

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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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<br>per share | Price per share  |  |
|-------------------|---------------|---|--|---|------------------------|--|--|
|                   |               | Capital amount<br>in financial<br>statements<br>(a) | Total number<br>of<br>issued shares<br>(IV of A×b) | Total amount<br>of distributed<br>shares<br>(VI of A×b) |                        | Capital/<br>Total<br>number<br>of<br>issued<br>shares<br>(a / IV<br>of A.) | Capital/<br>Number<br>of<br>distributed<br>shares<br>(a / VI<br>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<br>of<br>share | Amount at<br>the       |                    |                                   | Retirement<br>(-) | Amount at<br>the end of<br>period |
|--|---------------------|------------------------|--------------------|-----------------------------------|-------------------|-----------------------------------|
|  |                     | beginning of<br>period | Acquisition<br>(+) | Disposition<br>(-) <sup>(1)</sup> |                   |                                   |
| <b>Direct acquisition<br/>pursuant to Article 189-2<br/>(1) of the relevant Act</b>  | Common<br>share     | 4,697,735              | 1,083,000          | 136,163                           | 1,083,000         | 4,561,572                         |
| <b>Direct acquisition based<br/>on causes other than<br/>those stipulated in Article<br/>189-2 (1) of the relevant<br/>Act</b> | Common<br>share     | 77,970                 |                    |                                   |                   | 77,970                            |
|  | Preferred<br>share  |                        |                    |                                   |                   |                                   |
| <b>Sub-total</b>   | Common<br>share     | 4,775,705              | 1,083,000          | 136,163                           | 1,083,000         | 4,639,542                         |



|   |                 |           |           |         |           |           |
|---|-----------------|-----------|-----------|---------|-----------|-----------|
|   | 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<br/>2006</b> | <b>End of<br/>2005</b> | <b>End of<br/>2004</b> | <b>End of<br/>2003</b> | <b>End of<br/>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<br/>Telecom</b> | <b>KTF</b> | <b>LG<br/>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<br>(98.56%) |
|                               |            | Services     | Others                | 153,179 (1.44%)        |
|                               |            | Others       | Others                |                        |

### B. Price Trend of Major Products

| Item  | During 2006 | During 2005 | During 2004 |
|---|-------------|-------------|-------------|
| Mobile phone<br>(Based on standard call charge) |             |             |             |
| Basic fee (per month)                           | 13,000      | 13,000      | 13,000      |
| 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   | (Unit: Won 100 million) |                         |
|----------------|---------------------------------|-------------------|--------------------------------------|---|-------------------------|-------------------------|
|                |                                 |                   |                                      |   | Total investments       | Amount already invested |
| Network/Common | Upgrade/<br>New<br>installation | 2006              | Network,<br>systems<br>and<br>others | Capacity increase<br>and<br>quality<br>improvement;<br>systems<br>improvement | 16,000                  | 15,175                  |

\* 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 |      | (Unit: Won 100 million)<br>Investment effect                    |
|----------------|-----------------------------------|--------|-----------------------------------|------|---|
|                | Asset type                        | Amount | 2007                              | 2008 |   |
| Network/Common | Network,<br>systems<br>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  |   |

\* 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 |
| Raw material  | 184,969   | 234,889                 | 255,320            |         |
| Labor   | 33,986,701                                      | 35,191,759              | 36,026,539         |         |
| Depreciation  | 134,461,257                                     | 121,335,301             | 122,097,858        |         |
| Commissioned service  | 83,751,223                                      | 86,536,635              | 85,646,995         |         |
| Others  | 35,680,197                                      | 41,730,732              | 39,951,341         |         |
| <b>Total R&amp;D costs</b>  | <b>288,064,347</b>                              | <b>285,029,316</b>      | <b>283,978,053</b> |         |
|   | <b>Sales and administrative expenses</b>        |                         |                    |         |
| Accounting  | 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> | <b>2.70%</b>                                    | <b>2.81%</b>            | <b>2.93%</b>       |         |

**6. Other Matters**

## A. External Fund Procurement Summary

\* Domestic procurement

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

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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<br/>(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<br/>(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<br>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<br>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<br>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<br/>(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<br>LLC | Deloitte Hana Anjin<br>LLC |

**2. Audit Opinion**

|                              | Term | Auditor s<br>opinion | Issues<br>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<br/>December 31,<br/>2006</b> | Deloitte Anjin<br>LLC      | Semi-annual review<br>Quarterly review<br>Non-consolidated<br>financial statements<br>audit<br>Consolidated<br>financial statements<br>audit | 656,000    | 6,206 (excluding time spent on<br>consolidated and US GAAP audit) |
| <b>Year ended<br/>December 31,<br/>2005</b> | Deloitte Anjin<br>LLC      | Semi-annual review<br>Quarterly review<br>Non-consolidated<br>financial statements<br>audit<br>Consolidated<br>financial statements<br>audit | 447,000    | 5,177   |
| <b>Year ended<br/>December 31,<br/>2004</b> | Deloitte Hana<br>Anjin LLC | Semi-annual review<br>Quarterly review<br>Non-consolidated<br>financial statements<br>audit<br>Consolidated<br>financial statements<br>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<br/>December 31,<br/>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<br/>December 31,<br/>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<br>-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<br/>December 31,<br/>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<br>(Semi-annual basis) |         |         |
| October 15, 2004 | Consulting on internal control<br>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><br/>(the first meeting<br/>of<br/>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><br/>(the second<br/>meeting of<br/>2006)</b> | February 14, 2006 | - Convocation of the 22 <sup>nd</sup> General Meeting of Shareholders     | Approved as proposed  |
| <b>266<sup>th</sup><br/>(the third meeting<br/>of<br/>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><br/>(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><br/>(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><br/>(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><br/>(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><br/>(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><br/>(the ninth meeting of 2006)</b>    | September 29, 2006 | - Report on activities in July and August 2006   |                          |
| <b>273<sup>rd</sup><br/>(the tenth meeting of 2006)</b>    | October 27, 2006   | - Issuance of corporate bonds  | Approved as proposed     |
| <b>274<sup>th</sup><br/>(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;<br>- 2007 Business Management Plan  | Approved as proposed<br>Approved as proposed |
| <b>276<sup>th</sup></b>  |                   | - Financial statements for the year ended December 31, 2006<br>- Annual business report for the year ended December 31, 2006             | Approved as proposed<br>Approved as proposed |
| <b>(the first meeting of 2007)</b>                               | January 25, 2007  |  |  |
| <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<br>- Change in the Fair Trade Voluntary Compliance Program manager | Approved as proposed<br>Approved as proposed |
| <b>(the third meeting of 2007)</b>                               | February 13, 2007 |  |  |
| <b>279<sup>th</sup></b>  |                   | - Election of the representative director and appointments of executive directors<br>- Election of committee members                     | Approved as proposed<br>Approved as proposed |
| <b>(the fourth meeting of 2007)</b>                              | March 9, 2007     |  |  |
| (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              |
|                          | 21                        |  |

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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<br/>(the first meeting of 2006)</b> | February 14, 2006 | 3 persons/4 persons        | - Election of the Chairman: Jung Nam Cho<br>- 22 <sup>nd</sup> General Meeting of Shareholders:<br>Nomination of Independent non-executive director candidates<br>- Yong Woon Kim, Hyun Chin Lim |
| <b>8<sup>th</sup> Meeting<br/>(the first meeting of 2007)</b> | February 13, 2007 | 4 persons /4 persons       | - Election of the Chairman: Seung Taik Yang<br>- 23 <sup>rd</sup> General Meeting of Shareholders:<br>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<br>- 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<br>- Exercise of the iHQ call option                                   |
| <b>The third meeting of 2006</b>  | April 26, 2006           | 4 persons/5 persons  | - Election of chairman<br>- 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<br>- 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<br>- 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<br>- 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<br>- Evaluation of internal accounting controls   | Approved as proposed<br>Approved as proposed                         |                |
| <b>The third meeting of 2006</b>  | February 27, 2006 | - Auditor's opinion on the internal audit system<br>- Management audit schedule for 2006<br>- 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<br>- Remuneration for outside auditor<br>- Collective re-approval of outside auditor's service schedule for 2006<br>- Management report  | Approved as proposed<br>Approved as proposed<br>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<br>- Report on activities relating to the prevention of ethical issues<br>- Report on the Company's current operations   |  |                |
| <b>The ninth meeting of 2006</b>    | July 27, 2006     | - Interim dividend plan<br>- Plan to acquire the Company's common stock for cancellation<br>- 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<br>- Plan to acquire the Company's common stock for cancellation<br>- Report on the Company's current operations  |  |                |
| <b>The eleventh meeting of 2006</b> | October 26, 2006  | - Report on status of internal accounting controls<br>- Plan for issuance of corporate bonds<br>- 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<br>- Annual business report for the year ended December 31, 2006<br>- 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<br>- Report on the review of internal accounting controls for the year ended December 31, 2006<br>- Report on the 2006 second-half management audit and the 2007 plan<br>- Auditor's opinion on internal controls<br>- Audit report for the year ended | Approved as proposed<br>Approved as proposed<br>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 |

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**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<br>City |
|-----------------------------------|--------------------|----------------|---------------|---------------|---------------|---------------|---------------|
|                                   | Daehan<br>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<br/>City</b>   | <b>Gangwon<br/>City</b> | <b>Iksan City</b> | <b>OK<br/>Cashbag</b> | <b>Chungnam</b> | <b>SK</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<br>SK Corporation | Infosec       | Invested companies<br>SK |                |               |               | Innoace       | AirCROSS |
|---------------------------------------|---------------|--------------------------|----------------|---------------|---------------|---------------|----------|
|                                       |               | MRO<br>Korea             | Communications | SK<br>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 |                |
| <b>SK Corporation</b>             |                    |        |              |                  | 88.34%           |           | 90.63%         |
| <b>SK Networks</b>                |                    |        |              |                  |                  |           |                |
| <b>SK Telecom</b>                 | 60.00%             |        |              |                  |                  |           |                |
| <b>SK Chemicals</b>               |                    | 44.56% |              | 100.00%          |                  |           |                |
| <b>SKC</b>                        |                    |        |              |                  | 11.66%           | 100.00%   |                |
| <b>SK E&amp;C</b>                 |                    |        |              |                  |                  |           |                |
| <b>SK Shipping</b>                |                    |        |              |                  |                  |           |                |
| <b>SK Securities</b>              |                    |        |              |                  |                  |           |                |
| <b>Walkerhill</b>                 |                    |        |              |                  |                  |           |                |
| <b>SK C&amp;C</b>                 |                    |        | 67.78%       |                  |                  |           |                |
| <b>SK incheon oil</b>             |                    |        |              |                  |                  |           |                |
| <b>Daehan City Gas</b>            |                    |        |              |                  |                  |           |                |
| <b>SK Telink</b>                  |                    |        |              |                  |                  |           |                |
| <b>SK E&amp;S</b>                 |                    |        |              |                  |                  |           |                |
| <b>SK Communications</b>          |                    |        |              |                  |                  |           |                |
| <b>iHQ</b>                        |                    |        |              |                  |                  |           |                |
| <b>Empas</b>                      |                    |        |              |                  |                  |           |                |
| <b>Total affiliated companies</b> | 60.00%             | 44.56% | 67.78%       | 100.00%          | 100.00%          | 100.00%   | 90.63%         |

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| Investing companies               | iHQ           | Invested companies |               |                | SK<br>I-Media  |               |
|-----------------------------------|---------------|--------------------|---------------|----------------|----------------|---------------|
|                                   |               | YTN<br>Media       | I Film Co.    | NTREEV<br>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> | <b>34.08%</b> | <b>51.42%</b>      | <b>45.00%</b> | <b>51.00%</b>  | <b>100.00%</b> | <b>24.43%</b> |

**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<br>ADR   | 21,649,448       | 26.66           |                  |                 | 21,649,448       | 26.66           |
| 2            | SK<br>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<br>(Corporate<br>name)            | Relationship          | Account<br>category                     | Beginning | Change details |          | Ending | Accrued<br>interest | Remarks |
|--|-----------------------|---|-----------|----------------|----------|--------|---------------------|---------|
|  |                       |   |           | Increase       | Decrease |        |                     |         |
| SK<br>Wyverns<br>B. Equity Investments | Affiliated<br>company | Long-term<br>and<br>short-term<br>loans | 5,857     |                | 575      | 5,282  | 475                 |         |

(Unit: in million Won)

| Name<br>(Corporate<br>name) | Relationship          | Types<br>of<br>Investment | Beginning | Details  |          |         | Ending  | Note |
|-----------------------------|-----------------------|---------------------------|-----------|----------|----------|---------|---|------|
|                             |                       |                           |           | Increase | Decrease |         |   |      |
| SLD Telecom, Pte.<br>Ltd.   | Affiliated<br>company | Common<br>share           | 93,987    | 97,285   |          | 191,272 |   |      |
| SKT U.S.A.<br>Holdings      | Affiliated<br>company | Common<br>share           | 123,214   | 75,833   |          | 199,047 |   |      |
| SK Mobile                   | Affiliated<br>company | Common<br>share           |           | 10,322   |          | 10,322  |   |      |
| SKT-HP Fund                 | Affiliated<br>company | Common<br>share           | 6,415     |          | 6,415    |         |   |      |
| iHQ                         | Affiliated<br>company | Common<br>share           | 14,440    | 27,406   |          | 41,846  |   |      |
| Cyworld Japan Co.,<br>Ltd.  | Affiliated<br>company | Common<br>share           | 1,309     | 1,832    |          | 3,141   |   |      |
| China STC                   | Affiliated<br>company | Common<br>share           |           | 1,343    |          | 1,343   |   |      |
| Cyworld Inc                 | Affiliated<br>company | Common<br>share           |           | 2,672    |          | 2,672   | Investment<br>made<br>in 4 <sup>th</sup><br>quarter       |      |
| Helio Inc                   | Affiliated<br>company | Common<br>share           |           | 1,100    |          | 1,100   | Investment<br>made<br>in 4 <sup>th</sup><br>quarter       |      |
| SK Capital Co., Ltd.        | Affiliated<br>company | Common<br>share           | 50,000    |          | 50,000   |         | Investment<br>liquidated<br>in 4 <sup>th</sup><br>quarter |      |
| Wider Than Co.,<br>Ltd.     | Affiliated<br>company | Common<br>share           | 1,000     |          | 1,000    |         | Investment<br>sold in<br>4 <sup>th</sup><br>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<br>(Corporate<br>name) | Relationship          | Objective   | Transfer details              |                      | Amount                   |                         | Remarks |
|-----------------------------|-----------------------|---|-------------------------------|----------------------|--------------------------|-------------------------|---------|
|                             |                       |   | Transfer<br>purpose           | Transfer<br>date     | Transfer<br>(out) amount | Transfer<br>(in) amount |         |
|                             |                       | Shared<br>subway<br>mobile<br>broadcast<br>base<br>stations | Payment of<br>shared<br>costs | October<br>31, 2006  |                          | 1,179,154               |         |
| <b>TU Media Corp</b>        | Affiliated<br>company |   | Return of<br>leased<br>assets | December<br>29, 2006 |                          | 754,293                 |         |
| <b>SKC&amp;C</b>            | Affiliated<br>company | Computer<br>equipment                                       | Return of<br>assets           | December<br>29, 2006 |                          | 2,636,387               |         |
| <b>SKC&amp;C</b>            | Affiliated<br>company | Computer<br>equipment                                       | Acquisition<br>of assets      | December<br>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<br>(Corporate<br>name) | Relationship | Account<br>category | Beginning | Change details |          | Ending | Accrued<br>interest | Remarks |
|-----------------------------|--------------|---------------------|-----------|----------------|----------|--------|---------------------|---------|
|                             |              |                     |           | Increase       | Decrease |        |                     |         |
| Hong Eun<br>and others      | Agency       | Long-term<br>and    | 62,776    | 100,549        | 98,341   | 64,984 | 3                   |         |
|                             |              | short-term<br>loans |           |                |          |        |                     |         |

**B. Overseas investment companies**

(Unit: in million Won)

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

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## B. Equity Investments

(Unit: in million Won)

| Name<br>(Corporate<br>name)   | Relationship        | Types of<br>Investment         | Details   |          |          | Remarks  |  |
|-------------------------------|---------------------|--------------------------------|-----------|----------|----------|--|--|
|                               |                     |                                | Beginning | Increase | Decrease |  | Ending   |
| Flarion Technologies,<br>Inc. | Affiliated<br>party | Convertible preferred<br>share | 3,638     |          | 3,638    |  |  |
| Qualcomm, Inc.                | Affiliated<br>party | Common share                   |           | 2,756    |          | 2,756  |  |
| Mobile Welcome Co.            | Affiliated<br>party | Common share                   | 1,000     |          | 1,000    |  |  |
| Cyper Casting                 | Affiliated<br>party | Common share                   |           | 141      |          | 141  |  |
| Wavesat Inc                   | Affiliated<br>party | Preferred share                |           | 3,636    |          | 3,636  | Investment<br>made in 4 <sup>th</sup><br>quarter |
| Inance.com                    | Affiliated<br>party | Common share                   | 300       |          | 300      | Investment<br>sold in 4 <sup>th</sup><br>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<br>Disclosure in<br>Korea | Title  | Report   | Reports status   |
|-----------------------------------|--|--|--|
| October 26,<br>2001               | Resolution on<br>trust agreement<br>for<br>the acquisition<br>of<br>treasury shares<br>and<br>others | 1. Signatories: Shinhan<br>Bank,<br>Hana Bank,<br>Cho Hung Bank, Korea<br>Exchange Bank<br>2. Contract amount: Won<br>1,300<br>billion<br>3. Purpose: to increase<br>shareholder value | 1. On December 24, 2003, cash surplus amount<br>from<br>the existing trust agreement was partially reduced<br>(Won 318 billion).<br>2. On September 24, 2004, the Board of<br>Directors<br>extended the term of the specified monetary trust<br>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)                                  |
| 23 <sup>rd</sup> Fiscal Year Meeting of Shareholders (March 9, 2007)  | 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<br>(Note 2) |                      |
|---|---------------------------------------|----------------------|---|----------------------|
|   | December 31,<br>2006<br>(In millions) | December 31,<br>2005 | December 31,<br>2006<br>(In thousands)    | December 31,<br>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<br>(Notes 2 and 3)   | 156                                   |                      | 168                                       |                      |
| Accounts receivable – trade, net of allowance for<br>doubtful accounts of ₩88,285 million at<br>December 31,<br>2006 and ₩121,319 million at December 31,<br>2005<br>(Notes 2, 12 and 22) | 1,700,650                             | 1,607,596            | 1,828,656                                 | 1,728,598            |
| Short-term loans, net of allowance for<br>doubtful<br>accounts of ₩9,212 million at December 31,<br>2006 and<br>\$648 million at December 31, 2005<br>(Notes 2, 5 and 22)                 | 61,967                                | 64,150               | 66,631                                    | 68,978               |
| Accounts receivable – other, net of allowance for<br>doubtful accounts of ₩26,708 million at<br>December 31,<br>2006 and ₩14,246 million at December 31,<br>2005<br>(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<br>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       |
| <br>   |              |              |               |               |
| Total Non-Current Assets   | 11,624,728   | 10,349,191   | 12,499,708    | 11,128,162    |
| <br>   |              |              |               |               |
| 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<br>(Note 2) |   |
|---|---------------------------------------|---------------------------------------|---|---|
|   | December 31,<br>2006<br>(In millions) | December 31,<br>2005<br>(In millions) | December<br>31,<br>2006<br>(In thousands) | December<br>31,<br>2005<br>(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                                    |
| <br>Total Current Liabilities   | <br>2,985,620                         | <br>2,706,489                         | <br>3,210,343                             | <br>2,910,203                             |
| <br><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                                    |
| <br>Total Long-Term Liabilities   | <br>3,522,005                         | <br>3,557,307                         | <br>3,787,103                             | <br>3,825,061                             |
| <br>Total Liabilities   | <br>6,507,625                         | <br>6,263,796                         | <br>6,997,446                             | <br>6,735,264                             |
| <br><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         |
| <br>   |              |              |               |               |
| Total Stockholders Equity  | 9,306,428    | 8,257,880    | 10,006,912    | 8,879,441     |
| <br>   |              |              |               |               |
| 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<br>(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<br>(Notes 2 and 24) | 16,660      | 2,545       | 17,914      | 2,737       |
| Other  | 46,907      | 33,005      | 50,438      | 35,488      |
| <br>Sub-total  | <br>311,100 | <br>409,793 | <br>334,516 | <br>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<br>(Note 2) |                  |
|---|-----------------------|-----------------|---|------------------|
|   | 2006<br>(In millions) | 2005            | 2006<br>(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<br>(Note 2)                         | (2,871)               | (2,223)         | (3,087)                                   | (2,390)          |
| Loss on valuation of currency swap<br>(Notes 2 and 24)                      | (9,258)               |                 | (9,955)                                   |                  |
| Equity in losses of affiliates (Notes 2 and<br>4)                           | (212,109)             | (90,801)        | (228,074)                                 | (97,635)         |
| Loss on impairment of long-term<br>investment securities<br>(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<br>and<br>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)          |
| <br>Sub-total   | <br>(873,827)         | <br>(508,750)   | <br>(939,598)                             | <br>(547,044)    |
| <br>ORDINARY INCOME   | <br>2,021,643         | <br>2,554,613   | <br>2,173,810                             | <br>2,746,895    |
| <br>INCOME BEFORE INCOME TAXES  | <br>2,021,643         | <br>2,554,613   | <br>2,173,810                             | <br>2,746,895    |
| <br>PROVISION FOR INCOME TAXES<br>(Notes 2 and 17)                          | <br>(575,045)         | <br>(683,233)   | <br>(618,328)                             | <br>(734,659)    |
| <br>NET INCOME  | <br>₩ 1,446,598       | <br>₩ 1,871,380 | <br>\$ 1,555,482                          | <br>\$ 2,012,236 |
| <br>NET INCOME PER SHARE<br>(In Korean won and U.S. dollars) (Note<br>18)   | <br>₩ 19,734          | <br>₩ 25,421    | <br>\$ 21.219                             | <br>\$ 27.334    |

DILUTED NET INCOME PER SHARE

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

|   |        |   |        |    |        |    |        |
|---|--------|---|--------|----|--------|----|--------|
| ₩ | 19,458 | ₩ | 25,015 | \$ | 20.923 | \$ | 26.898 |
|---|--------|---|--------|----|--------|----|--------|

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<br>(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   |
| <br>  |               |             |   |             |
| End of year   | 1,165,519     | 1,799,160   | 1,253,246                                 | 1,934,580   |
| <br>  |               |             |   |             |
| <b>TRANSFER FROM VOLUNTARY</b>                              |               |             |   |             |
| <b>RESERVES :</b>   |               |             |   |             |
| <br>  |               |             |   |             |
| Reserve for research and manpower<br>development (Note 14)  | 188,000       | 131,466     | 202,151                                   | 141,361     |
| Reserve for loss on disposal of treasury<br>stock (Note 14) | 221,197       |             | 237,846                                   |             |
|   | 409,197       | 131,466     | 439,997                                   | 141,361     |
| <br>  |               |             |   |             |
| <b>APPROPRIATIONS :</b>                                     |               |             |   |             |
| <br>  |               |             |   |             |
| Reserve for research and manpower<br>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) |
| <br>  |               |             |   |             |
| <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<br>(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 |

(Continued)

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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<br>(Note 2) |             |
|---|---------------|-------------|---|-------------|
|   | 2006          | 2005        | 2006                                      | 2005        |
|   | (In millions) |             | (In thousands)                            |             |
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES :</b>         |               |             |   |             |
| Cash inflows from investing activities :                  |               |             |   |             |
| Decrease in short-term financial<br>instruments           | ₩ 12,246      | ₩           | \$ 13,168                                 | \$          |
| Decrease in long-term financial<br>instruments            | 3             |             | 3   |             |
| Disposal of trading securities                            | 80,061        |             | 86,087                                    |             |
| Decrease in current portion of long-term<br>investment    |               | 53,600      |   | 57,634      |
| Collection of short-term loans                            | 93,410        | 60,258      | 100,441                                   | 64,794      |
| Proceeds from sales of long-term<br>investment securities | 304,629       | 16,986      | 327,558                                   | 18,265      |
| Proceeds from sales of equity securities<br>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<br>equipment       | 13,731        | 33,928      | 14,765                                    | 36,482      |
| Proceeds from disposal of intangible assets               | 1,362         | 57          | 1,465                                     | 61          |
| <br>Sub-total   | <br>654,996   | <br>628,080 | <br>704,297                               | <br>675,355 |
| <br>Cash outflows for investing activities :              |               |             |   |             |
| Increase in short-term financial<br>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<br>securities         | (1,069,172)   | (309,215)   | (1,149,647)                               | (332,489)   |
| Acquisition of equity securities accounted<br>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) |
|---------------------------------------|-------------|-------------|-------------|-------------|

NET INCREASE IN CASH AND CASH EQUIVALENTS

|        |        |        |        |
|--------|--------|--------|--------|
| 89,334 | 38,800 | 96,058 | 41,720 |
|--------|--------|--------|--------|

CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD

|         |         |         |         |
|---------|---------|---------|---------|
| 151,766 | 112,966 | 163,189 | 121,469 |
|---------|---------|---------|---------|

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<br>shares | Percentage of<br>total shares issued<br>(%) |
|---|---------------------|---|
| 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,<br>2005              |
|--------------------------|---------------------|------------|--------------------|-----------------------------------|
|                          | Acquisition<br>cost | Fair value | Carrying<br>amount | Fair value and<br>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,<br>2006 | December 31,<br>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<br>Shares<br>at Dec. 31,<br>2006 | percentage<br>(%) at<br>Dec.<br>31,<br>2006 | Acquisition<br>cost at<br>Dec. 31,<br>2006 | Fair value<br>at<br>Dec 31,<br>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<br>cost | Carrying amount      |                      |
|---|---------------|---------------------|----------------------|----------------------|
|   |               |                     | December<br>31, 2006 | December<br>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.<br>(note c)   | March, 2007   | 10,656              |                      |                      |
| Convertible bonds of China Unicom Ltd.<br>(note e)        | July, 2009    | 957,055             | 1,276,703            |                      |
| Convertible bonds of Eonex Technologies,<br>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,<br>2006 | December 31,<br>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,<br>2006 | December 31,<br>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<br>balance                 | Increase<br>(decrease) | Transferred<br>to<br>realized<br>gain (loss) | Ending<br>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<br>balance                 | Increase<br>(decrease) | Transferred<br>to<br>realized<br>gain (loss) | Ending<br>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<br>Investment<br>Association |      |             |             |             |           |
| 1st Music Investment<br>Fund of SK-PVC    | 69.3 | 6,925       | 7,186       | 7,186       | 6,990     |
| 2nd Music<br>Investment Fund of<br>SK-PVC | 79.3 | 7,925       | 8,238       | 8,238       | 7,966     |
| SK-KTB Music<br>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<br>Cinema Fund            | 36.4 | 4,000       | 3,773       | 3,773       | 4,000     |
| 3rd Fund of Isu<br>Entertainment          | 31.3 | 2,500       | 2,419       | 2,419       | 2,500     |
| SKT-HP Ventures,<br>LLC.                  |      |             |             |             | 5,272     |
| Other investments in<br>affiliates        |      | 13,517      | (note<br>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                            | Acquisition | Equity in | Equity in   | Dividend | Other      | Ending   |
|                                       |          | balance                              |             | earnings  | capital     | received | increase   | balance  |
|                                       |          | (note                                |             | (losses)  | surplus and |          | (decrease) |          |
|                                       |          | a)                                   | ₩           | (₩)       | ₩           | ₩        | (₩)        | ₩        |
| 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.<br>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<br>balance                 | Increase        | Amortization      | Ending<br>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<br>balance                 | Increase/<br>(Decrease) | Amortization | Ending<br>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<br>per share<br>(In Korean<br>won) | Number of<br>shares owned by<br>the<br>Company | Market<br>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<br>assets | Total<br>liabilities | Revenue   | Net<br>income<br>(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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**Table of Contents****6. PROPERTY AND EQUIPMENT**

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

|                               | Useful<br>lives<br>(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<br>balance |
|-----------------------------|--------------------------------------|-------------|-----------|------------|--------------|-------------------|
|                             | Beginning<br>balance                 | Acquisition | Disposal  | Transfer   | Depreciation |                   |
| Land                        | ₩ 461,513                            | ₩ 115       | (₩645)    | ₩ 1,410    | ₩            | ₩ 462,393         |
| Buildings and<br>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<br>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<br>balance |
|-----------------------------|--------------------------------------|-------------|----------|----------|--------------|-------------------|
|                             | Beginning<br>balance                 | Acquisition | Disposal | Transfer | Depreciation |                   |
| Land                        | ₩ 463,656                            | ₩ 723       | (₩4,698) | ₩ 1,832  | ₩            | ₩ 461,513         |
| Buildings and<br>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<br>cost | 2006<br>Accumulated<br>amortization | Carrying<br>amounts | Acquisition<br>Cost | 2005<br>Accumulated<br>amortization | Carrying<br>amounts |
|-------------------------------|---------------------|-------------------------------------|---------------------|---------------------|-------------------------------------|---------------------|
| Goodwill                      | ₩2,335,532          | (₩ 643,310)                         | ₩1,692,222          | ₩2,335,532          | (₩ 514,648)                         | ₩1,820,884          |
| Frequency use<br>rights       | 1,385,120           | (308,287)                           | 1,076,833           | 1,384,433           | (200,141)                           | 1,184,292           |
| Software<br>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<br>balance                 | Increase | Decrease | Transfer | Amortization | Ending<br>balance |
| Goodwill                      | ₩1,820,884                           | ₩        | ₩        | ₩        | (₩ 128,662)  | ₩ 1,692,222       |
| Frequency use rights          | 1,184,292                            | 687      |          |          | (108,146)    | 1,076,833         |
| Software development<br>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<br>balance                 | Increase | Decrease | Transfer | Amortization | Ending<br>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<br>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<br>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<br>₩200,000 |      |
| Equivalent in Korean won              |              |                     |                                 | ₩292,960                 |      |

Less portion due within  
one year

|                      |          |   |
|----------------------|----------|---|
| Long-term borrowings | ₩292,960 | ₩ |
|----------------------|----------|---|

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<br>per<br>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<br>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<br>currencies  | Korean<br>won<br>equivalent                       | Foreign<br>currencies   | Korean<br>won<br>equivalent                  |
| Cash and cash equivalents   | US\$ 959<br>EUR 2  | ₩ 892<br>2  | US\$ 4,175<br>EUR 3   | ₩ 4,229<br>3                                 |
| Accounts receivable - trade | US\$ 16,534<br>EUR 248   | 15,370<br>303                                     | US\$ 9,390<br>EUR 248   | 9,512<br>298                                 |
| Accounts receivable - other | US\$ 1,657   | 1,541   | US\$ 3,364  | 3,408  |
| Guarantee deposits          | US\$ 17<br>JPY 21,536  | 16<br>168   | JPY 16,156  | 139  |
|                             |  | ₩ 18,292  |   | ₩ 17,589                                     |
| Accounts payable            | US\$ 16,046<br>JPY 18,704<br>HK\$ 190<br>GBP 48<br>SG\$ 6<br>EUR 813<br>CHF 250<br>CNY 2 | 14,916<br>146<br>23<br>88<br>3<br>993<br>190<br>1 | US\$ 15,633<br>JPY 8,498<br>HK\$ 254<br>GBP 453<br>SG\$ 22<br>EUR 504<br>CHF 19 | 15,836<br>73<br>33<br>792<br>13<br>604<br>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<br>shares  | Capital<br>stock | Capital<br>surplus |
|--|----------------------|------------------|--------------------|
| At January 1, 2005   | Issued<br>82,276,711 | ₩ 44,639         | ₩ 2,983,166        |
| Deferred tax liabilities deducted from capital surplus<br>(note a) |                      |                  | (18,501)           |
| Transferred from stock options in capital adjustment<br>(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<br>(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<br>Compensation<br>cost | Recognized<br>compensation cost |       | Stock options in<br>capital adjustment |                         |
|-------------------------|-------------------------------|---------------------------------|-------|--|-------------------------|
|                         |                               | 2006                            | 2005  | December<br>31,<br>2006                | December<br>31,<br>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     |
| <br>   |           |           |
| 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) :

| Description  | January 1,<br>2006 | Increase<br>(note a) | Decrease<br>(note a) | December 31,<br>2006 |
|--|--------------------|----------------------|----------------------|----------------------|
| Current:   |                    |                      |                      |                      |
| Allowance for doubtful accounts  | ₩ 122,561          | ₩ 52,447             | ₩ 124,184            | ₩ 50,824             |
| Accrued interest income  | (3,931)            | (4,574)              | (3,931)              | (4,574)              |
| Accrued expenses   | 61,967             | 51,100               | 57,066               | 56,001               |
| Other  | 189,548            | (2,696)              | 14,683               | 172,169              |
| Total  | 370,145            | 96,277               | 192,002              | 274,420              |
| Temporary differences unlikely to be realized  | (147,774)          |                      | (19,219)             | (128,555)            |
| Total current cumulative temporary differences-net                                   | ₩ 222,371          | ₩ 96,277             | ₩ 172,783            | ₩ 145,865            |
| Current deferred tax assets-net (note b)   | ₩ 61,152           |                      |                      | ₩ 40,113             |
| Non-current:   |                    |                      |                      |                      |
| Property and equipment   | (₩ 196,446)        | ₩ 10,128             | ₩ 2,217              | (₩ 188,535)          |
| Loss on impairment of long-term investment securities                                | 108,145            |                      |                      | 108,145              |
| Loss on impairment of other long-term assets   | 7,461              | (1,381)              | 5,109                | 971                  |
| Reserves for research and manpower development                                       | (768,000)          | (180,000)            | (188,000)            | (760,000)            |
| Reserves for loss on disposal of treasury stock                                      | (474,081)          |                      | (218,097)            | (255,984)            |
| Equity in (earnings) losses of affiliates  | (5,025)            | 119,239              |                      | 114,214              |
| Equity in capital adjustment of affiliates   | (109,468)          | (13,738)             |                      | (123,206)            |
| Unrealized loss on valuation of long-term investment securities (capital adjustment) | 58,116             | (36,351)             | 585,242              | (563,477)            |
| Accrued severance indemnities  | 148,465            | 20,203               | 148,610              | 20,058               |
| Deposits for severance indemnities   | (148,465)          | (20,203)             | (148,610)            | (20,058)             |
| Loss on valuation of currency swap   | 13,244             | 9,258                |                      | 22,502               |
| Loss on valuation of currency swap (capital adjustment)                              | 19,554             | 4,695                |                      | 24,249               |
| Loss on valuation of interest rate swap (capital adjustment)                         |                    | 454                  |                      | 454                  |
| Considerations for conversion right  | (67,279)           |                      | (5,148)              | (62,131)             |
| Other  | (10,647)           | 84,404               | 49,193               | 24,564               |

|   |               |             |           |               |
|---|---------------|-------------|-----------|---------------|
| Total   | (1,424,426)   | (3,292)     | 230,516   | (1,658,234)   |
| Temporary differences unlikely to be realized           | (65,447)      | (211,398)   | (6,157)   | (270,688)     |
| Total non-current cumulative temporary differences-net  | (₩ 1,489,873) | (₩ 214,690) | ₩ 224,359 | (₩ 1,928,922) |
| Total non-current deferred tax liabilities-net (note b) | (₩ 409,715)   |             |           | (₩ 530,454)   |

(note a) These changes include adjustment to reflect the change in accumulated temporary differences based on the prior year tax return.

(note b) The tax rate used in measuring deferred tax assets and liabilities is 27.5%.

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| Description  | January 1,<br>2005<br>(note b) | Increase  | Decrease  | December 31,<br>2005 |
|--|--------------------------------|-----------|-----------|----------------------|
| Current :  |                                |           |           |                      |
| Allowance for doubtful accounts                                  | ₩ 59,622                       | ₩ 122,551 | ₩ 59,612  | ₩ 122,561            |
| Accrued interest income  | (7,796)                        | (558)     | (4,423)   | (3,931)              |
| Accrued expenses   | 65,036                         | 17,055    | 20,124    | 61,967               |
| Other  | 169,964                        | 24,955    | 5,371     | 189,548              |
| Total  | 286,826                        | ₩ 164,003 | ₩ 80,684  | 370,145              |
| Temporary differences unlikely to be realized (note a)           | (128,555)                      | (19,219)  |           | (147,774)            |
| Total current cumulative temporary differences-net               | ₩ 158,271                      | 144,784   | 80,684    | ₩ 222,371            |
| Current deferred tax assets-net (note c)                         | ₩ 43,525                       |           |           | ₩ 61,152             |
| Non-current :  |                                |           |           |                      |
| Property and equipment   | (127,822)                      | (61,386)  | 7,238     | (196,446)            |
| Loss on impairment of long-term investment securities            | 106,752                        | 1,393     |           | 108,145              |
| Loss on impairment of other long-term assets                     | 21,070                         | 7,461     | 21,070    | 7,461                |
| Reserves for research and manpower development                   | (709,467)                      | (190,000) | (131,467) | (768,000)            |
| Reserves for loss on disposal of treasury stock                  | (474,081)                      |           |           | (474,081)            |
| Equity in (earnings) losses of affiliates                        | (89,441)                       | 94,821    | 10,405    | (5,025)              |
| Equity in capital adjustment of affiliates                       |                                | (109,468) |           | (109,468)            |
| Unrealized loss on valuation of long-term investment securities  |                                | 58,116    |           | 58,116               |
| Accrued severance indemnities                                    | 139,524                        | 21,493    | 12,552    | 148,465              |
| Deposits for severance indemnities                               | (139,524)                      | (21,493)  | (12,552)  | (148,465)            |
| Loss on valuation of derivative instruments                      | 15,789                         |           | 2,545     | 13,244               |
| Loss on valuation of derivative instruments (capital adjustment) |                                | 19,554    |           | 19,554               |
| Considerations for conversion right                              |                                | (67,279)  |           | (67,279)             |
| Other  | (122,004)                      | 186,800   | 75,443    | (10,647)             |
| Total  | (1,379,204)                    | (59,987)  | (14,766)  | (1,424,426)          |
| Temporary differences unlikely to be realized (note a)           | 46,038                         | (65,447)  | 46,038    | (65,447)             |

|   |               |           |        |               |
|---|---------------|-----------|--------|---------------|
| Total non-current cumulative temporary differences-net  | (₩ 1,333,166) | (125,435) | 31,272 | (₩ 1,489,873) |
| Total non-current deferred tax liabilities-net (note c) | (₩ 323,096)   |           |        | (₩ 409,715)   |

(note a) Through 2004, the tax effects of temporary differences, which are unlikely to be realized, and temporary differences directly adjusted to capital surplus or capital adjustments, such as net unrealized loss on valuation of long-term investment securities, were excluded in determining the net deferred tax assets or liabilities. However, effective January 1, 2005, pursuant to adoption of SKAS No. 16, Income Taxes, temporary differences are presented on a gross basis, including temporary differences which are unlikely to be realized. In addition, tax effects of temporary differences related to adjustments made directly to capital surplus or capital adjustments are included in determining the net deferred tax assets or liabilities.

(note b) These changes include adjustment to reflect the change in accumulated temporary differences based on the prior year tax return.

(note c) Effective January 1, 2005, pursuant to adoption of SAKS No. 16 deferred tax assets and liabilities are separated into current and non-current amounts based on the classification of related assets or liabilities for financial reporting purpose. The tax rate used in measuring deferred tax assets and liabilities is 27.5%.

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Deferred tax assets and liabilities before offsetting each other as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

|  | 2006        | 2005        |
|--|-------------|-------------|
| Deferred tax assets                    | ₩ 93,697    | ₩ 192,044   |
| Deferred tax liabilities               | (584,038)   | (540,607)   |
| Deferred tax assets (liabilities), net | (₩ 490,341) | (₩ 348,563) |
| Current, net                           | ₩ 40,113    | ₩ 61,152    |
| Non-current, net                       | (₩ 530,454) | (₩ 409,715) |

d. Deferred tax assets (liabilities) added to (deducted from) capital surplus or capital adjustments

Deferred tax assets (liabilities) added to (deducted from) capital surplus or capital adjustments as of December 31, 2006 and 2005 are as follows (in millions of Korean won) :

|   | 2006       | 2005      |
|---|------------|-----------|
| Gains on disposal of treasury stock                             | (₩38,341)  | (₩30,576) |
| Considerations for conversion right                             | (17,086)   | (18,502)  |
| Unrealized loss on valuation of long-term investment securities | (154,956)  | 15,982    |
| Equity in capital adjustment of affiliates, net                 | (41,441)   | (32,350)  |
| Loss on valuation of currency swap                              | 6,668      | 5,377     |
| Loss on valuation of interest rate swap                         | 125        |           |
| Total   | (₩245,031) | (₩60,069) |

e. Effective tax rate

Effective tax rates for the years ended December 31, 2006 and 2005 are as follows (in millions of Korean won) :

|                                   | 2006        | 2005        |
|-----------------------------------|-------------|-------------|
| Income before income tax expenses | ₩ 2,021,643 | ₩ 2,554,613 |
| Income tax expenses               | 575,045     | 683,233     |
| Effective tax rate                | 28.44%      | 26.75%      |

**Table of Contents****18. NET INCOME AND ORDINARY INCOME PER SHARE**

The Company's net income and ordinary income per share amounts for the years ended 2006 and 2005 are computed as follows (In millions of Korean won, except for per share income per share):

Net income and ordinary income per share

|  |             |             |
|--|-------------|-------------|
|  | 2006        | 2005        |
| Net income and ordinary income                           | ₩ 1,446,598 | ₩ 1,871,380 |
| Weighted average number of common shares outstanding     | 73,305,026  | 73,614,296  |
| <br>   |             |             |
| Net income and ordinary income per share (in Korean won) | ₩ 19,734    | ₩ 25,421    |

The weighted average number of common shares outstanding for the years ended December 31, 2006 and 2005 is calculated as follows :

|  | Number of<br>shares | Weighted<br>number of days | Weighted<br>number of<br>shares |
|--|---------------------|----------------------------|---------------------------------|
| For 2006   |                     |                            |                                 |
| Outstanding common stocks at January 1, 2006               | 82,276,711          | 365 / 365                  | 82,276,711                      |
| Treasury stocks at January 1, 2006                         | (8,662,415)         | 365 / 365                  | (8,662,415)                     |
| Retirement of treasury stock (note a)                      | (1,083,000)         | 126 / 365 (note a)         | (373,546)                       |
| Conversion of convertible bonds into common stock (note b) | 136,163             | 172 / 365 (note a)         | 64,276                          |
| <br>   |                     |                            |                                 |
| Total  | 72,667,459          |                            | 73,305,026                      |
| <br>   |                     |                            |                                 |
| For 2005   |                     |                            |                                 |
| At January 1, 2005   | 82,276,711          | 365 / 365                  | 82,276,711                      |
| Treasury stock, at the beginning                           | (8,662,415)         | 365 / 365                  | (8,662,415)                     |
| <br>   |                     |                            |                                 |
| Total  | 73,614,296          |                            | 73,614,296                      |

(note a) The Company retired treasury stocks which were acquired on two different dates during the year ended December 31, 2006, and weighted number of shares was calculated considering each transaction date.

(note b) Treasury stocks were reissued to settle the conversion of the convertible bonds on several times during the year ended December 31, 2006 and the weighted number of shares was calculated considering each transaction date.

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Diluted net income and ordinary income per share amounts for the years ended December 31, 2006 and 2005 are computed as follows (In millions of Korean won, except for share data):

Diluted net income and ordinary income per share

|   | 2006        | 2005        |
|---|-------------|-------------|
| Adjusted net income and ordinary income                       | ₩ 1,459,875 | ₩ 1,884,435 |
| Adjusted weighted average number of common shares outstanding | 75,025,926  | 75,332,996  |
| <br>  |             |             |
| Diluted net income and ordinary income per share              | ₩ 19,458    | ₩ 25,015    |

Adjusted net income and ordinary income per share and the adjusted weighted average number of common shares outstanding for the years ended December 31, 2006 and 2005 are calculated as follows (In millions of Korean won, except for share data):

|   | 2006        | 2005        |
|---|-------------|-------------|
| Net income and ordinary income                                | ₩ 1,446,598 | ₩ 1,871,380 |
| Effect of stock options (note a)                              |             |             |
| Effect of convertible bonds (note b)                          | 13,277      | 13,055      |
| <br>  |             |             |
| Adjusted net income and ordinary income                       | ₩ 1,459,875 | ₩ 1,884,435 |
| <br>  |             |             |
|   | 2006        | 2005        |
| Weighted average number of common shares outstanding          | 73,305,026  | 73,614,296  |
| Effect of stock options (note a)                              |             |             |
| Effect of convertible bonds (note b)                          | 1,720,900   | 1,718,700   |
| <br>  |             |             |
| Adjusted weighted average number of common shares outstanding | 75,025,926  | 75,332,996  |

(note a) For the years ended December 31, 2006 and 2005, the outstanding stock options did not have a dilutive effect because the exercise price exceeded the average market price of common stock for the years ended December 31, 2006 and 2005, respectively.

(note b) The effect of convertible bonds increased net income related to interest expenses that would not have incurred, and increase in the weighted average number of common shares outstanding related to common shares that would have been issued, assuming that the conversion of convertible bonds were made at the beginning of the period.

**Table of Contents****19. RESTRICTED CASH AND CASH EQUIVALENTS**

- a. At December 31, 2006, the Company has guarantee deposits restricted for its checking accounts totaling ₩23.5 million and deposits restricted for a charitable trust for the public totaling ₩10,000 million of which due date is February 8, 2009.
- b. The Company entered into a contract with First Data Corporation to sell the investment in common stock of KMPS Corporation, which was held by the Company and accounted for as available-for-sale securities. At December 31, 2006, certain portion of proceeds from sales of such investment totaling ₩1,137 million is kept in escrow accounts in accordance with the Escrow Agreement, which is restricted for use until November 16, 2007, the final settlement date, and recorded as short-term deposits.

**20. DIVIDEND DISCLOSURE**

Details of dividends which were declared for the years ended December 31, 2006 and 2005 are as follows (in millions of Korean won except for per share data) :

|      | Dividend type             | Number of<br>shares<br>outstanding | Face<br>value<br>per share | Dividend<br>ratio | Dividends |
|------|---------------------------|------------------------------------|----------------------------|-------------------|-----------|
| 2006 | Cash dividends (interim)  | 73,713,657                         | ₩ 500                      | 200%              | ₩ 73,714  |
|      | Cash dividends (year-end) | 72,667,459                         | ₩ 500                      | 1,400%            | 508,672   |
|      | Total                     |                                    |                            |                   | ₩ 582,386 |
| 2005 | Cash dividends (interim)  | 73,614,296                         | ₩ 500                      | 200%              | ₩ 73,614  |
|      | Cash dividends (year-end) | 73,614,296                         | ₩ 500                      | 1,600%            | 588,914   |
|      | Total                     |                                    |                            |                   | ₩ 662,528 |

Dividends payout ratios (including interim dividend) for the years ended December 31, 2006 and 2005 are as follows (In millions of Korean won) :

|                        | 2006      | 2005      |
|------------------------|-----------|-----------|
| Dividends              | ₩ 582,386 | ₩ 662,528 |
| Net income             | 1,446,598 | 1,871,380 |
| Dividends payout ratio | 40.26%    | 35.40%    |

Dividends yield ratios for the years ended December 31, 2006 and 2005 are as follows (in Korean won) :

|                             | 2006    | 2005    |
|-----------------------------|---------|---------|
| Dividend per share          | ₩ 8,000 | ₩ 9,000 |
| Stock price at the year-end | 222,500 | 181,000 |





**Table of Contents****21. INSURANCE**

As of December 31, 2006, certain Company's assets are insured with local insurance companies as follows (In millions of Korean won and thousands of U.S. dollars):

| Insured                | Risk                             | Carrying value | Coverage                   |
|------------------------|----------------------------------|----------------|----------------------------|
| Property and equipment | Fire and comprehensive liability | ₩ 3,608,844    | US\$ 59,115<br>₩ 7,617,737 |

In addition, the Company carries directors and officers liability coverage insurance totaling ₩ 50,000 million.

**22. RELATED PARTY TRANSACTIONS****a. Holding company and subsidiaries**

As of December 31, 2006 and December 31, 2005, parent company and subsidiaries of the Company are as follows:

| Type           | Company                                    | Ownership percentage (%) | Types of business                           |
|----------------|--|--------------------------|---|
| Parent company | SK Corporation                             | 22.8 (note a)            | Manufacturing and selling petrochemicals    |
| Subsidiary     | SK Telink Co., Ltd.                        | 90.8                     | Telecommunication service                   |
|                | SK Communications Co., Ltd.                | 85.9                     | Internet website services                   |
|                | SK Wyverns Baseball Club Co., Ltd.         | 100.0                    | Business related sports                     |
|                | Global Credit & Information Co., Ltd.      | 50.5                     | Credit and collection services              |
|                | PAXNet Co., Ltd.                           | 59.7                     | Internet website services                   |
|                | Seoul Records, Inc.                        | 60.0                     | Release of music disc                       |
|                | SLD Telecom PTE Ltd.                       | 73.3                     | Telecommunication service                   |
|                | SK Telecom China Co., Ltd.                 | 100.0                    | Telecommunication service                   |
|                | U-Land Company Ltd                         | 70.1                     | Network and mobile value added service      |
|                | IHQ, Inc.                                  | 34.1                     | Entertainment management                    |
|                | SK Telecom USA Holdings, Inc.              | 100.0                    | Telecommunication service                   |
|                | SK Telecom International Inc.              | 100.0                    | Telecommunication service                   |
|                | Centurion IT Investment Association        | 37.5                     | Investment association                      |
|                | The First Music Investment Fund of SK-PVC  | 69.3                     | Investment association                      |
|                | The Second Music Investment Fund of SK-PVC | 79.3                     | Investment association                      |
|                | SK-KTB Music Investment Fund               | 74.3                     | Investment association                      |
|                | IMM Cinema Fund                            | 48.4                     | Investment association                      |
|                | Cyworld, Inc.                              | 30.0                     | Internet website services                   |
|                | Cyworld Japan Co., Ltd.                    | 30.0                     | Internet website services                   |
|                | SK Cyberpass Inc.                          | 70.5 (note b)            | Telecommunication service                   |
|                | YTN Media Inc.,                            | 51.4 (note b)            | Broadcasting program production             |
|                | Ntreev Soft Co., Ltd                       | 51.0 (note b)            | Game program production                     |
|                | IHQ USA, Inc.                              | 100.0 (note b)           | Surveying marketing information             |
|                | SK Telecom Europe Ltd.                     | 100.0                    | Wireless telecommunication related business |
|                | SK Telecom Advanced Tech & Service Center  | 100.0                    | Research & Development                      |
|                | Cyworld Europe GmbH                        | 50.2 (note b)            | Internet Website services                   |
|                | Cyworld China Ltd                          | 100.0 (note b)           | Internet Website services                   |



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(note a) The ownership percentage represents parent company's ownership over the Company.

(note b) The ownership percentage represents subsidiaries' ownership over their subsidiaries, in which the Company has no direct investment.

**b. Transactions and balances with related parties**

Significant related party transactions for the years ended December 31, 2006 and 2005, and account balances as of December 31, 2006 and 2005 are as follows (In millions of Korean won):

**b-(1) Transactions**

|  | For year ended December 31, 2006                |  |  | For year ended December 31, 2005                |  |  |
|--|---|--|--|---|--|--|
|  | Purchases<br>of<br>property<br>and<br>equipment | Commissions<br>paid and<br>other<br>expenses | Commissions<br>earned and<br>other<br>income | Purchases<br>of<br>property<br>and<br>equipment | Commissions<br>paid and<br>Other<br>expenses | Commissions<br>earned and<br>other<br>income |
| Parent Company:                            |   |  |  |   |  |  |
| SK Corporation                             | ₩ 2,158   | ₩ 37,040                                     | ₩ 12,475                                     | ₩ 1,106   | ₩ 44,745                                     | ₩ 8,926                                      |
| Subsidiaries:                              |   |  |  |   |  |  |
| SK Communications<br>Co., Ltd.             | 1,495   | 44,321                                       | 3,509  | 132   | 46,040                                       | 1,097  |
| Global Credit &<br>Information Co., Ltd.   |   | 42,787                                       | 1,389  |   | 37,549                                       | 1,106  |
| PAXNet Co., Ltd.                           |   | 8,985  | 1,495  | 90  | 16,338                                       | 2,496  |
| SK Telink Co., Ltd.                        |   | 13,490                                       | 26,836                                       |   | 14,908                                       | 18,370                                       |
| SK Wyverns Baseball<br>Club Co., Ltd       |   | 18,300                                       | 488  |   | 18,358                                       | 628  |
| Others                                     | 14  | 27,158                                       | 10,534                                       | 580   | 2,679  | 348  |
| Equity Method<br>Investees:                |   |  |  |   |  |  |
| Helio, LLC.                                |   | 3  | 18,243                                       |   |  | 11,913                                       |
| SK C&C Co., Ltd.                           | 204,563   | 284,349                                      | 7,732  | 246,600   | 321,046                                      | 7,854  |
| TU Media Corp.                             | 573   | 1,515  | 57,301                                       |   | 1,950  | 22,381                                       |
| Others                                     | 3,603   | 21,184                                       | 17,565                                       | 252   | 18,040                                       | 1,136  |
| Others :                                   |   |  |  |   |  |  |
| SK Engineering &<br>Construction Co., Ltd. | 235,872   | 7,086  | 2,381  | 257,823   | 6,593  | 2,470  |
| SK Networks Co., Ltd.                      | 8,018   | 471,073                                      | 11,110                                       | 5,857   | 425,832                                      | 12,546                                       |
| Innoace Co., Ltd.                          | 23,986  | 7,447  | 218  | 13,634  | 2,109  | 218  |
| SK Telesys Co., Ltd.                       | 231,227   | 6,567  | 1,673  | 228,024   | 5,874  | 385  |
| Others                                     | 2,539   | 17,468                                       | 3,946  | 8,464   | 42,368                                       | 2,512  |
| Total                                      | ₩ 714,048                                       | ₩ 1,008,773                                  | ₩ 176,895                                    | ₩ 762,562                                       | ₩ 1,004,429                                  | ₩ 94,386                                     |



**Table of Contents****b-(2) Account balances**

|   | As of December 31, 2006 |                  |                 |                    |                  |                             |
|---|-------------------------|------------------|-----------------|--------------------|------------------|-----------------------------|
|   | Accounts receivable     | Short-term loans | Long-term loans | Guarantee deposits | Accounts payable | Guarantee deposits received |
| Parent Company:                         |                         |                  |                 |                    |                  |                             |
| SK Corporation                          | ₩ 3,560                 | ₩                | ₩               | ₩ 291              | ₩ 7,962          | ₩ 6,174                     |
| Subsidiaries:                           |                         |                  |                 |                    |                  |                             |
| SK Communications Co., Ltd.             | 535                     |                  |                 |                    | 7,255            | 5,459                       |
| SK Wyverns Baseball Club Co., Ltd.      | 475                     | 1,150            | 4,132           |                    |                  |                             |
| Global Credit & Information Co., Ltd.   | 82                      |                  |                 |                    | 7,645            |                             |
| PAXNet Co., Ltd.                        | 121                     |                  |                 |                    | 913              |                             |
| SK Telink Co., Ltd.                     | 4,352                   |                  |                 |                    | 2,209            | 955                         |
| Others                                  | 10,964                  |                  |                 |                    | 2,237            |                             |
| Equity Method Investees:                |                         |                  |                 |                    |                  |                             |
| SK C&C Co., Ltd.                        | 650                     |                  |                 |                    | 86,332           | 346                         |
| Helio, LLC.                             | 13,335                  |                  |                 |                    |                  |                             |
| TU Media Corp.                          | 6,369                   |                  |                 |                    | 886              | 3,016                       |
| Others                                  | 4,316                   |                  |                 |                    | 4,053            | 226                         |
| Others:                                 |                         |                  |                 |                    |                  |                             |
| SK Engineering & Construction Co., Ltd. | 258                     |                  |                 |                    | 1,635            | 942                         |
| SK Networks Co., Ltd.                   | 771                     |                  |                 | 113                | 69,546           | 3,010                       |
| Innoace Co., Ltd.                       | 1                       |                  |                 |                    | 13,574           | 2,291                       |
| SK Telesys Co., Ltd.                    | 12                      |                  |                 |                    | 51,531           |                             |
| Others                                  | 847                     |                  |                 | 900                | 12,078           |                             |
| Total                                   | ₩ 46,648                | ₩ 1,150          | ₩ 4,132         | ₩ 1,304            | ₩ 267,856        | ₩ 22,419                    |

|                             | As of December 31, 2005 |                  |                 |                    |                  |                             |
|-----------------------------|-------------------------|------------------|-----------------|--------------------|------------------|-----------------------------|
|                             | Accounts receivable     | Short-term loans | Long-term loans | Guarantee deposits | Accounts payable | Guarantee deposits received |
| Parent Company:             |                         |                  |                 |                    |                  |                             |
| SK Corporation              | ₩ 1,643                 | ₩                | ₩               | ₩ 1,307            | ₩ 6,767          | ₩ 6,174                     |
| Subsidiaries:               |                         |                  |                 |                    |                  |                             |
| SK Communications Co., Ltd. | 195                     |                  |                 |                    | 5,891            | 3,681                       |
|                             | 527                     | 1,150            | 4,706           |                    |                  |                             |

|   |          |         |         |         |           |          |
|---|----------|---------|---------|---------|-----------|----------|
| SK Wyverns Baseball Club Co., Ltd.      |          |         |         |         |           |          |
| Global Credit & Information Co., Ltd.   | 70       |         |         |         | 6,533     |          |
| PAXNet Co., Ltd.                        | 401      |         |         |         | 2,077     |          |
| SK Telink Co., Ltd.                     | 436      |         |         |         | 1,179     | 514      |
| Others                                  | 2        |         |         |         | 2,755     | 70       |
| Equity Method Investees:                |          |         |         |         |           |          |
| WiderThan Co., Ltd.                     | 4        |         |         |         | 17,398    |          |
| SK C&C Co., Ltd.                        | 91       |         |         |         | 174,884   | 346      |
| Helio, LLC.                             | 11,914   |         |         |         |           |          |
| Others                                  | 6,048    |         |         |         | 4,154     | 3,062    |
| Others:                                 |          |         |         |         |           |          |
| SK Engineering & Construction Co., Ltd. | 97       |         |         |         | 21,326    | 942      |
| SK Networks Co., Ltd.                   | 1,760    |         | 113     |         | 20,465    | 2,700    |
| Innoace Co., Ltd.                       |          |         |         |         | 6,100     | 2,138    |
| SK Telesys Co., Ltd.                    | 3        |         |         |         | 65,496    |          |
| Others                                  | 223      |         | 900     |         | 7,495     |          |
| Total                                   | ₩ 23,414 | ₩ 1,150 | ₩ 4,706 | ₩ 2,320 | ₩ 342,520 | ₩ 19,627 |

**Table of Contents****c. Compensation for the key management**

The Company considers registered directors who have substantial roles and responsibility for planning, operating, and controlling of the business as key management, and the considerations given to the key management for the year ended December 31, 2006 are as follows(In millions of Korean won):

| Payee   | For the year ended December 31, 2006 |                       |         |
|---|--------------------------------------|-----------------------|---------|
|   | Payroll                              | Severance indemnities | Total   |
| 12 Registered directors (including outside directors) | ₩ 4,472                              | ₩ 935                 | ₩ 5,407 |

(note) Compensation for an ex-outside director who resigned during the year ended December 31, 2006 is included. In addition, on March 8, 2002, the Company granted stock options to its nine key members of the management, representing 15,110 shares at an exercise price of ₩ 267,000 per share. The stock options fully vested after three years from the date of grant and are exercisable for two years upon vesting. Upon exercise of stock options, the Company will issue its common stock or deliver treasury stock.

**23. PROVISION FOR MILEAGE POINTS**

The Company, for its marketing purposes, grants certain mileage points ( Rainbow Points ) to its subscribers based on their usage of the Company's services. Rainbow Points provision was provided based on the historical usage experience and the Company's marketing policy. Such provision was recorded as accrued expenses or other non-current liabilities in accordance with the expected points usage duration since balance sheet date.

Details of change in the provisions for such mileage points for the years ended December 31, 2006 and 2005 are as follows (In millions of Korean won):

|                                 | 2006     | 2005     |
|---------------------------------|----------|----------|
| Beginning balance               | ₩ 52,172 | ₩ 61,596 |
| Present value discount (note a) |          | (7,415)  |
| Increase                        | 10,757   | 7,265    |
| Decrease                        | (10,336) | (9,274)  |
| Ending Balance                  | 52,593   | ₩ 52,172 |

(note a) Effective January 1, 2005, pursuant to adoption of SKAS No.17 (See Note 2.(n)), Rainbow Points provision is recorded at the present value, which was recorded at nominal value through 2004.

Rainbow Points expire after 5 years; thus, all unused points are expired on their fifth anniversary.

The expected year when unused Rainbow Points as of December 31, 2006 are expected to be used and the respective estimated monetary amount to be paid in a given year are as follows (In millions of Korean won):



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|                | Expected usage for the year<br>ended December 31, | Estimated amount to<br>be paid |                           |
|----------------|---|--------------------------------|---------------------------|
|                |   | In nominal value<br>(note b)   | Present value<br>(note b) |
| 2007           |   | ₩ 26,786                       | ₩ 25,457                  |
| 2008           |   | 16,022                         | 14,471                    |
| 2009           |   | 8,534                          | 7,326                     |
| 2010           |   | 4,406                          | 3,595                     |
| 2011           |   | 2,249                          | 1,744                     |
| Ending balance |   | ₩ 57,997                       | ₩ 52,593                  |

(note b) The above expected year of the usage and the present value of the estimated amount to be paid are estimated based on historical usage experience.

**24. DERIVATIVE INSTRUMENTS**

- a. Currency swap contract to which the cash flow hedge accounting is applied

The Company has entered into a fixed-to-fixed cross currency swap contract with Citibank, BNP Paribas and Credit Suisse First Boston International to hedge the foreign currency risk of unguaranteed U.S. dollar denominated bonds with face amounts totaling US\$300,000,000 at annual fixed interest rate of 4.25% issued on April 1, 2004. As of December 31, 2006, in connection with unsettled foreign currency swap contract to which the cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩ 17,581 million (excluding tax effect totaling ₩ 6,668 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling ₩ 65,472 million) was accounted for as a capital adjustment.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with Calyon bank to hedge the foreign currency risk and the interest rate risk of U.S. dollar denominated long-term borrowings with face amounts totaling US\$100,000,000 borrowed on October 10, 2006. As of December 31, 2006, in connection with unsettled cross currency interest rate swap contract to which the cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩ 1,094 million (excluding foreign exchange translation gain arising from U.S. dollar denominated long-term borrowings totaling ₩ 1,840 million) was accounted for as a capital adjustment.

- b. Currency swap contract to which the cash flow hedge accounting is not applied

The Company has entered into a fixed-to-fixed cross currency swap contract with Credit Suisse First Boston International to hedge foreign currency risk of unguaranteed U.S. dollar denominated convertible bonds with face amounts of US\$329,450,000 issued on May 27, 2004. In connection with unsettled fixed-to-fixed cross currency swap contract to which the cash flow hedge accounting is not applied, loss on valuation of currency swap of ₩ 9,258 million for the year ended December 31, 2006 and gain on valuation of currency swap of ₩ 2,545 million for the year ended December 31, 2005 were charged to current operations.

In addition, the company has entered into a fixed-to-fixed cross currency swap contract with Hana Bank, Korea Exchange Bank, Woori Bank, Shinhan Bank, Citibank and Barclays Bank to hedge foreign



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currency risk of unguaranteed U.S. dollar denominated convertible bonds issued by China Unicom which was acquired on July 5, 2006. In connection with unsettled fixed-to-fixed cross currency swap contract to which the cash flow hedge accounting is not applied, gain on valuation of currency swap of ₩ 16,660 million for the year ended December 31, 2006 were charged to current operations.

## c. Interest rate swap

The Company has entered into a floating-to-fixed interest rate swap contract with Shinhan Bank to hedge the interest rate risk of floating rate discounted bill with face amounts totaling ₩ 200,000 million borrowed on June 29, 2006. As of December 31, 2006, in connection with unsettled interest rate swap contract to which the cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩ 329 million (excluding tax effect totaling ₩ 125 million) was accounted for as a capital adjustment.

As of December 31, 2006, fair values of above derivatives recorded in long-term liabilities and details of derivative instruments as of December 31, 2006 are as follows (In thousands of U.S. dollars and millions of Korean won):

| Type  | Hedged item   | Face<br>Amount | Duration<br>of contract               | Fair value                             |                   | Total    |
|---|---|----------------|---------------------------------------|--|-------------------|----------|
|   |   |                |                                       | Designated<br>as cash<br>flow<br>hedge | Not<br>designated |          |
| <b>Current assets:</b>                        |   |                |                                       |  |                   |          |
| Fix-to-fixed cross<br>currency swap           | U.S. dollar<br>denominated<br>convertible<br>bond issued<br>by<br>China<br>Unicom | US\$ 1,000,000 | July 5, 2006<br><br>~ July 5, 2007    | ₩                                      | ₩ 16,660          | ₩ 16,660 |
|   |   |                |                                       | ₩                                      | ₩ 16,660          | ₩ 16,660 |
| <b>Non-current liabilities:</b>               |   |                |                                       |  |                   |          |
| Fix-to-fixed cross<br>currency swap           | U.S. dollar<br>denominated<br>bonds   | US\$ 300,000   | March 23, 2004<br>~ April 1, 2011     | ₩ 89,721                               | ₩                 | ₩ 89,721 |
| Fix-to-fixed cross<br>currency swap           | U.S. dollar<br>denominated<br>convertible<br>bond                                 | US\$ 100,000   | May 27, 2004<br>~ May 27, 2009        |  | 22,503            | 22,503   |
| Floating-to-fixed cross<br>interest rate swap | U.S. dollar<br>denominated<br>long-term<br>borrowings                             | US\$ 100,000   | October 10, 2006<br>~October 10, 2013 | 746                                    |                   | 746      |



Table of Contents**26. OPERATING RESULTS FOR THE FOURTH QUARTER**

The Company's key operating results for the three months ended December 31, 2006 and 2005 are as follows (in millions of Korean won, except for income per share) :

|  | 2006<br>(unaudited) | 4 <sup>th</sup> Quarter of<br>2005<br>(unaudited) |
|--|---------------------|---|
| Operating revenue  | ₩2,759,776          | ₩2,626,557  |
| Ordinary income  | 371,006             | 567,123   |
| Net income   | 279,298             | 447,975   |
| Net income and ordinary income per share (in Korean won) | 3,926               | 6,085   |

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**Independent Accountant's Review Report**  
**on Internal Accounting Control System ( IACS )**  
**English Translation of a Report Originally Issued in Korean**

To the Representative Director of  
SK Telecom Co., Ltd.

We have reviewed the accompanying Report on the Management's Assessment of IACS (the Management's Report) of SK Telecom Co., Ltd. (the Company) as of December 31, 2006. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that based on the assessment of the IACS as of December 31, 2006, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2006, and we did not review its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

February 14, 2007

/s/ Deloitte Anjin LLC

Seoul, Republic of Korea

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**Report on the Assessment of**  
**Internal Accounting Control System ( IACS )**  
**English Translation of a Report Originally Issued in Korean**

To the Board of Directors and Auditor (Audit Committee) of  
SK Telecom Co., Ltd.

I, as the Internal Accounting Control Officer ( IACO ) of SK Telecom Co., Ltd. ( the Company ), assessed the status of the design and operation of the Company s IACS for the year ended December 31, 2006.

The Company s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company s IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework.

December 31, 2006

/S/ Ha, Sung Min

Internal Accounting Control Officer

/S/ Kim, Shin Bae

President

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**Forward-Looking Statement Disclaimer**

The material above contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results or performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. We do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein, and nothing contained herein is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Additional information concerning these and other risk factors are contained in our latest annual report on Form 20-F and in our other filings with the U.S. Securities and Exchange Commission.



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SK Telecom Co., Ltd.**

*(Registrant)*

By: /s/ Tae Jin Park

*(Signature)*

Name: Tae Jin Park

Title: Vice President

Date: April 20, 2007