,182
Reserve for research and manpower development	880,594	822,061
Reserve for business expansion	5,266,138	4,116,138
Total	₩ 6,679,234	₩ 5,470,701

a. Legal Reserve

The Korean Commercial Code requires the Company to appropriate as a legal reserve at least 10% of cash dividends for each accounting period until the reserve equals 50% of outstanding capital stock. 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 capital stock.

b. Reserve for Improvement of Financial Structure

The Financial Control Regulation for listed companies in Korea requires that at least 10% of net income (net of accumulated deficit), and an amount equal to net gain (net of related income taxes, if any) on the disposal of property and equipment be appropriated as a reserve for improvement of financial structure until the ratio of stockholders' equity to total assets reaches 30%. The reserve for improvement of financial structure may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to capital stock.

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## c. Reserves for Loss on Disposal of Treasury Stock and Research and Manpower Development

Reserves for loss on disposal of treasury stock and research and manpower development were appropriated in order to recognize certain tax deductible benefits through the early recognition of future expenditures for tax purposes. These reserves will be unappropriated from appropriated retained earnings in accordance with the relevant tax laws. Such unappropriation will be included in taxable income in the year of unappropriation.

**15. TREASURY STOCK**

Upon issuances of stock dividends and new common stock, and the merger with Shinsegi Telecomm, Inc. and SK IMT Co., Ltd., the Company acquired fractional shares totaling 77,970 shares for ₩6,110 million through 2005. In addition, the Company acquired 8,584,445 shares of treasury stock in the market or through the trust funds for ₩2,040,995 million through 2005 in order to stabilize the market price of its stock. In addition, during the year ended December 31, 2006, the convertible bonds with a principal amount of US\$25,210,000 were converted into 136,163 shares of common stock. Such conversion was settled by the Company by using its treasury stock with carrying value totaling ₩32,178 million, which resulted in loss on disposal of treasury stock of ₩7,887 million.

On August 17, 2006, the Company retired 491,000 shares of treasury stock, which were acquired by the Company during the period from August 1, 2006 through August 14, 2006 for ₩92,518 million in accordance with a resolution of the board of directors dated July 28, 2006.

On September 29, 2006, the Company retired 592,000 shares of treasury stock, which were acquired by the Company during the period from September 4, 2006 through September 27, 2006 for ₩116,559 million in accordance with a resolution of the board of directors dated August 31, 2006.

In connection with the retired treasury stocks discussed above, the Company reduced its retained earnings before appropriations by ₩209,077 million in accordance with Korean Commercial law.

**16. STOCK OPTIONS**

On March 17, 2000, March 16, 2001 and March 8, 2002, in accordance with the approval of its stockholders or its board of directors, the Company granted stock options to its management, representing 17,800 shares at an exercise price of ₩424,000 per share, 43,820 shares at an exercise price of ₩211,000 per share and 65,730 shares at an exercise price of ₩267,000 per share. The stock options will become exercisable after three years from the date of grant and shall be exercisable for two years from the first exercisable date. Upon exercise of stock options, the Company will issue its common stock. If the employees leave the Company within three years after the grant of stock options, such employees forfeit their unvested stock options awarded. Stock options representing 530 shares for which total compensation cost was ₩3 million were forfeited during the year ended December 31, 2004.

The value of stock options granted is determined using the Black-Scholes option-pricing model, without considering the volatility factor in estimating the value of its stock options, as permitted under Korean GAAP. The following assumptions are used to estimate the fair value of options granted in 2000, 2001 and 2002; risk-free interest rate of 9.1% for 2000, 5.9% for 2001 and 6.2% for 2002; expected life of three years for 2000, 2001 and 2002; expected dividend of ₩500 per share for 2000, 2001 and 2002. Under these assumptions, total compensation cost, the recognized compensation cost (included in labor cost) for the years ended December 31, 2006 and 2005 and the outstanding balance of stock option in capital adjustment as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

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Grant date	Total Compensation cost	Recognized compensation cost		Stock options in capital adjustment	
		2006	2005	December 31, 2006	December 31, 2005
March 17, 2000 (note a)	₩ 1,533	₩	₩	₩	₩
March 16, 2001 (note b)	234				234
March 8, 2002	3,246		180	3,246	3,246
	₩ 5,013	₩	₩ 180	₩ 3,246	₩ 3,480

(note a) During the year ended December 31, 2005, the exercisable period expired for stock options representing 17,800 shares, for which the Company had recognized compensation cost of ₩1,533 million. The related capital adjustment of ₩1,533 million was transferred to capital surplus.

(note b) During the year ended December 31, 2006, the exercisable period expired for stock options representing 43,820 shares, for which the Company had recognized compensation cost of ₩234 million. The related capital adjustment of ₩234 million was transferred to capital surplus.

If the Company had not excluded the volatility factor (expected volatility of 66.8% for options granted in 2000, 67.5% for options granted in 2001, and 63.0% for options granted in 2002), the pro forma total compensation cost would be ₩15,967 million (₩3,738 million for options granted in 2000, ₩3,617 million for options granted in 2001 and ₩8,613 million for options granted in 2002) and the recognized compensation cost for the year ended December 31, 2006 would be nil, and the pro forma net income and net income per common share for the year ended December 31, 2006, 2005, and 2004 are as follows:

	2006	2005	2004
Pro forma ordinary income (In millions of Korean won)	₩2,021,643	₩2,554,315	₩2,114,841
Pro forma ordinary income per share (In Korean won)	19,734	25,417	20,280
Pro forma net income (In millions of Korean won)	1,446,598	1,871,082	1,492,914
Pro forma net income per share (In Korean won)	19,734	25,417	20,280

**Table of Contents****17. INCOME TAXES**

## a. Details of income tax expense

Income tax expense for the years ended December 31, 2006 and 2005 consist of the following (in millions of Korean won) :

	2006	2005
Current	₩ 607,776	₩ 678,722
Changes in net deferred tax liabilities (note a)	(32,731)	4,511
Income tax expenses	₩ 575,045	₩ 683,233

(note a) Changes in net deferred tax liabilities for the years ended December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	2006	2005
Ending balance of net deferred tax liabilities	₩ 490,341	₩ 348,563
Beginning balance of net deferred tax liabilities	(348,563)	(323,096)
Adjustment to the beginning net deferred income tax liabilities based on tax return filed	10,453	8,536
Tax effect of temporary differences charged or credited directly to related components of stockholders' equity	(184,962)	(29,492)
	(₩32,731)	₩ 4,511

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## b. Reconciling items between accounting income and taxable income

Reconciling items between accounting income and taxable income for the years ended December 31, 2006 and 2005 are as follows (in millions of Korean won) :

	2006	2005
<b>(Temporary Differences)</b>		
<b>Additions :</b>		
Allowance for doubtful accounts	₩ 52,228	₩ 142,420
Accrued interest income	3,931	8,823
Reserves for research and manpower development	188,000	131,467
Reserves for loss on disposal of treasury stock	218,097	
Equity in losses of affiliates	115,562	94,821
Loss on impairment of long-term investment securities	137	1,793
Accrued expenses	50,886	17,055
Depreciation	52,411	14,826
Loss on impairment of other assets	971	7,461
Loss on valuation of currency swap (capital adjustments)	9,258	9,151
Loss on valuation of derivative instruments	4,695	
Accrued severance indemnities	20,058	24,879
Deposits for severance indemnities	148,610	12,552
Consideration of conversion right	21,589	17,027
Other	71,617	49,974
Sub-total	958,050	532,249
<b>Deductions:</b>		
Reserves for research and manpower development	(180,000)	(190,000)
Allowance for doubtful accounts	(124,184)	(59,612)
Depreciation	(19,594)	(80,359)
Accrued interest income	(8,714)	(8,331)
Equity in earnings of affiliates		(9,387)
Unrealized gains on valuation of long-term investment securities	(621,729)	(47,025)
Accrued expenses	(57,066)	(20,124)
Loss on impairment of other assets	(5,109)	(21,070)
Gain on valuation of derivative instruments		(2,545)
Accrued severance indemnities	(148,610)	(12,552)
Deposits for severance indemnities	(20,058)	(24,879)
Loss on disposal of property assets	(38,719)	
Loss on disposal of treasury stock	(30,092)	
Other	(57,728)	(42,994)
Sub-total	(1,311,603)	(518,878)
Total Temporary Differences	(353,553)	13,371
<b>(Permanent Differences)</b>	869,156	211,489

Total

₩ 515,603

₩ 244,860



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c. Change in cumulative temporary differences and deferred tax assets (liabilities)

Changes in cumulative temporary differences for the years ended December 31, 2006 and 2005 and deferred tax assets (liabilities) as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

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