

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

## **ANNUAL FINANCIAL REPORT**

**(From January 1, 2011 to December 31, 2011)**



100-999, 서울특별시 중구 을지로2가 11번지 SK T-타워  
SK T-tower, 11, Euljiro 2-ga, Jung-gu, Seoul 100-999, Korea

30 April 2012

Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

Dear Sir/Madam,

I, Soo Cheol Hwang, an authorized employee of SK Telecom Co., Ltd. (the "Company"), as the person responsible for the submission of the annual financial report pursuant to Section 18.4.3A of Listing Rule and Section 4.1.3R of Disclosure and Transparency Rule, have reviewed the information contained herein and find that, to the best of my knowledge and having taken all reasonable care to ensure accuracy, the information is in accordance with the facts and contains no omission likely to affect its import.

In particular, I confirm that:

- (a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation taken as a whole; and
- (b) the management report includes a fair review of the development and performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, all information provided by third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Soo Cheol Hwang', written over a horizontal line.

Name: Soo Cheol Hwang  
Position: Senior Vice President

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Attachment 1: IFRS Consolidated Financial Statements

Attachment 2: IFRS Separate Financial Statements

## I. COMPANY OVERVIEW

### 1. Company Overview

Starting in the first quarter of 2011, SK Telecom Co., Ltd. (the “Company”) prepares and reports its financial statements under the International Financial Reporting Standards as adopted for use in Korea (“K-IFRS”). The transition date of the Company and its consolidated subsidiaries to K-IFRS is January 1, 2010 and the adoption date is January 1, 2011. The Company’s annual business report for the year ended December 31, 2011 includes the following consolidated subsidiaries:

Name	Date of Establishment	Principal Business	Total Asset as of Dec. 31, 2010 (millions of Won)	Material Subsidiary
SK Telink Co., Ltd.	Apr. 9, 1998	Telecommunication and satellite broadcasting services	420,829	Material
SK Communications Co., Ltd.	Sep. 19, 1996	Internet portal and other Internet information services	311,322	Material
PAXNet Co., Ltd.	May 18, 1999	Database and online information services	35,863	
Loen Entertainment, Inc.	Jul. 7, 1982	Music and audio publication	131,789	Material
Stonebridge Cinema Fund	Sep. 30, 2005	Investment partnership	16,380	
Ntreev Soft Co., Ltd.	Dec. 1, 2003	Development and supply of online and mobile games and software	34,485	
Commerce Planet Co., Ltd.	Jul. 1, 1997	Information technology and computer services	42,142	
SK Broadband Co., Ltd.	Sep. 26, 1997	Multimedia and IP TV services	3,127,947	Material
Broadband D&M Co., Ltd.	Feb. 5, 1998	Management of telecommunication facilities	10,908	Material
Broadband Media Co., Ltd.	Aug. 25, 2005	Telemarketing services	126,345	Material
Broadband CS Co., Ltd.	Oct. 1, 1998	Call center operation	7,562	
K-net Culture and Contents Venture Fund	Nov. 24, 2008	Investment partnership	48,170	
2nd Benex Focus Investment Fund	Dec. 12, 2008	Investment partnership	23,171	
Open Innovation Fund	Dec. 22, 2008	Investment partnership	44,713	
PS&Marketing Corporation	Apr. 3, 2009	Resale of telecommunication services	246,574	Material
Service Ace Co., Ltd.	Jul. 1, 2010	Call center operation and telemarketing services	36,742	
Service Top Co., Ltd.	Jul 1, 2010	Call center operation and telemarketing services	29,706	
Network O&S Co., Ltd.	Jul. 1, 2010	Wireless telecommunication services	32,955	
Service In Co., Ltd.	Apr. 4, 2011	Internet services	0	
BNCP Co., Ltd.	Dec. 7, 2009	Software development	0	
SK Planet Co., Ltd.	Oct. 5, 2011	Platform service	0	Material

Name	Date of Establishment	Principal Business	Total Asset as of Dec. 31, 2010 (millions of Won)	Material Subsidiary
SK Telecom China Holdings Co., Ltd.	Jul. 12, 2007	Investment	37,562	
Sky Property Mgmt., Ltd.	Jun. 20, 2007	Real estate rental	567,480	Material
Shenzhen E-eye High Tech Co., Ltd.	Apr. 1, 2000	Telematics services	13,759	
SK China Real Estate Co., Limited	Mar. 19, 2009	Real estate investment	295	
SKT Vietnam PTE., Ltd.	Apr. 5, 2000	Wireless telecommunication services	49,115	Material
SKT Americas, Inc.	Dec. 29, 1995	Management consulting and investment	51,909	
YTK Investment Ltd.	Jul. 1, 2010	Investment	39,645	
Technology Innovation Partners, LP	Jun. 24, 2011	Investment	0	
Atlas Investment	Jun. 24, 2011	Investment	0	
SK Telecom China Fund I L.P.	Sep. 14, 2011	Investment	0	

A. Corporate Legal Business Name: SK Telecom Co., Ltd.

B. Date of Incorporation: March 29, 1984

C. Location of Headquarters

(1) Address: 11 Euljiro 2-ga, Jung-gu, Seoul, Korea

(2) Phone: +82-2-6100-2114

(3) Website: <http://www.sktelecom.com>

D. Major Businesses

(1) Wireless Business

The Company provides wireless telecommunications services, characterized by its competitive strengths in handheld device, affordable pricing, network coverage and an extensive contents library. With the commencement of services employing LTE technology, the Company expects to be able to provide its wireless subscribers with access to high-quality video contents and services, interactive multimedia games and other new services. In 2012, we plan to achieve new growth by focusing on data services as LTE service expands. Having reached one million LTE subscribers as of January 31, 2012 for the first time in Korea, the Company is solidifying its leadership position in LTE services based on its technology and network operating expertise. The Company also plans to improve the profitability of its wireless business through efficient capital expenditures and marketing and enhancement of marketing network and products. In the business-to-business area, the Company plans to develop and commercialize industry-specific solutions focused on healthcare and education through strategic alliances.

(2) Fixed-line Business

SK Broadband is engaged in providing telecommunications, broadcasting and new media services and various other services that are permitted to be carried out by SK Broadband under relevant regulations, as well as business activities that are directly or indirectly related to providing those services. With the adoption of K-

IFRS in 2011, our broadband and fixed-line services segment also includes the following services provided by certain other subsidiaries of SK Telecom subject to consolidation under K-IFRS: multimedia services and IP TV services (Broadband Media Co., Ltd.); telemarketing services (Broadband CS Co., Ltd.); and telecommunications-related construction and lease services (Broadband D&M Co., Ltd.).

### (3) Other Businesses

The Company is pursuing customer satisfaction by providing the best service and generating new values in diverse areas in contents delivery, location based service, media, mobile commerce and advertisement. In contents delivery service, the Company provides high-quality digital contents in its leading mobile contents marketplace, T store, which had more than 10 million subscribers and plans to expand globally.

In the location based service business, users of the Company's T map service surpassed 10 million in 2011. T map provides real time traffic information and various local information. In the media business, the Company provides "hoppin" service that enables subscribers to access various multimedia contents through personal computers, mobile and other digital devices. In the commerce and advertising area, the Company's 11 Street provides platform service that connects various sellers and purchasers on-line, which continues to increase its market share. In addition, the Company pursues new business opportunities in comprehensive advertising service comprising on-line and wireless, such as its "T ad" service.

SK Communications provides integrated portal services through NATE, social networking services through Cyworld and instant messaging services through NATE-ON. Key sources of revenue for SK Communications are display advertising, search engine-based advertising, and contents and other services. Display advertising consists of image, video and Flash-based multimedia advertising carried on NATE, Cyworld and NATE-ON and aims to give greater exposure to the advertiser's brand name to the public. The increased effectiveness of on-line media as an advertising outlet has resulted in greatly expanded advertiser base, and the increasing variety in the format of advertising have all contributed to the growth of display advertising. Search engine-based advertising refers to the type of advertising that embeds advertisements within search results produced by searches of certain keywords on the NATE portal site. Search engine-based advertising has a certain appeal to small and medium-sized advertisers. Contents and other services include sales of on-line items to be used on Cyworld, contents sales and providing certain types of services. Revenues from contents and other services are generated through sales of on-line digital items through fixed-line Cyworld services and revenues generated by usage of mobile Cyworld services, which are shared with mobile phone service operators, as well as revenues from NATE-ON instant messaging, custom decorations for mobile phones, cartoon strips, fortunetelling, games and other contents services. In addition, SK Communications receives revenue from its services agreement with SK Telecom in connection with operation of WAP wireless NATE services. Service In Co., Ltd. is engaged in Internet service, database and on-line information service, data processing, Internet contents services, telemarketing and other computer services.

See "II. Business Overview" for more information.

## E. Credit Ratings

### (1) Corporate Bonds

Credit rating date	Subject of rating	Credit rating	Credit rating entity (Credit rating range)	Rating classification
February 20, 2008	Corporate bond	AAA	Korea Ratings	Current rating
February 21, 2008	Corporate bond	AAA	Korea Investors Service, Inc.	Current rating
February 21, 2008	Corporate bond	AAA	Korea Information Services, Inc.	Current rating
June 3, 2008	Corporate bond	AAA	Korea Ratings	Regular rating
June 17, 2008	Corporate bond	AAA	Korea Investors Service, Inc.	Regular rating
June 30, 2008	Corporate bond	AAA	Korea Information Services, Inc.	Regular rating
October 20, 2008	Corporate bond	AAA	Korea Ratings	Current rating

Credit rating date	Subject of rating	Credit rating	Credit rating entity (Credit rating range)	Rating classification
October 20, 2008	Corporate bond	AAA	Korea Investors Service, Inc.	Current rating
October 20, 2008	Corporate bond	AAA	Korea Information Services, Inc.	Current rating
January 13, 2009	Corporate bond	AAA	Korea Ratings	Current rating
January 13, 2009	Corporate bond	AAA	Korea Investors Service, Inc.	Current rating
January 13, 2009	Corporate bond	AAA	Korea Information Services, Inc.	Current rating
February 23, 2009	Corporate bond	AAA	Korea Ratings	Current rating
February 23, 2009	Corporate bond	AAA	Korea Investors Service, Inc.	Current rating
February 23, 2009	Corporate bond	AAA	Korea Information Services, Inc.	Current rating
June 24, 2009	Corporate bond	AAA	Korea Information Services, Inc.	Regular rating
June 26, 2009	Corporate bond	AAA	Korea Ratings	Regular rating
June 30, 2009	Corporate bond	AAA	Korea Investors Service, Inc.	Regular rating
June 22, 2010	Corporate bond	AAA	Korea Ratings	Regular rating
June 29, 2010	Corporate bond	AAA	Korea Investors Service, Inc.	Regular rating
June 29, 2010	Corporate bond	AAA	NICE Investors Service Co, Ltd.	Regular rating
May 27, 2011	Corporate bond	AAA	Korea Ratings	Regular rating
June 13, 2011	Corporate bond	AAA	NICE Investors Service Co, Ltd.	Regular rating
June 23, 2011	Corporate bond	AAA	Korea Investors Service, Inc.	Regular rating
December 12, 2011	Corporate bond	AAA	Korea Investors Service, Inc.	Current rating
December 13, 2011	Corporate bond	AAA	NICE Investors Service Co, Ltd.	Current rating
December 16, 2011	Corporate bond	AAA	Korea Ratings	Current rating

\* 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”)

Credit rating date	Subject of rating	Credit rating	Credit rating entity (Credit rating range)	Rating classification
June 3, 2008	CP	A1	Korea Ratings	Current rating
June 16, 2008	CP	A1	Korea Information Services, Inc.	Current rating
June 17, 2008	CP	A1	Korea Investors Service, Inc.	Current rating
October 20, 2008	CP	A1	Korea Ratings	Regular rating
October 20, 2008	CP	A1	Korea Investors Service, Inc.	Regular rating
October 20, 2008	CP	A1	Korea Information Services, Inc.	Regular rating
June 24, 2009	CP	A1	Korea Information Services, Inc.	Current rating

Credit rating date	Subject of rating	Credit rating	Credit rating entity (Credit rating range)	Rating classification
June 26, 2009	CP	A1	Korea Ratings	Current rating
June 30, 2009	CP	A1	Korea Investors Service, Inc.	Current rating
December 15, 2009	CP	A1	Korea Ratings	Regular rating
December 30, 2009	CP	A1	Korea Investors Service, Inc.	Regular rating
December 30, 2009	CP	A1	Korea Information Services, Inc.	Regular rating
June 22, 2010	CP	A1	Korea Ratings	Current rating
June 29, 2010	CP	A1	Korea Investors Service, Inc.	Current rating
June 29, 2010	CP	A1	NICE Investors Service Co, Ltd.	Current rating
December 16, 2010	CP	A1	Korea Ratings	Regular rating
December 27, 2010	CP	A1	Korea Investors Service, Inc.	Regular rating
December 29, 2010	CP	A1	NICE Investors Service Co, Ltd.	Regular rating
May 27, 2011	CP	A1	Korea Ratings	Current rating
June 13, 2011	CP	A1	NICE Investors Service Co, Ltd.	Current rating
June 23, 2011	CP	A1	Korea Investors Service, Inc.	Current rating
December 12, 2011	CP	A1	Korea Investors Service, Inc.	Regular rating
December 13, 2011	CP	A1	NICE Investors Service Co, Ltd.	Regular rating
December 16, 2011	CP	A1	Korea Ratings	Regular rating

\* 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

Date of credit rating	Subject of rating	Credit rating of securities	Credit rating company (Credit rating range)	Rating type
April 7, 2009	Offshore Convertible Bonds	A	Fitch (England)	Current rating
April 7, 2009	Offshore Convertible Bonds	A2	Moody's (U.S.A.)	Current rating
April 7, 2009	Offshore Convertible Bonds	A	S&P (U.S.A.)	Current rating

## 2. Company History

**March 2008:** Purchased shares of SK Broadband Co., Ltd. (formerly Hanaro Telecom)

**May 2009:** Participated in the public share offering of SK Broadband Co., Ltd.

**September 2009:** Acquired leased line and related other business of SK Networks Co., Ltd.

**February 2010:** Purchased shares of Hana Card Co., Ltd.

**October 2011:** SK Planet Co., Ltd. was spun off from the Company.



#### A. 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. Significant Changes in Management

At the Extraordinary General Meeting of Shareholders held on August 31, 2011, Jun Ho Kim was elected as an inside director and Jin Woo So resigned from the Board to transfer to an affiliate of the Company. At the 28th General Shareholders' Meeting held on March 23, 2012, (1) Young Tae Kim and Dong Seob Jee were elected as inside directors, (2) Hyun Chin Lim was re-elected as an independent director, and (3) Hyun Chin Lim was re-elected as a member of the audit committee.

#### C. Change in Company Name

On September 22, 2008, SK Broadband, one of our material consolidated subsidiaries, changed its name to SK Broadband Co., Ltd. from Hanaro Telecom Co., Ltd. to facilitate the sharing of SK Group's corporate culture and brand. Similarly, on September 22, 2008, Broadband Media Co., Ltd., another of our material consolidated subsidiaries, changed its name to Broadband Media Co., Ltd. from Hanaro Media Co., Ltd.

#### D. Mergers, Acquisitions and Restructuring

[SK Telecom]

##### (1) Spin-off

In accordance with the resolution of the Company's board of directors on July 19, 2011 and the resolution of the shareholders' meeting on August 31, 2011, the Company spun off its platform business and established SK Planet Co., Ltd. effective as of October 1, 2011. The registration of the spin-off was completed on October 5, 2011. Set forth below are important details of the spin-off.

Description	Detail
Method of Spin-off	Simple vertical spin-off
Resulting Companies	SK Telecom Co., Ltd. (Surviving Company) SK Planet Co., Ltd. (Spin-off Company)
Effective Date	October 1, 2011

Set forth below is summary of financial position before and after the spin-off. (in millions of Won)

Description	Before spin-off (As of September 30, 2011)	After spin-off (As of October 1, 2011)
-------------	--	--

	SK Telecom Co., Ltd.	SK Telecom Co., Ltd.	SK Planet Co., Ltd.
Total Assets	19,400,114	19,084,651	1,545,537
Total Liabilities	7,673,828	7,358,365	315,463
Total Shareholders' Equity	11,726,286	11,726,286	1,230,074

#### Schedule of spin-off

Category		Date
Board resolution on spin-off		July 19, 2011
Record Date for Determination of Shareholders for the Shareholders' Meeting for Spin-off		August 4, 2011
Shareholders' Meeting for Approval of Spin-off Plan		August 31, 2011
Date of Spin-off		October 1, 2011
Shareholders' Meeting for Report of Spin-off or Inaugural Meeting of Shareholders		October 4, 2011
Registration of Spin-off		October 5, 2011
Others	Notice of closure of shareholders register	July 20, 2011
	Period of closure of shareholders register	August 5, 2011~ August 8, 2011
	Public notice of shareholders' meeting	August 10, 2011 and August 12, 2011
	Dispatch of notice of shareholders' meeting	August 12, 2011

- Changes in shareholding, including majority shareholder
  - o Not applicable because the spin-off is a simple vertical spin-off.
- Appraisal rights of shareholders
  - o Not applicable because the spin-off is a simple vertical spin-off.
- Protection of creditors
  - o In accordance with Article 530-1 Paragraph 1, both SK Telecom and SK Planet will be jointly and severally liable for the payment of all obligations of SK Telecom incurred prior to the spin-off.
- Allocation of new shares
  - o In accordance with Articles 530-2 through 530-12, the spin-off is a simple vertical spin-off and all shares of SK Planet were allocated to SK Telecom.

#### (2) Acquisition of Shares of Hynix Semiconductor

In accordance with the resolution of the Company's board of directors on November 14, 2011, the Company purchased 146,100,000 shares of Hynix Semiconductor Inc. (aggregate purchase price of Won 3,374,726 million)

on February 14, 2012 in order to acquire the control of Hynix Semiconductor. The Company has a 21.05% equity interest in Hynix Semiconductor after the purchase.

[SK Telink Co., Ltd.]

(1) Merger

On July 22, 2010, the board of directors approved the merger of TU Media Corp. into SK Telink Co., Ltd. effective as of November 1, 2010. In connection with this merger, SK Telink issued 256,763 shares of its common stock.

[SK Communications Co., Ltd.]

(1) Merger

On June 25, 2007, the board of directors resolved to cause SK Communications Co., Ltd. to merge into Empas Corp., effective as of November 1, 2007. We believe this merger helped to strengthen our competitiveness in the portal services market. In the merger, one share of the former SK Communications was converted into 3.5732182 shares of Empas.

(2) Spin off

On August 6, 2008, the board of directors resolved to spin off its video education business to create Etoos Co., Ltd., effective as of November 1, 2008. The spin off was intended to help the Company to better focus on its core businesses and to give each of our business divisions greater autonomy in making operational decisions based on technical expertise specific to the respective business division.

(3) Disposition and acquisition of businesses

1. Disposition of publishing business division

On April 10, 2009, SK Communications sold its publishing business division to Etoos for Won 4,785 million in accordance with the resolution of its board of directors of March 5, 2009.

2. Acquisition of the "KUKU" division

On July 1, 2009, SK Communications purchased the "KUKU" division from SK I-Media Co., Ltd. for a purchase price of Won 1,157 million, in accordance with the June 25, 2009 resolution of its board of directors.

3. Disposition of the Spicus division

Pursuant to the July 23, 2009 resolution of its board of directors, SK Communications sold the Spicus division, its telephone English education division, to Spicus Inc., a subsidiary of Altos Ventures on August 1, 2009 for a purchase price of Won 1,493 million.

(4) Disposition of shares

SK Communications sold all of its shares in Etoos to Cheong Sol pursuant to a resolution of its board of directors of October 19, 2009 and, as consideration, received Won 50,000 million principal amount of convertible bonds.

E. Other Important Matters related to Management Activities

[SK Telecom]

(1) Interim dividend

On July 28, 2011, the board of directors resolved to declare interim dividends as follows:

- 1) Payment of interim dividends: cash dividend of Won 1,000 per share (Total dividend amount: Won 71,094,999,000)
- 2) Market dividend rate: 0.63%

3) Record date: June 30, 2011

4) Date of dividend payment : Within 20 days following the resolution of the board of directors

(2) Share buy-back

In accordance with the resolution of the Company's board of directors on July 19, 2011, the Company repurchased 1,400,000 shares of treasury stock to stabilize share price and enhance shareholder value. The treasury shares were purchased from July 21, 2011 through September 28, 2011 and the number of treasury shares after the buy-back was 11,050,712 shares.

(3) Leak of personal information

In July 2011, a leak of personal information of subscribers of Nate and Cyworld websites operated by SK Communications Co., Ltd., the Company's consolidated subsidiary, occurred. Two lawsuits (total claim of Won 9 million) demanding compensation for damages from the leak were filed and five payment orders (total payment amount of Won 7 million) were issued by the courts against SK Communications in connection with the leak.

(4) Bank loans

On February 14, 2012, the Company borrowed Won 2.5 trillion in a syndicated loan from a syndicate of Korean banks including Kookmin Bank and Woori Bank in order to finance the purchase of Hynix shares. Won 2 trillion of the loan matures in three years and Won 0.5 trillion of the loan matures in one year.

[SK Broadband]

SK Broadband, a material consolidated subsidiary of ours, acquired subscriberships of regional cable and other service providers on several different occasions. Such acquisitions were intended to secure a stable subscriber base for our broadband Internet service and, at the same time, increase the service coverage area. Because such acquisitions were conducted on a relatively small scale and involved purchase of subscriberships, we did not believe such acquisitions rose to the level of purchasing an entire business line from another company or likely to have a material impact on our business, and therefore we believed that such acquisitions did not require resolution of our shareholders.

### 3. Total Number of Shares

A. Total number of shares

(As of December 31, 2011)

(Unit: shares)

Classification	Share type			Remarks
	Common shares	-	Total	
<b>I. Total number of authorized 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>	8,533,235	-	8,533,235	-
a. reduction of capital	-	-	-	-

(As of December 31, 2011)

(Unit: shares)

Classification		Share type			Remarks
		Common shares	-	Total	
	b. retirement with profit	8,533,235	-	8,533,235	-
	c. redemption of redeemable shares	-	-	-	-
	d. others	-	-	-	-
<b>IV. Total number of shares (II-III)</b>		80,745,711	-	80,745,711	-
<b>V. Number of treasury shares</b>		11,050,712	-	11,050,712	-
<b>VI. Number of shares outstanding (IV-V)</b>		69,694,999	-	69,694,999	-

On July 20, 2011, the Company publicly disclosed its plan to repurchase treasury stock. The Company repurchased 1.4 million shares of treasury stock from July 25, 2011 to September 30, 2011 through the Korea Exchange. For more information on the repurchase of treasury stock, please see public disclosures made on July 20, 2011 and October 5, 2011.

## B. Treasury Stock

### (1) Acquisitions and Dispositions of Treasury Stocks

(As of December 31, 2011)

(Unit: Shares)

Acquisition methods			Type of shares	At the beginning of period	Changes			At the end of period
					Acquired (+)	Disposed (-)	Retired (-)	
Acquisition pursuant to the Financial Investment Services and Capital Markets Act of Korea (“FSCMA ”)	Direct acquisition	Direct acquisition from market	Common shares	5,686,028	1,400,000	-	-	7,086,028
			Preferred shares	-	-	-	-	-
		Tender offer	Common shares	-	-	-	-	-
			Preferred shares	-	-	-	-	-
		Appraisal rights of dissenting shareholder	Common shares	-	-	-	-	-
			Preferred shares	-	-	-	-	-
		Sub-total	Common shares	5,686,028	1,400,000	-	-	7,086,028
			Preferred shares	-	-	-	-	-
	Acquisition through trust and other agreements	Held by trustee	Common shares	-	-	-	-	-
			Preferred shares	-	-	-	-	-
		Held in actual stock	Common shares	3,886,710	-	-	-	3,886,710
			Preferred shares	-	-	-	-	-
		Sub-total	Common shares	3,886,710	-	-	-	3,886,710
			Preferred shares	-	-	-	-	-
Other acquisition		Common shares	77,974	-	-	-	77,974	
		Preferred shares	-	-	-	-	-	
Total			Common shares	9,650,712	1,400,000	-	-	11,050,712
			Preferred shares	-	-	-	-	-

\* Among 11,050,712 shares directly acquired by the Company, 2,192,102 shares were deposited with the Korea Securities Depository as of December 31, 2011 for issuance upon conversion of the overseas convertible bonds.

#### 4. Status of Voting Rights

(As of December 31, 2011)

(Unit: shares)

Classification		Number of shares	Remarks
Total shares (A)	Common share	80,745,711	-
	Preferred share	-	
Number of shares without voting rights (B)	Common share	11,050,712	Treasury shares
	Preferred share	-	
Shares with restricted voting rights under the Korean law (C)	-	-	-
Shares with reestablished voting rights (D)	-	-	-
The number of shares with exercisable voting rights (E = A - B - C + D)	Common share	69,694,999	-
	Preferred share	-	

#### 5. Dividends and Others

##### A. Dividends

- (1) Distribution of cash dividends was approved during the 26th General Meeting of Shareholders held on March 12, 2010.  
- Distribution of cash dividends per share of Won 8,400 (exclusive of an interim dividend of Won 1,000) was approved.
- (2) Distribution of interim dividends of Won 1,000 was approved during the 318th Board of Directors' Meeting on July 22, 2010.
- (3) Distribution of cash dividends was approved during the 27th General Meeting of Shareholders held on March 11, 2011.  
- Distribution of cash dividends per share of Won 8,400 (exclusive of an interim dividend of Won 1,000) was approved.
- (4) Distribution of interim dividends of Won 1,000 was approved during the 330th Board of Directors' Meeting on July 28, 2011.
- (5) Distribution of cash dividends was approved during the 28th General Meeting of Shareholders held on March 23, 2012.  
- Distribution of cash dividends per share of Won 8,400 (exclusive of an interim dividend of Won 1,000) was approved.

## B. Dividends for the Last 3 Fiscal Years

(Unit: in millions of Won, except per share value)

Classification		As of and for the year ended December 31, 2011	As of and for the year ended December 31, 2010	As of and for the year ended December 31, 2009
Par value per share (Won)		500	500	500
Net income		1,694,363	1,947,008	1,288,340
Net income per share (Won)		24,002	27,063	17,808
Total cash dividend		656,533	669,534	680,043
Total stock dividends		-	-	-
Percentage of cash dividend to available income (%)		38.7	34.4	52.8
Cash dividend yield ratio (%)	Common share	6.6	5.4	5.6
	Preferred share	-	-	-
Stock dividend yield ratio (%)	Common share	-	-	-
	Preferred share	-	-	-
Cash dividend per share (Won)	Common share	9,400	9,400	9,400
	Preferred share	-	-	-
Stock dividend per share (share)	Common share	-	-	-
	Preferred share	-	-	-

※Prepared based on non-consolidated financial statements. Net income per share means basic net income per share. 2010 and 2011 information is prepared based on K-IFRS.

\* Total cash dividend of Won 680,043 million for the year ended December 31, 2009 includes the total interim dividend amount of Won 72,345 million, and the cash dividend amount per share of Won 9,400 includes the interim cash dividend amount of Won 1,000.

\* Total cash dividend of Won 669,534 million for the year ended December 31, 2010 includes the total interim dividend amount of Won 72,345 million, and the cash dividend amount per share of Won 9,400 includes the interim cash dividend amount of Won 1,000.

\* Total cash dividend of Won 656,533 million for the year ended December 31, 2011 includes the total interim dividend amount of Won 71,095 million, and the cash dividend amount per share of Won 9,400 includes the interim cash dividend amount of Won 1,000.

## II. BUSINESS

Each company in consolidated entity is separate as a legal entity providing independent services and products. The business is majorly distinguished as a wireless telecommunication business consisting of mobile phone, wireless data, information telecommunication, a fixed line telecommunication business consisting of PSTN, high speed Internet, data and network lease service etc. and other telecommunication business composing of Internet portal service, game etc.

### 1. Business Overview

#### [Wireless Business]

##### A. Industry Characteristics

As of December 31, 2011, the number of domestic mobile phone subscribers reached 52.51 million and, with more than 100% penetration rate, the Korean mobile communication market can be considered to have reached its maturation stage. However, the penetration rate is expected to increase further due to increased use of mobile phones by corporate users resulting from the rapid growth of smartphone markets, as well as the increasing popularity of high-tech mobile devices based on wireless data services such as tablet PC.

The Korean mobile communications market continues to improve in the quality of services with the help of advances in network-related technology and the development of highly advanced handsets including various smartphones which enable the provision of convergence services for multimedia contents, mobile commerce, telematics, satellite Digital Multimedia Broadcasting (“DMB”), digital home services, connected workforce services and other related services. In addition, through HSPA+ network commercialized in October 2010 and the LTE network introduced in July 2011, the B2B business directly resulting in the enhancement of productivity, such as the corporate “connected workforce” business, is expected to grow rapidly.

##### B. Growth Potential

(Unit: 1,000 persons)

Classification		As of December 31, 2011	As of December 31,			
			2010	2009	2008	2007
Number of subscribers	SK Telecom	26,553	25,705	24,270	23,032	21,968
	Others (KT, LGU+)	25,954	25,062	23,675	22,575	21,529
	Total	52,507	50,767	47,944	45,607	43,497

(Source: Korea Communications Commission website)

##### C. Domestic and Overseas Market Conditions

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. Sales revenue related to



data services is expected to increase due to the increasing popularity of smartphones and wireless Internet. Business-to-business segment that creates added values by adding additional solutions and applications is also growing. Seasonal and economic fluctuations have much less impact on the Korean mobile communication market compared to other industries.

Historical market share of the Company:

(As of December 31, 2011) (Unit: %)

Classification	As of December 31, 2011	As of December 31,		
		2010	2009	2008
Mobile communication services	50.6	50.6	50.6	50.5

Comparative market share:

(As of December 31, 2011) (Unit: %)

Classification	SK Telecom	KT	LG U+
Market share	50.6	31.5	17.9

(Source: Korea Communications Commission website)

#### D. Business Overview and Competitive Strengths

The Company is seeking to transform itself from a telecommunication service provider into a comprehensive information and communication technology (“ICT”) service provider. It has continued to expand the scope of its services and achieved strong growth in subscribers amid fierce competition and rate cuts. In 2011, on a non-consolidated basis, the Company recorded revenue of Won 12.58 trillion, operating income of Won 2.09 trillion and net income of Won 1.69 trillion. On a consolidated K-IFRS basis, the Company’s revenue increased 2.2% to Won 15.99 trillion in 2011 from the previous year, primarily due to an increase in the number of 3G smartphone subscribers and LTE subscribers. The Company’s consolidated K-IFRS operating income amounted to Won 2.13 trillion, impacted by an increase in capital expenditures due to an increase in data traffic, as well as an increase in frequency expenses.

The number of subscribers as of the end of 2011 was 26,550,000, an increase of 850,000 from the previous year. In particular, the number of smartphone subscribers as of the end of 2011 was 11,260,000, an increase of 7,350,000 from the previous year, including 650,000 LTE subscribers, solidifying the Company’s market leadership. The Company upgraded the quality of smartphone services by providing commercial LTE services, which enable streaming service of high-quality videos, high-definition video conference calls and wireless on-line gaming services. The Company also plans to enhance customer satisfaction by improving network quality.

#### [Fixed Line Business]

## A. Industry Characteristics

The Korean telecommunications industry is currently characterized by the introduction of smartphones, tablet computers and other devices with enhanced mobility and the advent of cloud computing, mobile offices and other information and communications technology. In addition, mergers among fixed-line operators and wireless operators have accelerated the convergence within the telecommunications sector, creating a market structure in which groups with both fixed-line and wireless capabilities compete for greater market share to secure a more solid footing in the market. Spurred on by the introduction of various bundled products, growth in the subscriber base for IPTV services and a paradigm shift in the voice telephone market towards Internet-based telephone services, the broadband and fixed-line telecommunications market is playing a key role in the accelerated consolidation of the service providers as well as heightened competition in a growing market. The increased usage of smartphones and tablet PCs, as well as the commercialization of the fourth generation LTE network, has greatly increased the demand for wireless data transmissions, thereby putting into greater relief the importance of fixed-line networks.

We believe the transition to digital TV services will accelerate in 2012 when analog open air TV broadcast will terminate. We expect stronger competition in new services such as smart TVs and various convergence products, such as smartphones and N Screen services employing tablet computers.

Satellite DMB service has characteristics of both broadcasting and telecommunication services. It is characterized as satellite broadcasting because it broadcasts the same programming to multiple users through the satellite network, while it has characteristics of telecommunication because it provides two-way communication service through handsets. Satellite DMB service can be compared to broadcasting media, such as terrestrial radio and television, cable television and satellite broadcasting, as well as telecommunication media, such as the Internet and wireless telephone, and convergence media, such as wireless portal and terrestrial DMB service.

## B. Growth Potential

(Unit: 1,000persons)

Classification		As of December 31, 2011	As of December 31,	
			2010	2009
Fixed Line Subscribers	High Speed Internet	17,860	17,224	16,348
	Fixed Line	18,633	19,273	20,089
	IPTV	3,591	2,740	1,742

(Source: Korea Communications Commission website)

## C. Domestic and Overseas Market Conditions

The broadband and fixed-line telecommunications market comprises all residents in Korea who have a need for broadband Internet, telephone, IPTV or other fixed-line services, regardless of their gender, age and income levels, and extends to all geographical areas in Korea. Most foreign countries deem fixed-line telecommunications services as part of their national infrastructure, and therefore at this moment reliance on

domestic service providers is near 100%. The broadband Internet market and telephone services market are near saturation, but there is a steady increase in number of subscribers. In addition, there has been a strong growth in the market for IPTV, smart office services and other integrated convergence products that are becoming the new media platform in the market, resulting in faster growth in the business-to-business market.

Historical market share of the Company:

(Unit: %)

Classification	As of December 31, 2011	As of December 31,	
		2010	2009
<b>High Speed Internet (include Resale)</b>	23.5	23.2	23.5
<b>Fixed Line (include VOIP)</b>	14.6	13.7	11.5
<b>IPTV</b>	24.6	26.8	23.1

(Source: Korea Communications Commission website)

#### D. Business Overview and Competitive Strengths

SK Broadband, which in 1999 became the first company in the world to commence commercial ADSL services, has strengthened its co-marketing efforts with SK Telecom. The co-marketing efforts and the enhanced competitiveness of the bundled products have resulted in expanded subscriber base across all of our businesses, including broadband Internet, telephone and IPTV. In particular, we have positioned ourselves to focus on corporate customer services as one of the key strategic areas for mid- to long-term growth, and our efforts to exploit new information and communications technology based businesses have led to revenue growth and strengthening of our competitiveness in the emerging business-to-business market.

SK Telink, a material consolidated subsidiary of ours, provides international telecommunications service. SK Telink has been able to establish itself as a market leader as a result of its affordable pricing, proactive marketing and the quality of its services. It launched a mobile phone-based international calling service under the brand name “00700” in 1998, creating a new niche market within the long-distance telephony market that was otherwise dominated by existing service providers. In 2003, SK Telink was designated a common carrier for international calling services, which allowed us to expand our international calling services to fixed-line international calling services. In addition, in 2011, we were again ranked first in the three major independent customer satisfaction surveys, including the Korea Nation Customer Satisfaction Index, after having been ranked first in 2010. The revenue from our international calling services in 2011 was Won 416.5 billion.

On December 30, 2004, we obtained from the government a license to provide the satellite DMB service, which is a new multimedia broadcasting service and a convergence service comprising broadcasting and telecommunication. We commenced commercial broadcasting in May 2005 and had 1.17 million subscribers as of December 31, 2011, which has decreased recently due to the subscribers’ migration to mobile Internet video services. The growth of satellite DMB service has generally slowed.

#### [Other Business]

## A. Industry Characteristics

As the number of smartphone subscribers in Korea exceeds 23 million, 92% of total economically active population uses smartphones. The growth in smartphones and other mobile devices has made a service provider with strong platform business the leader in ICT market. Platform business acts as an intermediary among various customer groups and thereby generating new values, attracting subscribers and users and creating an ecosystem with certain lock-in effects. A platform can exist in various forms, including technological standard (iOS, Android OS), subscriber-based service platforms (Facebook, Twitter) or a marketplace (Amazon, T store). Platform business is evolving and expanding globally.

Platform business has strong growth potential due to its connectivity with related services and ease of global expansion. Apple has become the world's leading smartphone producer based on its innovative design and the competitive strength of its AppStore platform. Google has created a new ecosystem of long-tail advertisement by attracting millions of third parties to its advertising platform, as well as showing strong growth in mobile markets with its competitive platform based on Android OS. Facebook has grown significantly into a platform business by introducing platforms such as Facebook Connect, Social Graph and Like.

In the past 10 years, the number of Internet subscribers in Korea increased by approximately 13 million from approximately 24.4 million in 2001 to approximately 37.2 million in 2011, representing a 4.4% compounded annual growth rate. The number of Internet subscribers saw an annual growth rate of at least 5% in the first half of the decade; however, starting in 2006, the annual growth rate dropped to around 1% as the market became more mature and stable. (Source: Korea Internet & Security Agency).

Internet portal service, which has grown based on search and community services, is expanding into various different services. The primary revenue source for the Internet portal service is Internet advertisement, which has experienced a rapid growth and has become a major advertisement media comparable to traditional media such as the television or newspapers. In addition, a rapid increase in mobile Internet users has led to the development of various mobile web services and applications. Mobile advertisement market is growing rapidly together with the growing popularity of mobile Internet and is expected to become an important revenue source for Internet portal services.

## B. Growth Potential

The Company expects that the scope and value generated by the platform business, including application and content marketplaces and N-screen services, will increase, as smartphones and tablet PCs become more popular and the bandwidth and speed of network infrastructure improve.

<Global Smartphone and Tablet Sales Forecast>

(in million units)

Classification	2008	2009	2010	2011	2012	2013	2014	2015
----------------	------	------	------	------	------	------	------	------

Classification	2008	2009	2010	2011	2012	2013	2014	2015
Smartphone	252	285	269	366	455	555	670	774
Tablet	-	-	18	70	108	160	223	294

(Source: Gartner, April 2011)

<Korea Smartphone and Tablet Subscriber Forecast>				(in ten thousand subscribers)		
Classification	2010	2011	2012	2013	2014	2015
Smartphone	733	1,883	2,706	3,324	3,820	4,213
Tablet	18	180	383	563	744	982

(Source: Korea Communications Commission, December 2010)

As the wireless network evolves to the fourth generation (4G) LTE, business opportunities for the platform business are growing, which include multimedia streaming, N-screen service based on cloud technology and high-definition location based services. Since the platform business realizes profit by connecting with advertisement or commerce after building a critical mass of subscriber and traffic base, recent growth in advertisement and commerce markets is expected to present an opportunity for platform businesses.

Although the number of Internet subscribers and penetration rate of Internet services in general have remained stagnant, Internet advertising has seen continued growth despite such constraints in growth potential of the Internet services market. We believe the growth of the Internet display advertising market owes in large part to its cost effectiveness compared to traditional off-line advertising, the increase in Internet advertising budgets among corporate advertisers, development of new Internet advertising products and increases in Internet advertising fees. In addition, search-based Internet advertising has continued its growth as a result of increase in pay-per-click pricing due to heightened demand by a growing number of advertisers and the increase in the overall number of clicks. A rapid growth of mobile Internet markets, spurred by the popularity of smartphones, is also expected to contribute to the growth of the Internet portal industry. The emergence of new mobile Internet services suitable for mobile devices, such as location-based services, enhanced reality, music player and mobile games, is also expected to benefit the Internet portal industry.

### C. Domestic and Overseas Market Conditions

#### (1) Market Characteristics

The number of Internet users in Korea reached approximately 37 million, 78.0% of total population. The Internet has become an essential part of everyday life as a source of information, a leisure activity and a means of communication. (Source: Korea Internet & Security Agency). Internet portal services are expected to gain importance as gateways to various other websites and providers of diverse contents, and advertisement and contents revenue is anticipated to increase accordingly. In addition, an increase in users' demand for portal service and contents arising from the popularity of smartphones and mobile Internet is expected to increase related revenue.

#### (2) Competition

- Application Marketplace

The growth of application marketplaces, which started with Apple's App Store, provides the platform businesses with new opportunities for revenue generation. The competitive paradigm is shifting from a competition among platform operators toward a competition among ecosystems that include application developers as well as platform operators.

<Growth of Global Application Marketplace>

Classification	2008	2009	2010	2011	2012
Revenue (in US\$ million)	807	4,002	6,107	10,108	15,805
Downloads (in millions)	505	2,516	4,501	8,001	14,001

(Source: Korea Electronics Technology Institute, February 2010)

<Global Competitive Environment among Application Marketplaces, May 2011>

Classification	App Store	Android Market	Ovi Store	GetJar
Operator	Apple	Google	Nokia	GetJar
Time launched	July 2008	October 2008	May 2009	2004
Available Applications	425,000	238,000	84,000	68,000
Cumulative Downloads (in billions)	15.0	5.0	1.8	0.6

(Source: ComScore, Distismo, June 2011)

- Commerce Markets

The Company expects that on-line commerce market will continue to grow due to growth potential of Internet shopping population and strengthening of on-line business models by off-line operators.

<Size of Korea Commerce Market>

(unit: Won trillion)

Classification	2010	2011(F)	2012(F)	2014(F)
Total Commerce Markets	197.0	223.0	238.0	252.0
Online Commerce	24.8	29.6	34.1	45.2
Department Stores and Supermarkets	57.2	60.1	63.7	75.1
TV home shopping	5.2	5.9	6.3	7.2
Convenience Stores	7.0	7.8	8.8	11.2
Small Stores	101.0	103.3	119.2	113.3

(Source: National Statistical Office, 2010)

Korean advertisement market is expected to grow from Won 7.4 trillion in 2010 to Won 10.0 trillion in 2015. In particular, mobile advertisement is expected to grow rapidly to Won 0.8 trillion in 2015, primarily due to the popularity of smartphones and convergence with location based advertisement.

<Korea Advertising Market by Media>		(unit: Won trillion)		
Classification	2001	2005	2010	2015(F)
Total Advertisement Market	5.5	6.3	7.4	10.0
TV, Radio, Newspaper, Magazine	4.4	4.5	4.3	4.9
Internet	0.1	0.6	1.5	2.3
Mobile			0.3	0.8
Others (including cable television)	0.9	1.2	1.6	2.0

(Source: Frost & Sullivan, 2010, Korea Communications Commission, 2010)

#### - Media Contents Market

Due to an increase in the number of devices owned by each user and an increase in network speed, each user can now enjoy music or video files anywhere and anytime by storing them in cloud servers, which is called N screen service. Users can recommend music to other users through social networking services and this is expected to become a distribution model for digital media contents. Various service providers are competing in this market expecting a strong growth in on-line and mobile video market.

Internet portal service providers provide more or less identical types of services, including search, social networking sites, email service, news and other contents. However, for each type of service, a small number of service providers with specialized expertise are enjoying relatively large market shares. However, the portal services market has a relatively light entry barrier and there is increased competition from new entrants. In addition, the ease of access to services provided by competitive foreign providers is also adding to a strongly competitive market environment.

#### (3) Market Share

Our “CyWorld” service is the largest social networking website in Korea, with 25.98 million cumulative subscribers, 18.19 million net subscribers and a page view of 2.7 billion as of December 2011. Our “Nate-On” service had the largest market share of 71.2% in the instant messenger market in Korea with 11.5 million net users as of December 2011. Our “Nate” search portal service ranked third among search engines in Korea with a market share of 4.9% as of December 2011. (Source: Korean Click, company data).

#### D. Business Overview and Competitive Strengths

Based on the digital content marketplace (T store) and commerce marketplace (11 Street), the Company plans to expand its platform ecosystem focusing on “Open & Collaboration” motto. It seeks to increase its enterprise value by expanding into media platform and advertisement platform.

T store, launched in September 2009, reached 11 million subscribers and cumulative downloads of 560 million as of December 2011, solidifying its leadership position in the Korean application market and plans to widen its services to tablets and navigation devices.

T map provides map, local information, real-time traffic information and navigation services. With unique visitors of 4 million per month, T map is one of the leading location based service platforms in Korea. The Company plans to further develop T map platform by initiating open services, providing services to more diverse types of devices and providing local services.

11 Street, a marketplace, has continued its growth through effective marketing and customer satisfaction. Despite its later entry into the online commerce market (launched in 2008) which was already divided between Auction and G-Market, it has succeeded in growing to a comparable size with Auction vying for the second position. Future growth plans include new commerce and overseas joint ventures based on 11 Street’s business expertise.

The Company’s media platform business has started with “hoppin” service, which provides N-screen media service enabling subscribers to enjoy contents through a number of devices. Hoppin is expanding its services to more types of smartphones and tablets. The Company plans to develop Hoppin service into a media platform acting as an intermediary of various N-screen services. It also plans to provide media platform services in global markets, including the United States and China.

T ad, the Company’s mobile advertisement platform, is providing in-app advertisement that uses applications running on smartphones and tablets as the medium. The Company plans to diversify its advertisement offerings by leveraging its strength in subscriber-specific target marketing and its relationship with its subsidiaries. It plans to further develop T ad as N-screen advertisement platform comprising the Internet, IPTV and TV portal.

We will aim to further strengthen our competitiveness mainly by adding a social networking search service in our NATE search engine. Furthermore, we will pursue expansion into foreign markets by further exploiting the advantages of our social networking services that are unique to Cyworld, as well as improving its user interface to make it accessible to users all around the world, with an aim to establishing regional hubs for our social networking services.

## **2. Major Products & Services**

### **A. Updates on Major Products and Services**



(Unit: in thousands of Won, %)

Business fields	Sales type	Item	Major trademarks	Sales amount (ratio)
Mobile	SK Telecom Co., Ltd., PS&Marketing Corporation, Service Ace Co., Ltd., Service Top Co. Ltd., Network O&S Co., Ltd.	Mobile Phone, Wireless Data, Information Telecommunication	T, NATE and others	13,101,945,411(82%)
Fixed Line	SK Broadband Co., Ltd., Broadband D&M Co., Ltd., Broadband Media Co., Ltd., Broadband CS Co., Ltd., SK Telink Co., Ltd.	Phone, High Speed Internet, Data and Network lease service	B tv , 00700 international call and others	2,162,567,507(14%)
Other	SK Planet Co., Ltd , SK Communications Co., Ltd., PAXNet Co., Ltd., Loen Entertainment, Inc., Commerce Planet Co., Ltd, SKT Americas, Inc., SK Telecom China Holdings Co., Ltd.	Internet Portal Service, Game	11 <sup>th</sup> Street, T-Store, T-map, NATE, Cyworld and others	723,764,724(4%)
Total				15,988,277,642(100%)

### B. Price Fluctuation Trend of Major Products and Services

#### [Mobile Business]

Previously, based on the Company's Basic Plan for monthly subscription, the basic service fee was Won 13,000 per month and the usage fee was Won 20 per 10 seconds and based on the Company's Standard Plan, basic service fee was Won 12,000 per month and the usage fee was Won 18 per 10 seconds. As of December 31, 2011, based on the Company's Standard Plan, basic service fee was Won 11,000 per month and the usage fee was Won 1.8 per 1 second.

#### [Fixed Line Business]

SK Broadband provides broadband Internet access service, telephony, TV, corporate data services and other services for both individual and corporate customers. For the year ended December 31, 2011, broadband Internet services comprised 45.6% of SK Broadband's revenue, telephony service 23.4%, corporate data services 22.6% and other telecommunications services 8.4%.

#### [Other Business]

SK Communications' display advertisements are priced at Won 15 to 70 million per day. Search advertisements are priced variably depending on the search keyword using cost per click and cost per time methods. Cyworld revenues are generated through sale of cyber items at a price of Won 300 to 700 per item per week.

### 3. Investment Status

#### [Mobile Business]

#### A. Investment in Progress

(Unit: in 100 millions of Won)

Business field	Classification	Investment period	Subject of investment	Investment effect	Total investments	Amount already invested	Future investment
Network/Common	Upgrade/ New installation	2011	Network, systems and others	Capacity increase and quality improvement; systems improvement	To be determined	22,773	To be determined
<b>Total</b>				-	To be determined	22,773	To be determined

#### B. Future Investment Plan

(Unit: in 100 millions of Won)

Business field	Expected investment amount		Expected investment for each year			Investment effect
	Asset type	Amount	2012	2013	2014	
Network/Common	Network, systems and others	23,000	23,000	To be determined	To be determined	Upgrades to the existing services and provision of new services
<b>Total</b>		23,000	23,000	To be determined	To be determined	Upgrades to the existing services and provision of new services

[Fixed Line Business]

#### A. Investment in Progress

(Unit: in 100 millions of Won)

(Unit: in 100 millions of Yuan)

Business field	Classification	Investment period	Subject of investment	Investment effect	Total investments	Amount already invested	Future investment
High-speed Internet	Upgrade/ New installation	2011	Backbone and subscriber network / others	Expand subscriber networks and facilities	3,643	948	To be determined
Telephone				110			
Television				445			
Corporate Data				Increase leased-line and integrated information system		1,135	
Others				Expand networks		1,005	
Total						3,643	

### 4. Revenues

(Unit: in millions of Won)

Business field	Sales type	Item		For the year ended December 31, 2011	For the year ended December 31, 2010
Mobile	Services	Mobile communication	Export	1,331	599
			Domestic	13,100,614	12,919,663

			Subtotal	13,101,945	12,920,262
Fixed Line	Services	Fixed line, B2B data, High speed Internet, TV	Export	28,070	30,883
			Domestic	2,134,498	2,196,424
			Subtotal	2,162,568	2,227,307
Other	Services	Display and Search ad., Content	Export	12,036	12,000
			Domestic	711,729	439,593
			Subtotal	723,765	451,593
Total			Export	41,437	43,482
			Domestic	15,946,841	15,555,680
			Total	15,988,278	15,599,162

(Unit: in thousands of Won)

For the year ended December 31, 2011	Wireless	Fixed	Other	Sub total	Internal transaction	After consolidation
<b>Total revenue</b>	14,107,174,698	2,908,757,351	1,015,148,232	18,031,080,281	(2,042,802,639)	15,988,277,642
<b>Internal revenue</b>	1,005,229,287	746,189,844	291,383,508	2,042,802,639	(2,042,802,639)	-
<b>External revenue</b>	13,101,945,411	2,162,567,507	723,764,724	15,988,277,642	-	15,988,277,642
<b>Operating income (loss)</b>	2,067,345,058	21,309,064	42,803,536	2,131,457,658	-	2,131,457,658
<b>Net profit (loss)</b>	1,627,247,181	(62,761,482)	17,587,581	1,582,073,280	-	1,582,073,280
<b>Total asset</b>	20,970,450,263	3,844,042,339	3,503,662,727	28,318,155,329	(3,952,118,900)	24,366,036,429
<b>Total liabilities</b>	8,804,587,574	2,554,298,087	982,656,565	12,341,542,226	(708,214,844)	11,633,327,382

## 5. Derivative Transactions

### SK Telecom Co., Ltd.

#### A. Currency Swap

(1) Purpose of Contracts: Hedging of risks related to fluctuations in currency exchange rates and interest rates

(2) Contract Terms

- Currency swap contract applying cash flow risk hedge accounting

The Company has entered into a currency and interest rate swap contract with Credit Agricole Corporate & Investment Bank to hedge the foreign currency risk and the interest rate risk of U.S. dollar denominated floating rate long-term borrowings with face amounts totaling US\$100,000,000 borrowed on October 10, 2006. As of December 31, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated loss on valuation of derivatives amounting to Won 4,460,739,000 (excluding tax effect totaling Won 923,991,000 and foreign exchange translation loss arising from U.S. dollar denominated long-term borrowings totaling Won 20,530 million) was accounted for as accumulated other comprehensive loss.

In addition, the Company has entered into a currency and interest rate swap contract with two banks including HSBC in order to hedge the foreign currency risk and the interest rate risk of unguaranteed Japanese yen denominated bonds (56-2) with face amounts totaling JPY 12,500,000,000 issued on November 13, 2007. As of December 31, 2011, in connection with this unsettled currency and interest rate swap contracts, an accumulated gain on valuation of derivatives amounting to Won 1,772,463,000 (excluding tax effect totaling Won 1,162,180,000 and foreign exchange translation loss arising from unguaranteed Japanese yen denominated bonds totaling Won 81,582,851,000) was accounted for as accumulated other comprehensive gain.

In addition, the Company has entered into a currency and interest rate swap contract with Mizuho Corporate Bank in order to hedge the foreign currency risk and the interest rate risk of unguaranteed Japanese yen denominated bonds (59-2) with face amounts totaling JPY 3,000,000,000 issued on January 22, 2009. As of December 31, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated gain on valuation of derivatives amounting to Won 2,343,719,000 (excluding tax effect totaling Won 748,258,000 and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling Won 1,576,703,000) was accounted for as accumulated other comprehensive gain.

In addition, the Company has entered into a currency and interest rate swap contract with The Bank of Tokyo-Mitsubishi in order to hedge the foreign currency risk and the interest rate risk of unguaranteed Japanese yen denominated bonds (60-2) with face amounts totaling JPY 5,000,000,000 issued on March 5, 2009. As of December 31, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated gain on valuation of derivatives amounting to Won 956,849,000 (excluding tax effect totaling Won 305,485,000 and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling Won 4,355,156,000) was accounted for as accumulated other comprehensive gain.

In addition, the Company has entered into a currency swap contract with six banks including Morgan Stanley to hedge the foreign currency risk of unguaranteed U.S. dollar denominated bonds (with face amounts totaling US\$400,000,000) issued on July 20, 2007, and has applied cash flow risk hedge accounting to this foreign currency swap contract starting from May 12, 2010. Accordingly, as of December 31, 2011, in connection with this unsettled foreign currency swap contract, an accumulated loss on valuation of currency swap of Won 53,284,478,000 that has accrued since May 12, 2010 (excluding tax effect totaling Won 17,011,667,000 and foreign exchange translation loss arising from unguaranteed U.S. dollar denominated bonds totaling Won

3,735,804,000) was accounted for as accumulated other comprehensive loss. Meanwhile, a gain on valuation of currency swap of Won 129,806,021,000 incurred prior to the date of applying cash flow risk hedge accounting was charged to current operations.

The Company has entered into a currency and interest rate swap contract with two banks including DBS in order to hedge the foreign currency risk and the interest rate risk of floating rate foreign currency bonds with face amounts totaling US\$220,000,000 issued on April 29, 2009, and has applied cash flow risk hedge accounting to this swap contract starting from October 14, 2011. Accordingly, as of December 31, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated loss on valuation of derivatives of Won 398,830,000 that has accrued since October 14, 2011 (excluding tax effect totaling Won 127,331,000 and foreign exchange translation gain arising from this floating rate foreign currency bonds totaling Won 1,026,034,000) was accounted for as accumulated other comprehensive loss.

The Company has entered into a currency and interest rate swap contract with two banks including DBS in order to hedge the foreign currency risk and the interest rate risk of floating rate foreign currency bonds with face amounts totaling US\$250,000,000 issued on December 15, 2011. As of December 31, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated gain on valuation of derivatives of Won 18,801,502,000 (excluding tax effect totaling Won 6,002,590,000 and foreign exchange translation gain arising from this floating rate foreign currency bonds totaling Won 1,284,228,000) was accounted for as accumulated other comprehensive gain.

The Company has entered into a currency and interest rate swap contract with two banks including DBS in order to hedge the foreign currency risk and the interest rate risk of floating rate foreign currency bonds with face amounts totaling SGD 65,000,000 issued on December 15, 2011. As of December 31, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated gain on valuation of derivatives of Won 2,146,817,000 (excluding tax effect totaling Won 685,396,000 and foreign exchange translation loss arising from this floating rate foreign currency bonds totaling Won 153,972,000) was accounted for as accumulated other comprehensive gain.

#### SK Broadband Co., Ltd.

SK Broadband has entered into a currency swap contract with six financial institutions including the Korea Development Bank to hedge the foreign currency risk of U.S. dollar denominated bonds (with face amounts totaling US\$500,000,000) issued on February 1, 2005, and has applied cash flow risk hedge accounting to this foreign currency swap contract as follows.

(Won in thousands)

Title	Counterparties	Contract Date / Expiration Date	Purpose	Nominal Amount	Settlement Method	Early Redemption	Currency Swap Assets	Accumulated Other Comprehensive Gain	Gain on Valuation of Currency Swap	Agreed Exchange Rates
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Currency swap	Korea Development Bank and others	Feb. 1, 2005 / Feb. 1, 2012	Risk hedging	US\$500 million	Receive US\$ required to repay bonds and pay KRW in accordance with agreed exchange rates	Permitted	64,329,691	3,657,387	7,596,157	1,026.5 – 1,035.0
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Note. The currency swap contract described above terminated on February 1, 2012, when SK Broadband repaid US\$500 million of its bonds.

#### SK Communications Co., Ltd.

SK Communications recognizes the conversion rights of the convertible bonds received in connection with the sale of Spicus Co., Ltd. and Etoos Education Co., Ltd. at their fair value. Derivative instruments are first recognized at the fair value as of the contract date and are revaluated as of the date of reporting.

## 6. Major Contracts

[SK Telecom]

Category	Vendor	Start Date	Completion Date	Contract Title	Contract Amount (Won in 100 million)
Service	Network O&S	January 1, 2011	December 31, 2011	Maintenance of transmission stations for 2011	1,189
Service	Service Ace	January 1, 2011	December 31, 2011	Customer service for 2011	1,129
Service	Service Top	January 1, 2011	December 31, 2011	Customer service for 2011	1,067
Service	SK Telink	January 1, 2011	December 31, 2011	Satellite DMB affiliation business	796
Service	SK Marketing & Company	January 1, 2011	December 31, 2011	Operation of membership program for 2011	701
Service	Freegent & Future	January 1, 2011	December 31, 2011	Operation of T seller program for 2011	216
Service	SK Network Service	January 1, 2011	December 31, 2011	Customer service for handsets in 2011	162
Service	Service Ace	January 1, 2011	December 31, 2011	Customer service education for 2011	114
Service	F&U Credit Information	January 1, 2011	December 31, 2011	Billing service for 2011	101
Subtotal					5,475

[SK Broadband]

SK Broadband enters into contracts to use telecommunications facilities, including the use of line conduits and interconnection among telecommunication service providers.

Contract Contents	Counterparty	Contract Period	Note
Interconnection among telecommunication service providers	Telecommunication service providers	-	Interconnection among telecommunication service providers
Provision of electric facilities	KEPCO	From Dec. 2004 until terminated	Use of electricity poles
Use of telecommunication line conduits	Seoul City Railway	From Jan. 2009 to Dec. 2011	Use of railway telecommunication conduit
Use of telecommunication line conduits	Seoul Metro	From May 2010 to May 2013	Use of railway telecommunication conduit
Use of telecommunication line conduits	Busan Transportation Corporation	From July 2009 to July 2012	Use of railway telecommunication conduit
Use of telecommunication line conduits	Gwangju City Railway	From Sep. 2010 to Dec. 2012	Use of railway telecommunication conduit

[SK Planet]

Counterparty	Contract Contents	Contract Period	Amount
SK Communications Co., Ltd.	Operation of wireless NATE service	From Jan. 1, 2011 to Dec. 31, 2011	Flexible depending on the number of employees involved and other factors
SK Communications Co., Ltd.	Operation of shopping business at nate.com website	From July 1, 2011 to Dec. 31, 2013	Variable depending on revenue
Loen Entertainment Co., Ltd.	Acquisition of Equity Shares	Closing on Dec. 23, 2011	Acquisition price: Won 14,828 million

Note. The agreements with SK Communications Co., Ltd. have been transferred from SK Telecom to SK Planet in connection with the spin-off of SK Planet on Oct. 5, 2011.

[SK Communications]

Counterparty	Purpose	Contract Period	Contract Amount
SK Planet Co., Ltd.	Operation of wireless NATE service	From Jan. 1, 2011 to Dec. 31, 2011	Flexible depending on the number of employees involved and other factors

Counterparty	Purpose	Contract Period	Contract Amount
Overture Korea	Agency agreement for search advertisement	-	Amount determined based on the number of clicks
SK Construction Co., Ltd.	Construction of Pangyo Office Building	23 months	Won 61.9 billion
SK Planet Co., Ltd.	Operation of shopping business at nate.com website	From Jul. 1, 2011 to Dec. 31, 2013	Minimum guarantee of Won 18.4 billion for the period from Jul. 1, 2011 to Dec. 31, 2011; Amounts for 2012 and 2013 are to be determined.
Daum Communications	Business and service cooperation regarding search advertisement	-	Revenues are allocated in accordance with certain set percentages.

Note. The agreements with SK Planet Co., Ltd. have been transferred from SK Telecom to SK Planet in connection with the spin-off of SK Planet on Oct. 5, 2011.

## 7. R&D Investments

(Unit: in million Won)

Category		For the year ended December 31, 2011	For the year ended December 31, 2010	Remarks
Raw material		45	41	-
Labor		48,656	49,441	-
Depreciation		149,850	143,131	-
Commissioned service		40,257	98,545	-
Others		57,118	64,755	-
Total R&D costs		295,927	355,913	-
Accounting	Sales and administrative expenses	289,979	352,186	-
	Development expenses (Intangible assets)	5,948	3,727	-
R&D cost / sales amount ratio (Total R&D costs / Current sales amount×100)		1.85%	2.28%	

## 8. Other information relating to investment decisions

[SK Telecom]



#### A. Trademark Policies

The Company manages its corporate brand and other product brands such as “T” in a comprehensive way to protect and increase their value.

The Company's 'Brand Management Council' in charge of overseeing its systematic corporate branding operates full time to execute decisions involving major brands and operates ‘Brandnet’, an intranet system to manage corporate brands which provides solutions including licensing of the brands and downloading of the Company logos.

#### B. Business-related Intellectual Properties

The Company holds 4,677 Korean registered patents, 221 U.S. registered patents, 115 Chinese registered patents, 86 Japanese registered patents (all including patents held jointly with other companies) and more patents with other countries. The Company holds 910 Korean registered trademarks and owns intellectual property rights to the design of alphabet “T”. The designed alphabet “T” is registered in all business categories for trademarks (total of 45) and is being used as the primary brand of the Company.

##### [SK Broadband]

SK Broadband holds 317 Korean registered patents relating to high-speed Internet, telephone and IPTV service. In addition, SK Broadband has applied for a patent relating to two-way broadcasting system. SK Broadband also holds a number of trademarks and service marks relating to its service and brand.

##### [SK Planet]

As of December 31, 2011, SK Planet held 1,630 Korean registered patents, 91 registered design marks, 688 registered trademarks and one copyright (including those held jointly with other companies). It also holds 20 U.S. registered patents, 30 Chinese registered patents, 8 Japanese registered patents, 13 E.U. registered patents (all including patents held jointly with other companies) and more patents with other countries.

##### [SK Communications]

As of December 31, 2011, SK Communications held 57 Korean registered patents, 26 registered design rights and 684 registered trademarks.

### III. FINANCIAL INFORMATION

#### 1. Summary Financial Information (Consolidated)

##### A. Summary Financial Information (Consolidated)

(Unit: in thousand Won)

Classification/Fiscal Year	As of December 31, 2011	As of December 31, 2010
Current Assets	6,117,478,958	6,653,991,923
• Cash and Cash Equivalent	1,650,793,876	659,404,935
• Accounts Receivable – Trade	1,823,169,889	1,949,397,279
• Accounts Receivable – Other	908,836,454	2,531,847,155
• Others	1,734,678,739	1,513,342,554
Non-Current Assets	18,248,557,471	16,478,397,157
• Long Term Investment	1,537,945,216	1,680,582,091
• Investments in Associates	1,384,605,401	1,204,691,805
• Property and Equipment	9,030,998,201	8,153,412,683
• Intangible Assets	2,995,803,300	1,884,955,652
• Others	3,299,205,353	3,554,754,926
Total Assets	24,366,036,429	23,132,389,080
Current Liabilities	6,673,589,809	6,202,170,452
Non-Current Liabilities	4,959,737,573	4,522,219,358
Total Liabilities	11,633,327,382	10,724,389,810
Controlling Shareholders' Equity	11,661,880,863	11,329,990,900
Capital	44,639,473	44,639,473
Share Premium	(285,347,419)	(78,952,875)
Retained Earnings	11,642,525,267	10,721,249,327
Reserves	260,063,542	643,054,975
Non-controlling Interests	1,070,828,184	1,078,008,370
Total Stockholders' Equity	12,732,709,047	12,407,999,270
Number of Companies Consolidated	32	32

Classification/Fiscal Year	For the year ended December 31, 2011	For the year ended December 31, 2010
Revenue	15,988,277,642	15,599,162,033
Operating Income (or Loss)	2,131,457,658	2,285,911,094
Income (or Loss) From Continuing Operation Before Income Tax	2,182,858,121	2,318,090,573
Consolidated Total Net Income	1,582,073,280	1,766,834,754
Net Income (or Loss) Attributable to Controlling Interests	1,612,889,086	1,841,612,790
Net Income (or Loss) Attributable to Non-controlling Interests	(30,815,806)	(74,778,036)
Net Income Per Share (Won)	22,848	25,598
Diluted Net Income Per Share (Won)	22,223	24,942

#### 2. Summary Financial Information (Non-Consolidated)

(Unit: in thousand Won)

Classification/Fiscal Year	As of December 31, 2011	As of December 31, 2010
Current Assets	3,948,077,706	5,316,976,799
• Cash and Cash Equivalent	895,557,654	357,469,908
• Accounts Receivable – Trade	1,282,233,900	1,453,060,673
• Accounts Receivable – Other	774,221,266	2,499,969,010
• Others	996,064,886	1,006,477,208
Non-Current Assets	16,572,449,699	14,410,149,512
• Long Term Investment	1,312,437,834	1,517,029,011
• Investments in Associates	4,647,505,583	3,584,394,790
• Property and Equipment	6,260,168,675	5,469,747,495
• Intangible Assets	2,364,795,182	1,424,968,542
• Good Will	1,306,236,299	1,308,422,097
• Others	681,306,126	1,105,587,577
Total Assets	20,520,527,405	19,727,126,311
Current Liabilities	4,467,005,877	4,561,013,611
Non Current Liabilities	4,087,219,816	3,585,155,050
Total Liabilities	8,554,225,693	8,146,168,661
Capital	44,639,473	44,639,473
Share Premium	(236,016,201)	(24,643,471)
Retained Earnings	11,837,184,788	10,824,355,758
Reserves	320,493,652	736,605,890
Total Shareholders' Equity	11,966,301,712	11,580,957,650

Classification/Fiscal Year	For the year ended December 31, 2011	For the year ended December 31, 2010
Revenue	12,575,129,190	12,550,496,552
Operating Income (or Loss)	2,086,648,941	2,355,027,851
Income (or Loss) From Continuing Operation Before Income Tax	2,274,421,557	2,503,637,367
Net Income (or Loss)	1,694,363,093	1,947,007,919
Net Income Per Share (Won)	24,002	27,063
Diluted Net Income Per Share (Won)	23,343	26,366

### 3. K-IFRS preparation, impact to financial statements, changes in accounting principle implemented

#### - Transition to K-IFRS

The Company prepares its financial statements in accordance with K-IFRS starting from the fiscal year 2011 which commenced on January 1, 2011. The Company's financial statements in previous periods were prepared in accordance with Korean GAAP. The Company's financial statements for the fiscal year 2010 presented for

comparison were prepared in accordance with K-IFRS with January 1, 2010 as the transition date and pursuant to K-IFRS 1101 “First-time Adoption of Korean International Financial Reporting Standards.” For more information, please refer to note 3 to the independent auditor’s review report attached hereto.

#### IV. AUDITOR’S OPINION

##### 1. Auditor (Consolidated)

Year ended December 31, 2011	Year ended December 31,	
	2010	2009
Deloitte Anjin LLC	Deloitte Anjin LLC	Deloitte Anjin LLC

##### 2. Audit Opinion (Consolidated)

Term	Auditor’s opinion	Issues noted
Year ended December 31, 2011	Unqualified	-
Year ended December 31, 2010	Unqualified	-
Year ended December 31, 2009	Unqualified	-

##### 3. Auditor (Non-Consolidated)

Year ended December 31, 2011	Year ended December 31,	
	2010	2009
Deloitte Anjin LLC	Deloitte Anjin LLC	Deloitte Anjin LLC

##### 4. Audit Opinion (Non-Consolidated)

Term	Auditor’s opinion	Issues noted
Year ended December 31, 2011	Unqualified	-
Year ended December 31, 2010	Unqualified	-
Year ended December 31, 2009	Unqualified	-

##### 5. Remuneration for Independent Auditors for the Past Three Fiscal Years

###### A. Audit Contracts

(Unit: in thousands of Won / hour)

Term	Auditors	Contents	Fee	Total hours
Year ended December 31, 2011	Deloitte Anjin LLC	Semi-annual review	1,364,000	14,033
		Quarterly review		
		Non-consolidated financial statements audit		

		Consolidated financial statements audit		
		English financial statements review and other audit task		
<b>Year ended December 31, 2010</b>	Deloitte Anjin LLC	Semi-annual review	1,563,770	16,810
		Quarterly review		
		Non-consolidated financial statements audit		
		Consolidated financial statements audit		
		IFRS-based financial statements review		
		English financial statements review and other audit task		
<b>Year ended December 31, 2009</b>	Deloitte Anjin LLC	Semi-annual review	1,308,356	13,982
		Quarterly review		
		Non-consolidated financial statements audit		
		Consolidated financial statements audit		
		English financial statements review and other audit task		

B. Non-Audit Services Contract with External Auditors

(Unit: in thousands of Won)

Term	Contract date	Service provided	Service duration	Fee
<b>Year ended December 31, 2011</b>	April 11, 2011	Tax consulting	30 days	45,000
	April 28, 2011	Tax consulting	30 days	45,000
<b>Year ended December 31, 2010</b>	July 20, 2010	Management consulting	4 days	5,000
	July 28, 2010	Tax consulting	15 days	18,000
	July 28, 2010	Tax consulting	5 days	6,600
	July 28, 2010	Tax consulting	30 days	40,000
	July 28, 2010	Tax consulting	20 days	23,100
	December 23, 2010	Tax consulting	3 days	7,700
	December 23, 2010	Tax consulting	20 days	24,600
	December 29, 2010	Tax consulting	15 days	17,000
<b>Year ended December 31, 2009</b>	May 13, 2009	Tax consulting	30 days	40,000
	May 22, 2009	Tax consulting	10 days	10,000
	May 22, 2009	Tax adjustment for fiscal year 2008	20 days	34,000
	May 22, 2009	Review of deferred corporate income tax for 1Q and 2Q	10 days	14,000
	September 14, 2009	Review of quarterly tax adjustments	5 days	7,000
	September 14, 2009	Tax consulting	20 days	20,000
	December 28, 2009	Review of quarterly tax adjustments	5 days	7,000
	December 28, 2009	Tax consulting	10 days	12,000

## 6. Change of Independent Auditors

There was no change of independent auditors.

## V. MANAGEMENT DISCUSSION AND ANALYSIS

### 1. BUSINESS RESULTS

#### A. Consolidated Financial Information

(Unit: in billions of Won)	2011	2010	Change from 2010 to 2011
Operating Revenue	15,988	15,599	2%
Operating Expenses	13,857	13,313	4%
Operating Income	2,131	2,286	-7%
Operating Margin	13.3%	14.7%	-1.3%p
Net Non-operating Income (Expenses)	51	32	59%
Income before Income Tax	2,183	2,318	-6%
Net Income	1,582	1,767	-10%
Net Income Attributable to Controlling Interests	1,613	1,842	-12%
Net Income Attributable to Non- controlling Interests	(31)	(75)	N/A
EBITDA	4,518	4,466	1%
EBITDA margin	28.3%	28.6%	-0.4%p

#### B. SK Telecom's Non-Consolidated Operating Information

	2011	2010	Change from 2010 to 2011
Subscribers (thousands)	26,553	25,705	3%
Net Increase	848	1,435	-41%
New Subscribers	9,468	9,651	-2%
Termination	8,619	8,216	5%
Monthly Churn Rate (%)	2.7%	2.7%	0.0%p
Average Subscribers (thousands)	26,199	25,097	4%
Minutes of Use (MOU)			
Outgoing	193	199	-3%

Incoming	98	102	-4%
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Seeking to transform itself from a telecommunication service provider into a comprehensive ICT service provider, the Company continued to expand the scope of its services and achieved strong growth in subscribers amid fierce competition and rate cuts. In 2011, on a consolidated basis, the Company recorded revenue of Won 15.99 trillion, operating income of Won 2.13 trillion and net income of Won 1.58 trillion.

On a non-consolidated basis, SK Telecom's marketing expenses in 2011 amounted to Won 3.24 trillion, comprising 25.7% of its non-consolidated revenue in 2011, a decrease of 2.7% point from the previous year. SK Telecom's non-consolidated capital expenditures in 2011 amounted to Won 2.28 trillion, which include the expansion and upgrade of WCDMA network to handle rapidly increasing data transmission and a build-out of commercial LTE network.

As of the end of 2011, the number of wireless subscribers in Korea reached 52.51 million, of which SK Telecom had 26.55 million subscribers representing a market share of 50.6%. In particular, the number of SK Telecom's smartphone subscribers as of the end of 2011 was 11,260,000, an increase of 7,350,000 from the previous year, including 650,000 LTE subscribers, solidifying the Company's market leadership. The Company upgraded the quality of smartphone services by providing commercial LTE services, which enable streaming service of high-quality videos, high-definition video conference calls and wireless on-line gaming services. The Company also plans to enhance customer satisfaction by improving network quality.

In October 2011, the Company spun off SK Planet as a wholly-owned subsidiary in order to enhance the growth of the platform business. In addition, the Company acquired shares of Hynix Semiconductor in February 2012 to pursue new growth opportunities. SK Broadband, SK Telink, SK Communications and Loen Entertainment also showed stable operating results based on their new services and high customer satisfaction.

#### C. Analysis of Consolidated Revenue and Operating Expenses

(Unit: in billions of Won)	2011	2010	Change from 2010 to 2011
Operating Revenue	15,988	15,599	2%
Operating Expenses	13,857	13,313	4%
Labor cost	1,173	1,068	10%
Commissions paid	5,646	5,598	1%
Depreciation and amortization	2,331	2,156	8%
Network interconnection	1,264	1,316	-4%
Leased line and frequency license fees	474	438	8%

Advertising	374	338	11%
Rent	402	367	9%
Cost of goods sold	959	641	50%
Others	1,232	1,391	-11%

The Company's consolidated operating revenue increased from the previous year, primarily due to an increase in SK Telecom's smartphone subscribers, strong growth in new businesses, such as the 11 Street, and an increase in smartphone sales by PS&Marketing.

The Company's consolidated labor cost increased from the previous year, due principally to the reflection of labor costs of new subsidiaries established in the second half of 2010 for customer service and network maintenance. Commissions paid (including sales commissions) increased slightly from the previous year primarily due to an increase in commissions paid with respect to the accounts receivable related to sales of handsets on installment payment plans. Consolidated advertising expenses increased from the previous year, while SK Telecom's non-consolidated advertising expenses decreased. Consolidated depreciation and amortization expenses increased due primarily to an increase in the investment in wireless networks, including LTE, WCDMA and WiFi networks, and the acquisition of additional frequency licenses. Leased line and frequency license fees increased from the previous year as the Company recognized frequency license fees of 1.6% of actual revenue attributable to the 800 MHz bandwidth reallocated in 2011 and the 2.1 GHz bandwidth allocated in 2010.

#### D. Analysis of Consolidated Non-operating Income and Expenses

(Unit: in billions of Won)	2011	2010	Change from 2010 to 2011
Non-operating Income	481	519	-7%
Financial Income	442	477	-7%
Equity in Earnings of Affiliates	39	42	-6%
Non-operating Expenses	430	487	-12%
Financial Costs	344	442	-22%
Equity in Losses of Affiliates	86	45	91%

The Company's consolidated financial income decreased from the previous year, due primarily to a decrease in interest income as a result of the decrease of accounts receivable related to sales of handsets on installment payment plans. Consolidated financial costs decreased from the previous year, due primarily to a decrease in the average outstanding balance of the Company's borrowings. The equity in losses of affiliates increased from the previous year due primarily to an increase in losses of certain affiliates, including Packet One Network.

## 2. Consolidated Financial Position

### A. Analysis of Consolidated Financial Position



(Unit: in billions of Won)	As of December 31, 2011	As of December 31, 2010	Change from 2010 to 2011
Assets			
I .Current Assets	6,117	6,654	-8%
Cash and Cash Equivalents	1,651	659	150%
Accounts Receivable – Trade, net	1,823	1,949	-6%
Accounts Receivable – Other, net	909	2,532	-64%
Other Current Assets	1,735	1,513	15%
II. Non-Current Assets	18,249	16,478	11%
Long-term Investment Securities	1,538	1,681	-8%
Investments in Associates	1,385	1,205	15%
Property and Equipment, net	9,031	8,153	11%
Intangible Assets	2,996	1,885	59%
Other Non-Current Assets	3,299	3,555	-7%
Total Assets	24,366	23,132	5%
Liabilities			
I.Current Liabilities	6,674	6,202	8%
Short-term Borrowings	701	524	34%
Accounts Payable – Trade	195	196	0%
Accounts Payable – Other	1,508	1,434	5%
Other Current Liabilities	4,270	4,048	5%
II.Non-Current Liabilities	4,960	4,522	10%
Bonds Payable, net	3,229	3,659	-12%
Long-term Borrowings	324	236	37%
Long-term Payables- Other	847	55	1447%
Other Non-Current Liabilities	559	573	-2%
Total Liabilities	11,633	10,724	8%
Stockholders' Equity			
I.Controlling Interests	11,662	11,330	3%
Share Capital	45	45	0%

(Unit: in billions of Won)	As of December 31, 2011	As of December 31, 2010	Change from 2010 to 2011
Share Premium	-285	-79	261%
Retained Earnings	11,643	10,721	9%
Others	260	643	-60%
II.Non-Controlling Interests	1,071	1,078	-1%
Total Stockholders' Equity	12,733	12,408	3%
Total Liabilities and Stockholders' Equity	24,366	23,132	5%
Number of Companies Consolidated	32	32	

The Company's consolidated current assets as of December 31, 2011 decreased from the end of previous year, primarily due to the decrease of accounts receivable related to sales of handsets on installment payment plans and other accounts receivable. Non-current assets increased from the end of previous year, due principally to increases in property and equipment resulting from SK Telecom's increased investment in networks, as well as an increase in intangible assets resulting from the acquisition of additional frequency licenses. Current liabilities as of December 31, 2011 increased from the end of previous year, primarily due to an increase in other accounts payable related to SK Telecom's investment in networks and an increase in current portion of long-term debt. Non-current liabilities increased from the end of previous year, primarily due to an increase in other long-term payables resulting from SK Telecom's acquisition of additional frequency licenses. Stockholders' equity as of December 31, 2011 increased from the end of previous year, primarily due to an increase in the Company's retained earnings.

### 3. ANALYSIS OF LIQUIDITY AND SOLVENCY

The Company's debt-to-equity ratio (calculated based on the interest-bearing financial debt) was 47.2% and 45.7% as of the end of 2010 and 2011, respectively. Interest coverage ratio (operating income / net financial expenses) was 16.1 and 16.6 for 2010 and 2011, respectively and interest coverage ratio (operating income / interest expenses) was 6.0 and 7.2 for 2010 and 2011, respectively. The Company had sufficient liquidity to repay short-term borrowings.

### 4. FINANCING

As of December 31, 2011, the Company's aggregate debt amounted to Won 5,796.0 billion, comprising long-term and short-term borrowing, bonds and current portion of long-term debt, which decreased by 0.2% from Won 5,805.0 billion as of December 31, 2010. For information on the Company's bond issuance in 2011, please refer to the Company's audited financial statements for 2011.

## VI. CORPORATE ORGANIZATION INCLUDING BOARD OF DIRECTORS AND AFFILIATED COMPANIES

### 1. Board of Directors

#### A. Overview of Board of Directors Composition

The Company's Board of Directors is comprised of eight members: five independent directors and three inside directors. Within the Board, there are five Committees: Independent Director Nomination Committee, Audit Committee, Compensation Committee, CapEx Review Committee, and Corporate Citizenship Committee.

The number of persons	Inside directors	Independent directors
8	Sung Min Ha, Young Tae Kim, Dong Seob Jee	Dal Sup Shim, Rak Yong Uhm, Hyun Chin Lim, Jay Young Chung, Jae Ho Cho

At the Extraordinary General Meeting of Shareholders held on August 31, 2011, Jun Ho Kim was elected as an inside director and Jin Woo So resigned from the Board to transfer to an affiliate of the Company. At the 28th General Shareholders' Meeting held on March 23, 2012, Young Tae Kim and Dong Seob Jee were elected as inside directors, Hyun Chin Lim was re-elected as an independent director, and Hyun Chin Lim was re-elected as a member of the audit committee.

#### B. (1) Significant Activities of the Board of Directors

Meeting	Date	Agenda	Approval
<b>322<sup>th</sup></b> <b>(the first meeting of 2011)</b>	January 21, 2011	<ul style="list-style-type: none"> <li>- Financial Statements as of and for the year ended December 31, 2010.</li> <li>- Annual Business Report as of and for the year ended December 31, 2010</li> <li>- Report for Internal Accounting Management System</li> <li>- Report for Subsequent Events following 4Q 2010</li> </ul>	<p>Approved as proposed</p> <p>Approved as amended</p> <p>-</p> <p>-</p>
<b>323<sup>th</sup></b> <b>(the second meeting of 2011)</b>	February 10, 2011	<ul style="list-style-type: none"> <li>- Convocation of the 27<sup>th</sup> Annual General Meeting of Shareholders</li> <li>- Cooperation and share swap with KB Financial Group</li> <li>- Result of Internal Accounting Management System Evaluation</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p> <p>-</p>
<b>324<sup>th</sup></b> <b>(the third meeting of 2011)</b>	March 11, 2011	<ul style="list-style-type: none"> <li>- Election of the Company's CEO</li> <li>- Amendment of committee regulation</li> <li>- Election of committee members</li> <li>- Fund Management Transaction with Affiliated Financial Company (SK Securities)</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p>

Meeting	Date	Agenda	Approval
<b>325<sup>th</sup></b> <b>(the fourth meeting of 2011)</b>	March 30, 2011	- Establishment of new entity with respect to a proposed business and acquisition of assets relating thereto	Approved as proposed
<b>326<sup>th</sup></b> <b>(the fifth meeting of 2011)</b>	April 28, 2011	- Additional investment in network equipment in 2011 - Report for Subsequent Events following 1Q 2011	Approved as proposed
<b>327th</b> <b>(the sixth meeting of 2011)</b>	May 31, 2011	- NATE shopping affiliation agreement for shopping gateway business	Approved as proposed
<b>328th</b> <b>(the seventh meeting of 2011)</b>	June 23, 2011	- Asset Management Transaction with Affiliated Company (SK Securities)	Approved as proposed
<b>329th</b> <b>(the eighth meeting of 2011)</b>	July 19, 2011	- Approval of the spin-off plan - Convocation of the Extraordinary General Meeting of Shareholders - Setting of record date for the shareholders' meeting - Purchase of treasury shares	Approved as proposed Approved as proposed Approved as proposed Approved as proposed
<b>330th</b> <b>(the ninth meeting of 2011)</b>	July 28, 2011	- Proposal for interim dividend - Financial results for the first half 2011 - Report for Anti-trust Compliance Program - Report for Subsequent Events following 2Q 2011	Approved as proposed - - -
<b>331st</b> <b>(the tenth meeting of 2011)</b>	August 16, 2011	- Proposal for additional acquisition of LTE frequencies	Approved as proposed

Meeting	Date	Agenda	Approval
<b>332nd</b> <b>(the 11th meeting</b> <b>of 2011)</b>	September 22, 2011	<ul style="list-style-type: none"> <li>- Appointment of members of the Independent Director Nomination Committee</li> <li>- Asset Management Transaction with Affiliated Company (SK Securities)</li> <li>- Transaction of goods, services and assets with SK Planet</li> <li>- Participation in capital increase of SK Industrial Development China</li> <li>- Participation in capital increase of SK Technology Innovation Center</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p>
<b>333rd</b> <b>(the 12th meeting</b> <b>of 2011)</b>	October 4, 2011	<ul style="list-style-type: none"> <li>- Notice of a meeting of board of directors in lieu of the shareholders' meeting to report the result of the spin-off</li> </ul>	Approved as proposed
<b>334th</b> <b>(the 13th meeting</b> <b>of 2011)</b>	October 25, 2011	<ul style="list-style-type: none"> <li>- Payment of the purchase price of the LTE frequencies</li> <li>- Proposal for the issuance of bonds</li> <li>- Report for Subsequent Events following 2Q 2011</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p> <p>-</p>
<b>335th</b> <b>(the 14th meeting</b> <b>of 2011)</b>	November 10, 2011	<ul style="list-style-type: none"> <li>- Participation in the bidding for the shares of Hynix Semiconductor**</li> <li>- Proposal for a bank loan</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p>
<b>336th</b> <b>(the 15th meeting</b> <b>of 2011)</b>	November 14, 2011	<ul style="list-style-type: none"> <li>- Purchase of existing shares of Hynix Semiconductor and participation in the capital increase of Hynix Semiconductor</li> </ul>	Approved as proposed
<b>337th</b> <b>(the 16th meeting</b> <b>of 2011)</b>	November 24, 2011	<ul style="list-style-type: none"> <li>- Extension of license of SK brand.</li> <li>- Maintenance service contract for wireless cell sites.</li> <li>- Customer service contract plan.</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p>

Meeting	Date	Agenda	Approval
<b>338th</b> <b>(the 17th meeting of 2011)</b>	December 20, 2011	<ul style="list-style-type: none"> <li>- Asset Management Transaction with Affiliated Company (SK Securities)</li> <li>- Resale of fixed-line services of SK Broadband.</li> </ul>	Approved as proposed  Approved as proposed
<b>339th</b> <b>(the 1st meeting of 2012)</b>	February 9, 2012	<ul style="list-style-type: none"> <li>- Financial Statements as of and for the year ended December 31, 2011</li> <li>- Annual Business Report as of and for the year ended December 31, 2011</li> <li>- Management Plan for 2012</li> <li>- Transaction of goods, services and assets with SK Planet</li> <li>- Report for Internal Accounting Management System</li> <li>- Report for Subsequent Events following 4Q 2011</li> </ul>	Approved as proposed  Approved as proposed  Approved as proposed  - -
<b>340th</b> <b>(the 2nd meeting of 2012)</b>	February 23, 2012	<ul style="list-style-type: none"> <li>- Convocation of the 28<sup>th</sup> Annual General Meeting of Shareholders</li> <li>- Result of Internal Accounting Management System Evaluation</li> </ul>	Approved as proposed -
<b>341th</b> <b>(the 3rd meeting of 2012)</b>	March 23, 2012	<ul style="list-style-type: none"> <li>- Election of Chairman of the Board of Directors</li> <li>- Amendment to the Company's internal rules</li> <li>- Election of committee members</li> <li>- Asset Management Transaction with Affiliated Company (SK Securities)</li> <li>- Donation to Happiness Sharing Institute</li> </ul>	Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed

\* The line items that do not show approval are for reporting purpose only.

\*\* Dal Sup Shim abstained and Jay Young Chung voted against the participation in the bidding for the shares of Hynix Semiconductor.

#### C. Committees within Board of Directors

##### (1) Committee Structure (As of March 30, 2012)

##### a) Compensation Review Committee

Number of Persons	Members		Task
	Inside Directors	Independent Directors	
5	-	Dal Sup Shim, Rak Yong Uhm, Hyun Chin	Review CEO

		Lim, Jay Young Chung, Jae Ho Cho	remuneration system and amount.
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\* The Compensation Review Committee is a committee established by the resolution of the Board of Directors.

b) Capex Review Committee

Number of Persons	Members		Task
	Inside Directors	Independent Directors	
5	Dong Seob Jee	Dal Sup Shim, Rak Yong Uhm, Jay Young Chung, Jae Ho Cho	Review major investment plans and changes thereto.

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

c) Corporate Citizenship Committee

Number of Persons	Members		Task
	Inside Directors	Independent Directors	
5	Dong Seob Jee	Dal Sup Shim, Rak Yong Uhm, Hyun Chin Lim, Jay Young Chung	Review guidelines on “Corporate Social Responsibility” (“CSR”) programs, etc.

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

d) Independent Director Nomination Committee

Number of Persons	Members		Task
	Inside Directors	Independent Directors	
3	Sung Min Ha	Rak Yong Uhm, Jae Ho Cho	Nomination of independent directors

\* Under the Korean Commercial Code, a majority of the members of the Independent Director Nomination Committee should be independent directors.

e) Audit Committee

Number of Persons	Members		Task
	Inside Directors	Independent Directors	
4	-	Dal Sup Shim, Hyun Chin Lim, Jay Young Chung, Jae Ho Cho	Review financial statements and supervise independent audit process, etc.

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

## 2. Audit System

The Company's Audit Committee consists of four independent directors, Dal Sup Shim, Hyun Chin Lim, Jae Ho Cho and Jay Young Chung.

Major activities of the Audit Committee are as follows.

Meeting	Date	Agenda	Approval	Remarks
The first meeting of 2011	January 20, 2011	<ul style="list-style-type: none"> <li>o 2<sup>nd</sup> half 2010 Management Audit Results and Management Audit Plan for 2011</li> <li>o Evaluation of Internal Accounting Controls based on the Opinion of the Members of the Audit Committee</li> <li>o Rental contract for satellite line facilities</li> <li>o Reports on Internal Accounting Management System</li> <li>o Comparison of before and after operating customer contact channel and BTS maintenance subsidiary company</li> </ul>	<p>-</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>-</p> <p>-</p>	
The second meeting of 2011	February 9, 2011	<ul style="list-style-type: none"> <li>o Reports on 2010 Korean GAAP Audit</li> <li>o Report on Review of 2010 Internal Accounting Management System</li> <li>o Evaluation of Internal Accounting Management System Operation</li> <li>o Auditor's Report for Fiscal Year 2010</li> <li>o Purchase of Mobile Phone Relay Devices for 2011</li> <li>o Construction of Network Facilities for 2011</li> <li>o Construction of Mobile Phone Facilities for 2011</li> </ul>	<p>-</p> <p>-</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>Re-proposed</p> <p>Approved as proposed</p>	
The third meeting of 2011	February 10, 2011	<ul style="list-style-type: none"> <li>o Construction of Mobile Phone Facilities for 2011</li> </ul>	Approved as proposed	
The fourth meeting of 2011	March 11, 2011	<ul style="list-style-type: none"> <li>o 2011 2Q Transactions with SK C&amp;C Co., Ltd.</li> <li>o Asset Management Transaction with Affiliated Company (SK Securities)</li> </ul>	<p>Approved as proposed</p> <p>-</p>	
The fifth meeting of 2011	April 28, 2011	<ul style="list-style-type: none"> <li>o Election of chairman</li> <li>o Mobile phone facilities construction for Fiscal Year 2011</li> <li>o Network facilities construction for Fiscal Year 2011</li> <li>o Audit plan for the Fiscal Year 2011</li> <li>o Remuneration of outside auditor for the Fiscal Year 2011</li> <li>o Outside auditor service plan for the Fiscal Year 2011</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>-</p> <p>Approved as proposed</p> <p>Approved as proposed</p>	
The sixth meeting of 2011	June 23, 2011	<ul style="list-style-type: none"> <li>o 2011 3Q Transactions with SK C&amp;C Co., Ltd.</li> <li>o Asset Management Transaction with Affiliated Company (SK Securities)</li> <li>o Reports on 2011 US GAAP Audit</li> </ul>	<p>Approved as proposed</p> <p>-</p> <p>-</p>	
The seventh meeting of 2011	July 27, 2011	<ul style="list-style-type: none"> <li>o Construction of Mobile Phone Facilities for 2011</li> <li>o Construction of Network Facilities for 2011</li> <li>o Financial Results for the First Half 2011</li> <li>o Reports on IFRS Review of the First Half of 2011</li> <li>o Report on Audit Report to the Extraordinary General Meeting of Shareholders</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>-</p> <p>-</p>	
The eighth meeting of 2011	August 24, 2011	<ul style="list-style-type: none"> <li>o Report on Accounting Review of Spin-off Balance Sheet</li> <li>o Audit Report to the First Extraordinary General Meeting of Shareholders</li> <li>o Management Audit Results for the First Half of 2011</li> </ul>	<p>-</p> <p>Approved as proposed</p> <p>-</p>	
The ninth meeting of 2011	September 21, 2011	<ul style="list-style-type: none"> <li>o 2011 4Q Transactions with SK C&amp;C Co., Ltd.</li> <li>o Asset Management Transaction with Affiliated Company (SK Securities)</li> </ul>	<p>Approved as proposed</p> <p>-</p>	
The tenth meeting of 2011	October 24, 2011	<ul style="list-style-type: none"> <li>o Advertisement Agency Agreement for Outdoor Advertisement</li> <li>o Consolidated Loyalty Marketing Agency Agreement for 2012</li> <li>o Delegation of Fixed-line Services</li> <li>o Rental Contract for Telecommunication Facilities</li> </ul>	<p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p> <p>Approved as proposed</p>	



Meeting	Date	Agenda	Approval	Remarks
The eleventh meeting of 2011	November 23, 2011	<ul style="list-style-type: none"> <li>o Construction of Mobile Phone Facilities for 2011</li> <li>o Construction of Network Facilities for 2011</li> <li>o SKT (China) Holding Co., Ltd. Service Agreement</li> </ul>	Approved as proposed Approved as proposed Approved as proposed	
The twelfth meeting of 2011	December 19, 2011	<ul style="list-style-type: none"> <li>o 2012 1Q Transactions with SK C&amp;C Co., Ltd.</li> <li>o Asset Management Transaction with Affiliated Company (SK Securities)</li> </ul>	Approved as proposed -	
The first meeting of 2012	February 1, 2012	<ul style="list-style-type: none"> <li>o Preparation for audit report for the 28<sup>th</sup> Annual General Meeting of Shareholders</li> </ul>	-	
The second meeting of 2012	February 8, 2012	<ul style="list-style-type: none"> <li>o Business-to-business contract with SK Telink</li> <li>o Construction of Mobile Phone Facilities for 2012</li> <li>o Construction of Network Facilities for 2012</li> <li>o Evaluation of Internal Accounting Controls based on the Opinion of the Members of the Audit Committee</li> <li>o 2<sup>nd</sup> half 2011 Management Audit Results and Management Audit Plan for 2012</li> <li>o Reports on Internal Accounting Management System</li> </ul>	Approved as proposed Approved as proposed Approved as proposed Approved as proposed - -	
The third meeting of 2012	February 22, 2012	<ul style="list-style-type: none"> <li>o Reports on 2011 IFRS Audit</li> <li>o Report on Review of 2011 Internal Accounting Management System</li> <li>o Evaluation of Internal Accounting Management System Operation</li> <li>o Auditor's Report for Fiscal Year 2011</li> <li>o Agenda and Document Review for the 28<sup>th</sup> Annual General Meeting of Shareholders</li> <li>o Purchase of Mobile Phone Relay Devices for 2012</li> <li>o Purchase of Mobile Phone Transmission Devices for 2012</li> <li>o 2012 IT SM contract</li> <li>o Engagement of Independent Auditing Firm for 2012 to 2014</li> </ul>	- - Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed Approved as proposed	
The forth meeting of 2012	March 22, 2012	<ul style="list-style-type: none"> <li>o 2012 2Q Transactions with SK C&amp;C Co., Ltd.</li> <li>o Asset Management Transaction with Affiliated Company (SK Securities)</li> </ul>	Approved as proposed -	

\* The line items that do not show approval are for reporting purpose only.

### 3. Shareholders' Exercises of Voting Rights

#### A. Voting System and Exercise of Minority Shareholders' Rights

Pursuant to the Articles of Incorporation as shown below, the cumulative voting system was first introduced in the General Meeting of Shareholders in 2003.

Articles of Incorporation	Description
Article 32 (3) (Election of Directors)	Cumulative voting under Article 382-2 of the Korean 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.

Also, neither written or electronic voting system nor minority shareholder rights is applicable.

#### 4. Affiliated Companies

##### A. Capital Investments between Affiliated Companies

(As of December 31, 2011)

Investing company	Invested companies									
	SK Corporation	SK Innovation	SK Telecom	SK Networks	SKC	SK E&C	SK Shipping	SK E&S	SK Bio farm	SK Securities
SK Corporation		33.4%	25.2%	39.1%	42.5%	40.0%	83.1%	94.1%	100.0%	
SK Innovation										
SK Telecom										
SK Networks										22.7%
SK Chemicals						25.4%				
SKC										
SK C&C	31.8%							5.9%		
SK E&C										
SK E&S										
SK Gas										
SK Shipping										
SK Energy										
SK Global Chemical										
SK Marketing & Company										
SK Planet										
SK Communications										
SK Broadband										
SK Lubricant										
UBcare										
SK D&D										
Total affiliated companies	31.8%	33.4%	25.2%	39.1%	42.5%	65.4%	83.1%	100.0%	100.0%	22.7%

Investing company	Invested companies								
	SK Energy	SK Global Chemical	SK Lubricant	DOPCO	SK Mobile Energy	Jeju United FC	Encar network	Natruck	Natruck Friends
SK Corporation									
SK Innovation	100.0%	100.0%	100.0%	41.0%	100.0%				
SK Telecom									
SK Networks									
SK Chemicals									
SKC									
SK C&C									
SK E&C									
SK E&S									
SK Gas									
SK Shipping									
SK Energy						100.0%	87.5%	92.4%	50.0%
SK Global Chemical									
SK Marketing & Company									
SK Planet									
SK Communications									
SK Broadband									
SK Lubricant									
UBcare									
SK D&D									
Total affiliated companies	100.0%	100.0%	100.0%	41.0%	100.0%	100.0%	87.5%	92.4%	50.0%

Investing company	Invested companies									
	SK Petrochemical	Green IS	Arochemi Co. Ltd.	Zicos	U base Manufacturing Asia	SK Marketing & Company	M & Service	SK Telink	NTREEV Soft	PS & Marketing
SK Corporation										
SK Innovation						50.0%				

SK Telecom						50.0%		83.5%	63.7%	100.0%
SK Networks										
SK Chemicals										
SKC										
SK C&C										
SK E&C										
SK E&S										
SK Gas										
SK Shipping										
SK Energy										
SK Global Chemical	100.0%	78.9%	50.0%							
SK Marketing & Company							100.0%			
SK Planet										
SK Communications										
SK Broadband										
SK Lubricant				100.0%	100.0%					
UBcare										
SK D&D										
Total affiliated companies	100.0%	78.9%	50.0%	100.0%	100.0%	100.0%	100.0%	83.5%	63.7%	100.0%

	Invested companies									
Investing company	SK Broadband	SK Planet	F&U Credit Info	Network O&S	Service Ace	Service Top	Loen Entertainment	Commerce Planet	Television Media Korea	Paxnet
SK Corporation										
SK Innovation										
SK Telecom	50.6%	100%	50.0%	100.0%	100.0%	100.0%				
SK Networks										
SK Chemicals										
SKC										
SK C&C										
SK E&C										
SK E&S										
SK Gas										
SK Shipping										
SK Energy										
SK Global Chemical										
SK Marketing & Company										
SK Planet							63.5%	100.0%	51.0%	59.7%
SK Communications										
SK Broadband										
SK Lubricant										
UBcare										
SK D&D										
Total affiliated companies	50.6%	100%	50.0%	100.0%	100.0%	100.0%	63.5%	100.0%	51.0%	59.7%

	Invested companies									
Investing company										
SK Corporation										
SK Innovation										
SK Telecom										
SK Networks										
SK Chemicals										
SKC										
SK C&C										
SK E&C										
SK E&S										
SK Gas										
SK Shipping										
SK Energy										
SK Global Chemical										
SK Marketing & Company										
SK Planet										

SK Communications										
SK Broadband										
SK Lubricant										
UBcare										
SK D&D										
Total affiliated companies										

Investing company	Invested companies									
	SK Communi- cations	Broadband Media	Broadband D&M	Broadband CS	Service In	MRO Korea	SKN Internet	SKN Service	WS Commerce	SK Pinx
SK Corporation										
SK Innovation						42.5%				
SK Telecom						42.5%				
SK Networks							100.0%	85.0%	100.0%	100.0%
SK Chemicals										
SKC										
SK C&C						5.0%				
SK E&C										
SK E&S										
SK Gas						5.0%				
SK Shipping										
SK Energy										
SK Global Chemical										
SK Marketing & Company										
SK Planet	64.6%									
SK Communications					100.0%					
SK Broadband		100.0%	100.0%	100.0%						
SK Lubricant										
UBcare										
SK D&D										
Total affiliated companies	64.6%	100.0%	100.0%	100.0%	100.0%	95.0%	100.0%	85.0%	100.0%	100.0%

Investing company	Invested companies										
	LC&C	Speed Motor	SKC Air Gas	SKC Solmics Co., Ltd.	SK Telesys	SKW	Sumray Corpo- ration	Incyto	SKC lighting	Daehan City Gas	Busan City Gas
SK Corporation											
SK Innovation											
SK Telecom											
SK Networks	79.6%	100.0%									
SK Chemicals											
SKC			80.0%	48.7%	47.5%	65.0%	100.0%	100.0%	65.0%		
SK C&C											
SK E&C											
SK E&S										78.4%	40.0%
SK Gas											
SK Shipping											
SK Energy											
SK Global Chemical											
SK Marketing & Company											
SK Planet											
SK Communications											
SK Broadband											
SK Lubricant											
UBcare											
SK D&D											
Total affiliated companies	79.6%	100.0%	80.0%	48.7%	47.5%	65.0%	100.0%	100.0%	65.0%	78.4%	40.0%

Investing company	Invested companies									
	Jeonnam City Gas	Gangwon City Gas	JBES	CCES	YN Energy	PyongTaek Energy Service	Gimcheon Energy	PMP	SK Forest	Daejeon Pure Water
SK Corporation										
SK Innovation										

SK Telecom										
SK Networks										
SK Chemicals										
SKC										
SK C&C										
SK E&C								50.0%	100.0%	32.0%
SK E&S	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	50.0%	50.0%		
SK Gas										
SK Shipping										
SK Energy										
SK Global Chemical										
SK Marketing & Company										
SK Planet										
SK Communications										
SK Broadband										
SK Lubricant										
UBcare										
SK D&D										
Total affiliated companies	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	50.0%	100.0%	100.0%	32.0%

Investing company	Invested companies									
	Gwangju Pure Water	SK D&D	Real Vest	SK Gas	SK Sci-tech	UB Care	SK Seentec	Korea Sleep Network	Green Biro	Namwon Sarang Electric Power
SK Corporation										
SK Innovation										
SK Telecom										
SK Networks										
SK Chemicals				45.5%	50.0%	44.0%	100.0%	100.0%		
SKC										
SK C&C										
SK E&C	42.0%	45.0%	100.0%							
SK E&S										
SK Gas									100.0%	
SK Shipping										
SK Energy										
SK Global Chemical										
SK Marketing & Company										
SK Planet										
SK Communications										
SK Broadband										
SK Lubricant										
UBcare										
SK D&D										100.0%
Total affiliated companies	42.0%	45.0%	100.0%	45.5%	50.0%	44.0%	100.0%	100.0%	100.0%	100.0%

Investing company	Invested companies				
	MKS Guarantee	Independence	Infosec	Ever Health Care	SKSM
SK Corporation					
SK Innovation					
SK Telecom					
SK Networks					
SK Chemicals					
SKC					
SK C&C		100.0%	100.0%		
SK E&C					
SK E&S					
SK Gas					
SK Shipping					100.0%
SK Energy					

SK Global Chemical					
SK Marketing & Company					
SK Planet					
SK Communications					
SK Broadband					
SK Lubricant					
UBcare				100.0%	
SK D&D	100.0%				
Total affiliated companies	100.0%	100.0%	100.0%	100.0%	100.0%

## VII. SHAREHOLDERS INFORMATION

### 1. Shareholdings of the Largest Shareholder and Related Persons

#### A. Shareholdings of the Largest Shareholder and Related Persons

(As of December 31, 2011)

(Unit: Shares, %)

Name	Relationship	Type of share	Number of shares owned and ownership ratio			
			Beginning of Period		End of Period	
			Number of shares	Ownership ratio	Number of shares	Ownership ratio
SK Corporation	Largest Shareholder	Common share	18,748,452	23.22	20,363,452	25.22
Tae Won Chey	Officer of affiliated company	Common share	100	0.00	100	0.00
Shin Won Chey	Officer of affiliated company	Common share	500	0.00	2,000	0.00
Sung Min Ha	Officer of affiliated company	Common share	738	0.00	738	0.00
Dal Sup Shim	Officer of affiliated company	Common share	500	0.00	0	0.00
Bang Hyung Lee	Officer of affiliated company	Common share	200	0.00	200	0.00
Total-		Common share	18,757,490	23.22	20,366,490	25.22

#### B. Overview of the Largest Shareholder

SK Corporation is a holding company and as of December 31, 2011, has eight subsidiaries: SK Innovation Co., Ltd., SK Telecom Co., Ltd., SK Networks Co., Ltd., SKC Co., Ltd., SK Shipping Co., Ltd., SK E&C Co., Ltd., SK E&S Co., Ltd. and SK Biofarm Co., Ltd. SK Biofarm Co., Ltd. spun off from SK Corporation on April 1, 2011.

Details of SK Corporation's subsidiaries are as follows:

(Unit: in millions of Won)

Affiliates	Share Holdings	Book Value (million Won)	Industry	Description
SK Innovation Co., Ltd.	33.4%	3,944,657	Energy and Petrochemical	Publicly Listed
SK Telecom Co., Ltd.	25.2%	3,091,125	Telecommunication	Publicly Listed
SK Networks Co., Ltd.	39.1%	1,165,759	Trading, Energy Sale	Publicly Listed
SKC Co., Ltd.	42.5%	254,632	Synthetic Resin Manufacturing	Publicly Listed

SK E&C Co., Ltd.	40.0%	485,171	Construction	Privately Held
SK Shipping Co., Ltd.	83.1%	607,643	Ocean Freight	Privately Held
SK E&S Co., Ltd.	94.1%	1,026,307	Gas Company Holdings and Power Generation	Privately Held
SK Biofarm Co., Ltd.	100.00%	228,702	Biotechnology	Privately Held

\*The above share holdings are based on common stock holdings as of December 31, 2011.

SK Corporation is a publicly listed company and is required to submit a report of its significant business activities in accordance with Article 161 of the Financial Investment Services and Capital Markets Act. Also as a holding company, SK Corporation is required to report key management activities of its subsidiaries in accordance with Article 8 of KOSPI Market Disclosure Regulation.

The rule is applicable to subsidiaries whose book value of the holding company's shareholding exceeds 10% of its total assets based on the financial statements as of December 31, 2010. SK Innovation Co., Ltd., SK Telecom Co., Ltd. and SK Networks Co., Ltd. are three such subsidiaries.

On August 1, 2011, SK E&S Co., Ltd. acquired K-Power Co., Ltd. SK E&S that is engaged in distribution of gas and energy business plans to create synergy by merging with K-Power that is engaged in power generation and plans to seek new growth opportunities in overseas gas business and power generation.

## 2. Changes in shareholdings of the Largest Shareholder

Changes in shareholdings of the largest shareholder are as follows.

(As of December 31, 2011)

(Unit: Shares, %)

Largest Shareholder	Date of the change in the largest shareholder/ Date of change in shareholding	Shares Held	Holding Ratio	Remarks
SK Corporation	March 7, 2008	18,751,260	23.09	Purchased 1,085,325 shares from SK Networks on March 7, 2008
	March 13, 2009	18,751,360	23.22	At the 25 <sup>th</sup> General Meeting of Shareholders, elected the CEO, Man Won Jung (who owned 100 shares of the Company stock)
	December 30, 2009	18,755,260	23.23	Man Won Jung, the CEO, purchased 3,900 shares.
	May 26, 2010	18,756,760	23.23	Man Won Jung, the CEO, purchased 1,500 shares
	July 20, 2010	18,756,860	23.23	Man Won Jung, the CEO, purchased 100 shares
	September 17, 2010	18,757,360	23.23	Dal Sup Shim, an Independent Director, purchased 500 shares

March 11, 2011	18,750,490	23.22	Man Won Jung, SK Telecom's CEO, resigned Shin Bae Kim, SK C&C's CEO, resigned
April. 5, 2011	18,749,990	23.22	Dal Sup Shim, an Independent Director, disposed 500 shares
July 8, 2011	18,749,990	23.22	Shin Won Chey, SKC's Chairman, purchased 500 shares
August 5, 2011	18,750,490	23.22	Shin Won Chey, SKC's Chairman, purchased 500 shares
August 23, 2011	18,751,490	23.22	Shin Won Chey, SKC's Chairman, purchased 500 shares
December 21, 2011	20,366,490	25.22	SK Corporation purchased 1,615,000 shares

\* Shares held are the sum of shares held by SK Corporation and its related parties.

### 3. Distribution of Shares

#### A. Shareholders with ownership of 5% or more and others

(As of December 31, 2011)

(Unit: shares, %)

Rank	Name (title)	Common share		Preferred share		Sub-total	
		Number of shares	Ownership ratio	Number of shares	Ownership ratio	Number of shares	Ownership ratio
1	Citibank ADR	21,711,446	26.89	-	-	21,711,446	26.89
2	SK Corporation	20,363,452	25.22	-	-	20,363,452	25.22
3	SK Telecom	11,050,712	13.69	-	-	11,050,712	13.69
Shareholdings under the Employee Stock Ownership Program *		299,241	0.37	-	-	299,241	0.37

\*As of December 31, 2011

#### B. Shareholder Distribution

(As of December 31, 2011)

(Unit: shares, %)

classification	Number of shareholders	Ratio (%)	Number of shares	Ratio (%)	Remarks
Total minority shareholders	40,558	99.98	24,843,976	30.76	-

### 4. Share Price and Trading Volume in the Last Six Months

#### A. Domestic Securities Market



(Unit: Won, shares)

Types		December 2011	November 2011	October 2011	September 2011	August 2011	July 2011
Common stock	Highest	154,000	156,000	165,000	159,500	155,000	161,500
	Lowest	141,500	145,000	148,000	145,500	131,000	140,500
Monthly transaction volume		5,442,574	5,958,443	4,319,905	5,296,111	7,629,297	7,487,737

## B. Foreign Securities Market

New York Stock Exchange

(Unit: US\$, ADR)

Types		December 2011	November 2011	October 2011	September 2011	August 2011	July 2011
Depository Receipt	Highest	14.88	15.41	15.99	16.01	16.36	18.83
	Lowest	13.35	14.14	13.53	13.35	13.67	15.21
Monthly transaction volume		49,489,960	44,012,672	36,305,704	31,273,856	45,328,712	58,978,296

## VIII. EMPLOYEES AND MANAGEMENT COMPENSATION

## 1. EMPLOYEES

(As of December 31, 2011)

(Unit: persons, in millions of Won)

Classification	Number of employees				Average service year	Aggregate wage for the year ended December 31, 2011	Average wage per person	Remarks
	Regular employees	Contract employees	Others	Total				
Male	3,357	38	-	3,395	12.4	263,888	64	-
Female	496	64	-	560	10.2	35,077	43	-
Total	3,853	102	-	3,955	12.1	298,965	60	-

## 2. Management Compensation

## A. Amount Approved at the Shareholders' Meeting

(Unit: Won million)

Classification	Number of Directors	Aggregate Amount Approved
Directors	8	12,000

## 2. Amount Paid

(Unit: Won million)

Classification	Number of Directors	Aggregate Amount Paid	Average Amount Paid Per Director
Insider Directors	3	10,433	3,478
Independent Directors	1	89	89
Audit Committee Members	4	335	84
Total	8	10,857	-

## IX. TRANSACTIONS WITH PARTIES WITH INTERESTS

### 1. Loans to the Largest Shareholder and Related Persons

(As of December 31, 2011)

(Unit: in millions of Won)

Name (Corporate name)	Relationship	Account category	Change details				Accrued interest	Remarks
			Beginning	Increase	Decrease	Ending		
SK Wyverns	Affiliated company	Long-term and short-term loans	2,407	-	575	1,832	-	-

### 2. Transfer of Assets to/from the Largest Shareholder and Other Transactions

#### A. Investment and Disposition of Investment

None.

#### B. Transfer of Assets

(Units: in millions of Won)

Name (Corporate Name)	Relation- ship	Details					Remarks
		Transferred Objects	Purpose of Transfer	Date of Transfer	Amount Transferred From Largest Shareholder	Amount Transferred to Largest Shareholder	
Encar Network Co., Ltd.	Affiliated Company	Used car sale	Sale of assets not in use	April 29, 2011	-	158	-
SK Networks Co., Ltd	Affiliated Company	Sale of assets not in use	Sale of assets not in use	July 29, 2011	-	267	-
SK Telesys Co., Ltd.	Affiliated Company	OA equipment sale	Sale of assets not in use	July 29, 2011	-	206	-
Total						631	-

### 3. Transactions with Parties with Interests (excluding the Largest Shareholder and Related Persons)

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

(Unit: in millions of Won)

Name (Corporate name)	Relation ship	Account category	Change details				Accrued interest	Remarks
			Beginning	Increase	Decrease	Ending		
Midus and others	Agency	Long-term and short- term loans	77,985	226,164	185,230	118,919	-	-

(Unit: in millions of Won)

Name (Corporate name)	Relationship	Account category	Change details				Accrued interest	Remarks
			Beginning	Increase	Decrease	Ending		
<b>Daehan Kanggun BcN Co., Ltd.</b>	Investee	Long-term loans	30,224	10,538	18,660	22,102	-	-

## X. OTHER INFORMATION RELATING TO THE PROTECTION OF INVESTORS

### 1. Developments in the Items Mentioned in Prior Reports on Important Business Matters

#### A. Status and Progress of Major Management Events

Date of Disclosure	Title	Report	Reports status
October 26, 2001	Resolution on trust agreement for the acquisition of treasury shares and others	1. Signatories: Shinhan Bank, Hana Bank, Chohung Bank, Korea Exchange Bank 2. Contract amount: Won 1,300 billion 3. Purpose: to increase shareholder value	1. On December 24, 2003, cash surplus amount from the existing trust agreement was partially reduced (Won 318 billion). 2. On September 24, 2004, the Board of Directors extended the term of the specified monetary trust agreement for 3 years. 3. On October 16, 2007, the Board of Directors extended the term of the specified monetary trust agreement for 3 years. 4. On October 26 and October 29, 2010, all trust agreements for the acquisition of treasury shares terminated (aggregate amount: Won 982 billion).

#### B. Summary Minutes of the General Meeting of Shareholders

Date	Agenda	Resolution
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 2. Remuneration limit for Directors 3. Election of Directors - Election of inside directors - Election of independent directors as Audit Committee members	Approved (Cash dividend, Won 7,000 per share) Approved (Won 12 billion)  Approved (Jung Nam Cho, Sung Min Ha) Approved (Dal Sup Shim)
24 <sup>th</sup> Fiscal Year Meeting of Shareholders (March 14, 2008)	1. Approval of the Financial Statements for the year ended December 31, 2007 2. Amendment to Articles of Incorporation 3. Approval of Remuneration Limit for Directors 4. Election of Directors - Election of inside directors - Election of independent directors - Election of independent directors as Audit Committee member	Approved (Cash dividend, Won 8,400 per share)  Approved Approved (Won 12 billion)  Approved (Shin Bae Kim, Young Ho Park) Approved (Rak Yong Uhm, Jay Young Chung) Approved (Jae Ho Cho)

25 <sup>th</sup> Fiscal Year Meeting of Shareholders (March 13, 2009)	1. Approval of the financial statements for the year ended December 31, 2008 2. Approval of Remuneration Limit for Directors 3. Amendment to Company Regulation on Executive Compensation 4. Election of Directors - Election of inside directors - Election of independent directors - Election of independent directors as Audit Committee member	Approved (Cash dividend, Won 8,400 per share)  Approved (Won 12 billion) Approved  Approved (Jae Won Chey, Man Won Jung) Approved (Hyun Chin Lim) Approved (Hyun Chin Lim)
26 <sup>th</sup> Fiscal Year Meeting of Shareholders (March 12, 2010)	1. Approval of the financial statements for the year ended December 31, 2009 2. Amendment to Articles of Incorporation 3. Approval of Remuneration Limit for Directors 4. Election of Directors - Election of inside directors - Election of independent directors - Election of independent directors as Audit Committee member	Approved (Cash dividend, Won 8,400 per share)  Approved Approved (Won 12 billion)  Approved (Ki Haeng Cho) Approved (Dal Sup Shim) Approved (Dal Sup Shim, Jay Young Chung)
27 <sup>th</sup> Fiscal Year Meeting of Shareholders (March 11, 2011)	1. Approval of the financial statements for the year ended December 31, 2010 2. Approval of Remuneration Limit for Directors 3. Amendment to Company Regulation on Executive Compensation 4. Election of Directors - Election of inside directors - Election of independent directors - Election of independent directors as Audit Committee member	Approved (Cash dividend, Won 8,400 per share)  Approved Approved (Won 12 billion)  Approved (Sung Min Ha, Jin Woo So) Approved (Rak Young Uhm, Jay Young Chung, Jae Ho Cho) Approved (Jay Young Chung, Jae Ho Cho)
1 <sup>st</sup> Extraordinary Meeting of Shareholders (August 31, 2011)	1. Approval of the Spin-off Plan 2. Election of Directors	Approved (Spin-off of SK Planet) Approved (Jun Ho Kim)
28 <sup>th</sup> Fiscal Year Meeting of Shareholders (March 23, 2012)	1. Approval of the financial statements for the year ended December 31, 2011 2. Amendment to Articles of Incorporation 3. Election of Directors - Election of inside directors - Election of inside directors - Election of independent directors 4. Election of an independent director as Audit Committee member 5. Approval of Remuneration Limit for Directors	Approved (Cash dividend, Won 8,400 per share)  Approved  Approved (Young Tae Kim) Approved (Dong Seob Jee) Approved (Hyun Chin Lim) Approved (Hyun Chin Lim)  Approved (Won 12 billion)

## 2. Contingent Liabilities

### [SK Telecom]

#### A. Material Legal Proceedings

##### (1) Claim for Copyright License Fees regarding “Coloring” Services

On May 7, 2010, Korea Music Copyright Association (“KOMCA”) filed a lawsuit with the court demanding that the Company pay KOMCA license fees for the Company’s “Coloring” services. The court rendered a judgment against the Company ordering the Company to pay Won 570 million to KOMCA, which was affirmed by the appellate court on October 26, 2011. The Company appealed to the Supreme Court on November 8, 2011. The Company plans to vigorously defend itself in the Supreme Court by supplementing legal analysis relating to the interpretation of legal actions. While the Company does not expect immediate impact on its business and financial condition from the litigation because the judgment amount is Won 570 million and the final outcome of the litigation has not been decided, the Company may be required to pay on-going license fees in the future if it loses in the final judgment.

\* Actual impact on the Company’s business and financial condition from the litigation may be different from the Company’s expectation stated above.

#### B. Other Matters

The Company has no other blank bills, mortgage bills, assumption of debt agreement or other contingent liabilities.

### [SK Broadband]

#### A. Material Legal Proceedings

##### (1) SK Broadband as the Plaintiff

(Unit: thousand won)

Description of Proceedings	Date of Commencement of Proceedings	Amount of Claim	Status
Claim for Cancellation of Korea Fair Trade Commission’s Penalty Reassessment	September 2009	1,810,000	Pending before Supreme Court
Claim relating to Gangnam District Office Cable-Burying Project	March 2010	345,271	Pending before Supreme Court
Administrative Proceeding relating to Gangnam District Office	April 2010	703,440	Pending before Administrative Court
Claim for Sales Price by Sambo Motors	April 2011	321,200	Pending before Appellate Court
Damages Claims against Golden Young and Others	April 2011	454,267	Pending before District Court
Damages Claim relating to Hyundai	December 2010	561,282	Pending before

Construction			Appellate Court
Other claims and proceedings	-	651,976	
Total	-	4,847,436	-

(2) SK Broadband as the Defendant

(Unit: thousand won)

Description of Proceedings	Date of Commencement of Proceedings	Amount of Claim	Status
Damage Claim by Sun Technology and One Other	October 2011	1,006,429	Pending before District Court
Claim for Return of Unfair Benefit from One Call	October 2010	670,787	Pending before Appellate Court
Damages Claim from Jin Man Cho and One Other	January 2011	200,000	Pending before District Court
Claim for Commission by i-Media Valley and Five Other Companies	July 2010	313,764	Pending before Appellate Court
Claim for Commission by Vialty and Four Other Companies	November 2010	125,000	Pending before District Court
Damage Claim by On-nuri Co., Ltd.	December 2011	101,000	Pending before District Court
Other claims and proceedings	-	56,809	-
Total	-	2,473,789	-

The management believes that the final results of the litigations listed above would not have a material impact on the company's financial statements. In addition, SK Broadband was sued in connection with providing subscribers' information to third party contractors without subscribers' effective consents. SK Broadband partly lost in the district court, which ordered SK Broadband to pay damages of Won 4,469 million (out of the plaintiffs' claims of Won 24,689 million), and recognized such damage order as other accounts payable.

(3) Broadband Media as the Defendant

Description of Proceedings	Date of Commencement of Proceedings	Amount of Claim	Status
Claim for Commission by i-Media Valley and Five Other Companies	July 2010	300,868	On appeal
Total	-	300,868	-

## **[SK Communications]**

### **A. Material Legal Proceedings**

As of December 31, 2011, 11 cases were pending and the aggregate amount of claim was Won 4,113 million. While the management cannot forecast the outcome of the pending cases, it does not expect material adverse impact on SK Communications' financial condition from the litigation.

### **3. Status of sanctions, etc.**

## **[SK Telecom]**

Due to the Company's ineffective measures taken with respect to phone numbers that are used for sending illegal unsolicited bulk messages, the Korea Communications Commission, on April 8, 2009, ordered the Company to improve its work procedures.

On September 2, 2009, the Korea Communications Commission ordered the Company to improve its work procedures in a case relating to the obstruction of subscribers' utilization of wireless Internet services. The Company completed the improvement of the procedures in consultation with the Korea Communications Commission by December 2009.

On October 13, 2009, the Korea Communications Commission imposed on the Company a fine of Won 140 million and a newspaper notice order in a case relating to the subscription for mobile telephone services using national identification numbers of the deceased and the Company's failure to verify the required documents. The Company implemented the improved work procedures to strengthen identification process at the time of subscription for mobile telephone services in January 2010.

On June 10, 2010, the Korea Communications Commission imposed on the Company a fine of Won 2 billion and issued a correction order for hurting subscribers' interests relating to USIM uses. The Company paid the fine and completed the improvement of the procedures in consultation with the Korea Communications Commission by September 2010.

On September 24, 2010, the Korea Communications Commission imposed on the Company a fine of Won 12.9 billion and issued a correction order for providing discriminatory subsidy to subscribers. The Company paid the fine and completed the improvement of the procedures in consultation with the Korea Communications Commission by January 2011.

On December 2, 2010, the Korea Communications Commission imposed on the Company a fine of Won 6.2 billion and issued a correction order in a case relating to the obstruction of subscribers' utilization of wireless Internet services. The Company paid the fine and completed the improvement of the procedures in consultation with the Korea Communications Commission by March 2011.

On September 19, 2011, the Korea Communications Commission imposed on the Company a fine of Won 6.86 billion and issued a correction order for providing discriminatory subsidy to subscribers. The Company paid the fine and expects to complete the improvement of the procedures in consultation with the Korea Communications Commission by January 2012.



In addition, on January 21, 2009, the Company was sanctioned for unfair business practices with a fine of Won 1,268 million by the Fair Trade Commission of Korea along with a correctional order of its policy of restricting certain rate plan subscribers from using third party portal contents. The Company has paid the fine and has taken efforts to educate applicable divisions of the issue and to improve the level of the voluntary compliance program to comply with fair trade laws to prevent a repeat of the same violation.

On April 8, 2010, the Company received a correctional order from the Fair Trade Commission of Korea for a violation of the Act on Fair Labeling and Advertising relating to 11<sup>th</sup> Street (the Company's online shopping mall). In response thereto, the Company has been taking efforts to prevent a repetitive violation including thorough pre-review of the advertisement and marketing activities of 11<sup>th</sup> Street and appropriate education for relevant employees.

On April 22, 2011, the Company received a correctional order from the Fair Trade Commission of Korea for violation of Article 21 of the Electronic Commerce Act and was imposed a fine of Won 5 million. The Company paid the fine and filed a suit disputing the order of the Fair Trade Commission. The suit is currently pending.

On November 11, 2011, the Company received a correctional order from the Fair Trade Commission of Korea for violation of Article 23 of the Fair Trade Act relating to the transfer of patented technology necessary for the supply of relay facilities. The Company has corrected the procedures before receiving the correctional order.

On March 14, 2012, the Company received a correctional order from the Fair Trade Commission of Korea for an alleged violation of Article 23 of the Fair Trade Act relating to the handset subsidy practice and distribution of handsets and was imposed a fine of Won 20.69 billion. The Company plans to review its legal options after receiving an official statement from the Fair Trade Commission.

On February 6, 2012, the Company received three penalty points and was imposed a fine of Won 3 million from the Korea Exchange for a violation of Article 35 of Korea Exchange's disclosure rules. The Company paid the fine and has been taking efforts to prevent a repetitive violation.

A Trial of a former director of the Company is pending with respect to the Company's past transactions.

[SK Broadband]

On July 22, 2009, SK Broadband received a warning from the Financial Supervisory Service of Korea with respect to its omission to state a material fact that could affect investors' investment decision when it responded to the Korea Exchange's request for disclosure regarding SK Telecom's acquisition of SK Broadband shares from AIG-Newbridge-TVG consortium, then-largest shareholder of SK Broadband.

On January 5, 2009, SK Broadband received a correctional order from the Fair Trade Commission of Korea for unfair business practices relating to marketing networks. SK Broadband has taken efforts to educate the relevant personnel and implement reports to the Fair Trade Commission to prevent a repeat of the same violation.

[SK Communications]

On July 31, 2008, SK Communications was imposed a fine of Won 125 million by the Fair Trade Commission of Korea in connection with the preparation for the Fair Trade Commission's field inspection. SK Communications has paid the fine and has taken efforts to prevent a repeat of the same violation, including education of the relevant personnel.

[Loen Entertainment]

On February 28, 2011, Loen Entertainment Inc. received a correctional order from the Fair Trade Commission of Korea for violation of Article 19 of the Fair Trade Act and was imposed a fine of Won 10,381 million with respect to providing Non-DRM on-line music content services. Loen Entertainment filed a suit disputing the order of the Fair Trade Commission and the suit is currently pending.

#### 4. Important Matters That Occurred After December 31, 2011

[SK Telecom]

(1) Acquisition of Shares of Hynix Semiconductor

In accordance with the resolution of the Company's board of directors on November 14, 2011, the Company purchased 146,100,000 shares of Hynix Semiconductor Inc. (aggregate purchase price of Won 3,374,726million) on February 14, 2012 in order to acquire the control of Hynix Semiconductor. The Company will have a 21.05% equity interest in Hynix Semiconductor after the purchase.

(2) Syndicated Loan

On February 14, 2012, the Company borrowed Won 2.5 trillion in a syndicated loan from a syndicate of Korean banks including Kookmin Bank and Woori Bank in order to finance the purchase of Hynix shares, in accordance with the board of directors' resolution on November 10, 2011. Won 2 trillion of the loan matures in three years and Won 0.5 trillion of the loan matures in one year.

(3) Sale of Available-for-sale Financial Assets

On February 2, 2012, SK Communications sold Won 20 billion principal amount of convertible bonds issued by Etoos Education Co., Ltd. to Shinhan Private Equity Fund No. 2 for a price of Won 19 billion, in accordance with the board resolution of January 13, 2012. SK Communication is pursuing a public sale of its equity shares of Etoos Education (15.58%) and remaining convertible bonds in the principal amount of Won 5 billion, as disclosed on February 24, 2012.

#### 5. Use of Proceeds

A. Use of Proceeds from Public Offerings

(Unit:                      Won million                      )

<b>Classification</b>	<b>Closing Date</b>	<b>Proceeds</b>	<b>Use of Proceeds disclosed in the Prospectus</b>	<b>Actual Use of Proceeds</b>	<b>Reasons for Change</b>
Bonds (series 61-1)	December 27, 2011	110,000	Working Capital	Working Capital	-
Bonds (series 61-2)	December 27, 2011	190,000	Working Capital	Working Capital	-

B. Use of Proceeds from Private Offerings

(Unit : Won million )

<b>Classification</b>	<b>Closing Date</b>	<b>Proceeds</b>	<b>Planned Use of Proceeds</b>	<b>Actual Use of Proceeds</b>	<b>Reasons for Change</b>
Convertible Bonds	April 7, 2009	437,673	Refinancing of convertible bonds issued in May 2004	Refinancing and working capital	-
Floating Rate Notes	December 15, 2011	347,088	Refinancing of floating rate notes issued in April 2009	Refinancing and working capital	-

## **XI. DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES**

### **Risks Relating to Our Business**

*Competition may reduce our market share and harm our results of operations and financial condition.*

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

Prior to April 1996, we were the only wireless telecommunications service provider in Korea. Since then, several new providers have entered the market, offering wireless voice and data services that compete directly with our business. The collective market share of these providers amounts to approximately 49.5%, in terms of numbers of wireless service subscribers, as of December 31, 2011. Since 2000, there has also been considerable consolidation in the wireless telecommunications industry, resulting in the emergence of stronger competitors, including the merger of KT Freetel Co., Ltd., or KTF, one of our principal wireless competitors before the merger, into KT Corporation, or KT, Korea's principal fixed-line operator, in June 2009 and the merger in January 2010 of LG DACOM Corporation and LG Powercomm Co., Ltd. into LG Telecom Co., Ltd., which subsequently changed its name to LG Uplus Corp., or LG U+. Such consolidation has created large, well-capitalized competitors with substantial financial, technical, marketing and other resources to respond to our business offerings. In addition, our broadband Internet access service provided through SK Broadband competes with other providers of Internet access services, including KT, LG U+ and cable companies, and our fixed-line telephone service provided through SK Broadband competes with KT, as well as providers of voice over Internet protocol, or VoIP, services. Future business combinations and alliances in the telecommunications industry may also create significant new competitors or enhance the abilities of our current competitors to offer more competitive services and could harm our business and results of operations.

Continued competition from the other wireless and fixed-line service providers has also resulted in, and may continue to result in, a substantial level of deactivations among our subscribers. Subscriber deactivations, or churn, may significantly harm our business and results of operations. In 2011, the churn rate in our wireless business ranged from 2.5% to 3.0%, with an average churn rate of 2.7%, compared to an average churn rate of 2.7% in 2010. Intensification of competition in the future may cause our churn rates to increase. The increased competition may cause us to increase our marketing expenses as a percentage of sales to attract and retain subscribers.

However, on May 13, 2010, the KCC announced a guideline recommending that telecommunication service providers limit their marketing expenses to 22% of their annual sales, which was lowered to 20% of annual sales with respect to fiscal years 2011 and 2012. Such marketing expenses include initial commissions, monthly commissions and retention commissions paid to our authorized dealers and subscribers, including handset subsidies, but do not include advertising expenses. While the guideline is not binding, we, as well as our competitors, nonetheless try to adhere to such guideline when feasible, which may have a material adverse effect on our businesses and results of operations.

In addition, in March 2008, the KCC fully lifted its prohibition on the practice of telecommunications services providers to offer handsets at below retail prices to attract new subscribers. As a result of the Government's decision to allow handset subsidies, we have faced increased competition from other mobile service providers and increased our marketing expenses. However, in order to comply with the KCC's guideline on marketing expenditures, we may not be able to spend sufficient funds on marketing to effectively compete with our competitors, and any material decrease in our marketing expenditures may have a material adverse effect on our results of operations.

In 2007, the KCC introduced certain regulations to allow telecommunication service providers to bundle their services as well as allow our competitors to employ services provided by us so that they can offer similar discounted package services. Competition intensified as licensed transmission service providers were permitted to offer local, domestic long-distance and international telephone services, as well as broadband Internet access and Internet phone

services, without additional business licenses. Moreover, beginning in September 2010, we are required to lease our networks to a mobile virtual network operator, or MVNO, at such MVNO's request, at a rate mutually agreed upon that complies with the standards set by the KCC. To date, four MVNOs have commenced providing wireless telecommunications services using the networks leased from us. Furthermore, CJ HelloVision Co., Ltd. commenced providing wireless voice and data services as an MVNO using the networks leased from KT in January 2012. In addition, Korea Mobile Internet, or KMI, and Internet Space Time Co., Ltd., or IST, applied in 2011 for a license to provide wireless Internet and mobile VoIP services based on the wireless broadband Internet, or WiBro, technologies. While the KCC rejected KMI's and IST's applications in December 2011 based on their insufficient technological and financial capabilities, among other factors, they may reapply after amending their applications. We believe the introduction of bundled services and the entrance of MVNOs or another wireless service provider into the wireless telecommunications market may further increase competition in the telecommunications sector, as well as cause downward price pressure on the fees we charge for our services, which, in turn, may have a material adverse effect on our results of operations, financial position and cash flows.

Increasingly, our wireless and fixed-line voice and text message services also face competition from companies that provide voice and text message services over the fixed-line or mobile Internet, such as Skype and Kakao Talk, some without charging a fee for such services. This trend could negatively impact customer demand for our voice and text message services and may have a material adverse effect on our results of operations, financial position and cash flows.

We expect competition to intensify as a result of continued consolidation of our competitors, regulatory changes and the rapid development of new technologies, products and services. Our ability to compete successfully will depend on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, economic conditions and discount pricing strategies by competitors.

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

The telecommunications industry has been characterized by continual improvement and advances in technology, and this trend is expected to continue. We and our competitors have continually implemented technology upgrades from basic code division multiple access, or CDMA, network to wide-band code division multiple access, or WCDMA, which is the 3G technology implemented by us, and to long term evolution, or LTE, technology, which is generally referred to as a 4G technology. Our WCDMA network currently supports more advanced high-speed uplink packet access, or HSUPA, technology, as well as evolved high speed packet access, or HSPA+, technology. We commenced commercial LTE services in July 2011 at the same time with LG U+, while KT commenced its commercial LTE services in January 2012. The more successful introduction of a 4G network by a competitor, including better market acceptance of a competitor's 4G-based services, could materially and adversely affect our existing wireless businesses as well as the returns on future investments we may make in our 4G network or our other businesses.

In March 2005, we obtained a license from the MIC to provide WiBro services. WiBro enables us to offer high-speed and large-packet data services, including wireless broadband Internet access to portable computers and other portable devices. We commercially launched WiBro service in June 2006, initially to 24 "hot zone" areas, which are neighborhoods and districts that we have determined to be high-data traffic areas, in seven cities in Korea. By the end of 2011, we have extended WiBro service to hot zone areas in 84 cities throughout Korea. As the implementation of WiBro service in Korea is relatively new, we cannot assure you that there will continue to be sufficient demand for our WiBro services. Our WiBro services may not be commercially successful if market conditions are unfavorable or service demand is weak.

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

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

We have made, and intend to continue to make, capital investments to develop and launch our LTE service. In 2011, we spent Won 233.7 billion in capital expenditures to build and expand our LTE network. We plan to make further capital investments related to our LTE service in the future. Our LTE-related investment plans are subject to change, and will depend, in part, on market demand for LTE service, the competitive landscape for provision of such service and the development of competing technologies. There may not be sufficient demand for our LTE service, as a result of competition or otherwise, to permit us to recoup or profit from our LTE-related capital investments. KT commercially launched its LTE service in January 2012, while LG U+ commenced its commercial LTE service in July 2011. The more successful operation of LTE networks by KT, LG U+ or another competitor, including better market acceptance of a competitor's LTE service, could also materially and adversely affect our business.

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

As a part of our growth strategy, we plan to selectively seek business opportunities abroad. In May 2006 our subsidiary, HELIO, LLC, launched cellular voice and data services across the United States. In August 2008, together with EarthLink Inc., our joint venture partner in HELIO, we sold our equity interest in HELIO to Virgin Mobile USA, Inc., in exchange for an equity stake in Virgin Mobile USA, Inc. In November 2009, we sold our equity interest in Virgin Mobile USA, Inc. to Sprint Nextel Corporation in connection with the merger of Virgin Mobile USA, Inc. with and into Sprint Nextel Corporation, in exchange for a 0.6% equity interest in Sprint Nextel Corporation. In 2010, we sold all of the shares of Sprint Nextel Corporation held by us. In connection with our investment in HELIO, we have recognized a substantial loss through the end of 2010. We continue to seek other opportunities to expand our business abroad, as such opportunities present themselves. For example, in November 2010, we invested approximately \$60 million to LightSquared Inc., which plans to build a wholesale wireless broadband network in the United States but has recently been facing difficulty as it has failed to obtain the approval of the Federal Communications Commission due to signal interference with the global positioning system. These global businesses may require further investment from us.

We also seek growth through investments in new businesses. In February 2012, we acquired a 21.05% equity stake in Hynix Semiconductor Inc., or Hynix, the world's second-largest memory-chip maker by revenue, for an aggregate purchase price of approximately Won 3.4 trillion, and became its largest shareholder.

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

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

We have pursued convergence growth opportunities. For example, in 2008 and 2009, we acquired an additional equity stake in SK Broadband, Korea's second-largest fixed-line operator, for an aggregate purchase price of approximately Won 1.45 trillion and currently hold a 50.6% equity stake in the company. In February 2010, we acquired a 49% equity stake in Hana SK Card Co., Ltd. for the purchase price of Won 400 billion in order to provide cross-over services between telecommunication and finance. In September 2009, we also acquired the leased-line business and related ancillary businesses of SK Networks Co., Ltd. for Won 892.8 billion and assumed Won 611.4 billion of debt as part of the transaction. While we are hoping to benefit from a range of synergies from the acquisitions, including by offering our customers bundled fixed-line and mobile telecommunications services, we

may not be able to integrate our new businesses and may fail to realize the expected benefits in the near term, or at all.

In particular, we may experience difficulties in operating SK Broadband's fixed-line telecommunications and broadband Internet services with our existing products and services, and we may be unsuccessful in retaining SK Broadband's existing customers. Since April 2008, customers of SK Broadband have filed lawsuits against SK Broadband in the Seoul Central District Court, alleging that SK Broadband had violated customers' privacy, and an investigation against SK Broadband was initiated by the Seoul Central Prosecutor's Office, the KCC and the Korea Trade Commission. In connection with its investigation, the KCC suspended SK Broadband from soliciting new subscribers for its broadband Internet services for a period of 40 days from July 1, 2008 and, in addition, imposed an administrative fine of Won 178 million. As of March 31, 2012, the number of plaintiffs was approximately 22,000 and the aggregate amount of damages claimed by such plaintiffs was approximately Won 24.1 billion.

In February 2012, we acquired a 21.05% equity stake in Hynix and became its largest shareholder. Our business and financial condition may be adversely affected if we fail to manage our investment in Hynix successfully. Since the memory semiconductor industry in which Hynix operates is subject to cyclical fluctuations, our financial condition and results of operations may be adversely affected by a downturn in the memory semiconductor industry. From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged downturns, which often occur in connection with a deterioration of global economic conditions. For example, Hynix recorded net losses of Won 4,744.7 billion and Won 332.6 billion in 2008 and 2009, respectively, due to a severe downturn in the memory semiconductor industry. In addition, the memory semiconductor industry is experiencing intense competition and the average selling prices of semiconductor products have generally declined in recent years and are expected to continue to decline with time irrespective of industry-wide cyclicity and fluctuations as a result of, among other factors, technological advancements and cost reductions. Accordingly, Hynix's operating results would be adversely affected if it fails to compete successfully or decrease manufacturing costs at an adequate level. Since our share of Hynix's net losses will be reflected in our income statement as equity in losses of affiliates, any significant loss of Hynix could have a material adverse effect on our results of operations.

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

According to data published by the KCC and our population estimates based on historical data published by the National Statistical Office of Korea, the penetration rate for the Korean wireless telecommunications service industry as of December 31, 2011 was approximately 105.5%, which is high compared to many industrialized countries. Therefore, the penetration rates for wireless telecommunications service in Korea will not grow significantly. As a result of the already high penetration rates in Korea for wireless services coupled with our leading market share, we expect our subscriber growth rate to decrease. Slowed growth in penetration rates without a commensurate increase in revenues through the introduction of new services and increased use of our services by existing subscribers would likely have a material adverse effect on our financial condition, results of operations and cash flows.

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

One of the principal limitations on a wireless network's subscriber capacity is the amount of spectrum available for use by the system. According to the KCC's final plan announced in February 2010, the amount of spectrum in the 800 MHz band allocated to us was reduced to 2 x 15 MHz of spectrum beginning in July 2011 from the previous 2 x 22.5 MHz. Instead, we have been allocated an additional 2 x 10 MHz of spectrum in the 2.1 GHz band for our use until December 2016, which we have been using for our 3G services since October 2010. In August 2011, the KCC auctioned the right to use 20 MHz of bandwidth in the 1.8 GHz spectrum, 20 MHz of bandwidth in the 2.1 GHz spectrum and 10 MHz of bandwidth in the 800 MHz spectrum. We acquired the right to use the 20 MHz of

bandwidth in the 1.8 GHz spectrum at a price of Won 995.0 billion. We are obligated to pay the license fee in installments during the license period of 10 years. KT acquired the right to use the 10 MHz of bandwidth in the 800 MHz spectrum for Won 261.0 billion and LG U+ acquired the right to use the 20 MHz of bandwidth in the 2.1 GHz spectrum for Won 445.5 billion. We currently use 10 MHz of bandwidth in the 800 MHz spectrum for our 2G services, 60 MHz of bandwidth in the 2.1 GHz spectrum for our 3G services and 20 MHz of bandwidth in the 800 MHz spectrum for our LTE services, as well as 27 MHz of spectrum in the 2.3 GHz band for our WiBro services. We plan to use the 20 MHz of bandwidth in the 1.8 GHz spectrum for our LTE services.

The growth of our wireless data businesses has been a significant factor in the increased utilization of our bandwidth, since wireless data applications are generally more bandwidth-intensive than voice services. In particular, the increasing popularity of smartphones and data intensive applications among smartphone users has recently been a major factor for the high utilization of our bandwidth. This trend has been offset in part by the implementation of new technologies, such as the CDMA 1xEV-DO upgrades to our CDMA network and the completion of our HSDPA-capable WCDMA network and LTE network, which enables more efficient usage of our bandwidth than was possible on our basic CDMA network. However, if the current trend of increased data transmission use by our subscribers continues, or the volume of the multimedia content we offer through our wireless data services substantially grows, our bandwidth capacity requirements are likely to increase. While we believe that we can address the capacity constraint issue through system upgrades and efficient allocation of bandwidth, inability to address such capacity constraints in a timely manner may adversely affect our business, results of operations, financial position and cash flows. In the event we are unable to maintain sufficient bandwidth capacity, our subscribers may perceive a general slowdown of wireless services. Growth of our wireless business will depend in part upon our ability to manage effectively our bandwidth capacity and to implement efficiently and in a timely manner new bandwidth-efficient technologies if they become available. We cannot assure you that bandwidth constraints will not adversely affect the growth of our wireless business. Furthermore, we may be required to pay a substantial amount of purchase price to acquire bandwidth capacity in order to meet increasing bandwidth demand, which may adversely affect our financial condition and results of operations.

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

Our success depends to a significant extent upon the continued service of our research and development and engineering personnel, and on our ability to continue to attract, retain and motivate qualified researchers and engineers. In particular, our focus on leading the market in introducing new services has meant that we must aggressively recruit engineers with expertise in cutting-edge technologies.

We also depend on the services of experienced key senior management, and if we lose their services, it would be difficult to find and integrate replacement personnel in a timely manner, or at all.

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

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

Certain of our debt instruments contain financial and other covenants with which we are required to comply on an annual and semi-annual basis. The financial covenants include, but are not limited to, maintenance of credit ratings and debt-to-equity ratios. The documentation for such debt also contains negative pledge provisions limiting our ability to provide liens on our assets as well as cross-default and cross-acceleration clauses, which give related creditors the right to accelerate the amounts due under such debt if an event of default or acceleration has occurred with respect to our existing or future indebtedness, or if any material part of our indebtedness or indebtedness of our subsidiaries is capable of being declared payable before the stated maturity date. In addition, such covenants restrict our ability to raise future debt financing.



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

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

As a network-based wireless telecommunications provider, we have had, and expect to continue to have, significant capital expenditure requirements as we continue to build out, maintain and upgrade our networks. We spent Won 2,960.6 billion for capital expenditures in 2011 and we expect to spend a similar amount for capital expenditures in 2012 for a range of projects, including investments in our backbone networks, investments to improve our WCDMA network-based products and services, investments to build our LTE network, investments in our wireless Internet-related and convergence businesses and funding for mid- to long-term research and development projects, as well as other initiatives, primarily related to our ongoing businesses and in the ordinary course. In 2012, we plan to continue HSUPA and HSPA+ upgrades to our WCDMA network and expand our WiBro service to more extensive “hot zone” areas in 84 cities, as well as expand our LTE service introduced in July 2011.

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

In addition, our recent acquisition of shares of Hynix may result in a substantial increase in our capital requirements in the coming years. In order to finance the purchase of Hynix shares, we borrowed from a syndicate of Korean banks Won 2.5 trillion of loans, of which Won 2 trillion matures in three years and Won 0.5 trillion matures in one year. We will likely need to make financing arrangements to repay such loans. As of December 31, 2011, we had approximately Won 2,220.9 billion in contractual payment obligations due in 2012, almost all of which involve repayment of debt obligations.

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

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

We purchase wireless network equipment from a small number of suppliers. To date, we have purchased substantially all of the equipment for our CDMA network from Samsung Electronics and substantially all of the equipment for our WCDMA network, including the software and firmware used to upgrade our WCDMA network, from Samsung Electronics and LG Ericsson. In addition, to date, we have purchased substantially all of the

equipment for our WiBro network from Samsung Electronics. To date, we have purchased substantially all of the equipment for our LTE network from Samsung Electronics, LG Ericsson and Nokia Siemens Networks. We believe Samsung Electronics currently manufactures approximately half of the wireless handsets sold to our subscribers. Although other manufacturers sell the equipment we require, sourcing such equipment from other manufacturers could result in unanticipated costs in maintenance and upkeep of the CDMA and WCDMA networks, as well as unanticipated increased costs in the planned expansion of our LTE and WiBro networks. Inability to obtain the equipment needed for our networks in a timely manner may have an adverse effect on our business, financial condition, results of operations and cash flows.

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

***Our business relies on technology developed by us as well as technologies provided by third parties, and our business will suffer if we are unable to protect our proprietary rights, obtain new licensing agreements or renew existing licensing agreements with third parties.***

We own numerous patents and trademarks worldwide, and have applications for patents pending in many countries, including Korea, Japan, China, the United States and Europe. We also license a number of patented processes and trademarks under cross-licensing, technical assistance and other agreements. In addition to active internal and external research and development efforts, our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our services.

We may be required to defend against charges of infringement of patent or other proprietary rights of third parties. Although we have not experienced any significant patent or other intellectual property disputes, we cannot be certain that any significant patent or other intellectual property disputes will not occur in the future. Defending our patent and other proprietary rights could require us to incur substantial expense and to divert significant resources of our technical and management personnel, and could result in our loss of rights to employ certain technologies to provide services. If we are unable to renew our technology licensing arrangements on acceptable terms, we may lose the legal protection to use certain of the technologies we employ to provide services and be prohibited from using those technologies which may prevent us from providing our services. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms than we do. We also cannot provide assurance that we will be able to obtain additional licenses for new or existing technologies on acceptable terms or at all.

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

Our wireless and fixed-line subscribers increasingly utilize our network to access the Internet and, as a consequence, we or they may become victim to common malicious and abusive Internet activities, such as unsolicited mass advertising (i.e., “spam”), hacking of personal information and dissemination of viruses, worms and other destructive or disruptive software. These activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers and damage to our or our customers’ equipment and data. Significant incidents could lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to us to service our customers and protect our network. For example, in July 2011, a leak of personal information of approximately 35 million subscribers of Nate and Cyworld websites operated by SK Communications Co., Ltd., our consolidated subsidiary, occurred. As of December 31, 2011, seven lawsuits were filed on behalf of approximately 4,000 plaintiffs against SK Communications, alleging that the leak was caused by its poor management of subscribers’ personal information and seeking damages of approximately Won 4.0 billion. On April 26, 2012, Gumi City Court rendered a judgment that accepted a plaintiff’s claim in part, ordering a payment of Won 1 million to him, while other cases remain pending at various district courts in Korea. SK Communications is considering an appeal of Gumi City Court’s judgment. Any significant loss of our subscribers or revenue due to incidents of malicious and abusive

Internet practices or significant increase in costs of serving those subscribers could adversely affect our business, financial condition and results of operations.

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

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

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

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

Most of our businesses are subject to extensive governmental supervision and regulation. The KCC has periodically reviewed the tariffs charged by wireless operators and has, from time to time, suggested tariff reductions. Although these suggestions are not binding, we have in the past implemented some tariff reductions in response to KCC recommendations. After discussions with the KCC, in November 2009, we adopted various tariff reduction measures, including a reduction of the initial subscription fee by 27% and an increase in discounts for long-term subscribers. In March 2010, we also began to charge voice calls on a per-second basis, which has the effect of reducing the usage charges compared with the previous system of charging per ten seconds. After discussions with the KCC, in June 2011, we announced further tariff reduction measures, including a reduction of the monthly fee by Won 1,000 for every subscriber, an exemption of usage charges for short text message service, or SMS, up to 50 messages per month and the introduction of customized fixed rate plans for smartphone users, which were implemented in the second half of 2011.

The Government also plays an active role in the selection of technology to be used by telecommunications operators in Korea. The MIC adopted the WCDMA and CDMA2000 technologies as the only standards available in Korea for implementing 3G services. The KCC may impose similar restrictions on the choice of technology used in future telecommunications services, and it is possible that technologies promoted by the Government in the future may not provide the best commercial returns for us.

Furthermore, the Government sets the policies regarding the use of frequencies and allocates the spectrum of frequencies used for wireless telecommunications. In February 2010, the KCC announced its final plan to reallocate the spectrum of frequencies among us, KT and LG U+. In addition, in August 2011 the KCC auctioned the right to use 20 MHz of bandwidth in the 1.8 GHz spectrum, 20 MHz of bandwidth in the 2.1 GHz spectrum and 10 MHz of bandwidth in the 800 MHz spectrum. In the auction, we acquired the right to use the 20 MHz of bandwidth in the 1.8 GHz spectrum at a price of Won 995.0 billion, KT acquired the right to use the 10 MHz of bandwidth in the 800 MHz spectrum for Won 261.0 billion and LG U+ acquired the right to use the 20 MHz of bandwidth in the 2.1 GHz spectrum for Won 445.5 billion. While we do not believe the reallocation of spectrum will materially impact our ability to maintain sufficient bandwidth capacity, the reallocation and new allocation of the spectrum to our existing or new competitors could increase competition among wireless service providers, which may have an adverse effect on our business.

Pursuant to recent amendments to the Telecommunications Business Act, which became effective as of September 23, 2010, certain mobile network operators designated by the KCC, which currently include only us, are required to lease their networks or allow use of their networks (collectively, “wholesale lease”) to other network service providers, such as an MVNO, that have requested such wholesale lease in order to provide their own services using the leased networks. To date, four MVNOs have commenced providing wireless telecommunications services using the networks leased from us. We believe that leasing a portion of our bandwidth capacity to an

MVNO would impair our ability to use our bandwidth in ways that would generate maximum revenues and would strengthen our MVNO competitors by granting them access and lowering their costs to enter into our markets. Accordingly, our profitability may be adversely affected.

Our wireless telecommunications services depend, in part, on our interconnection arrangements with domestic and international fixed-line and other wireless networks. Our interconnection arrangements, including the interconnection rates we pay and interconnection rates we charge, affect our revenues and operating results. The KCC determines the basic framework for interconnection arrangements, including interconnection policies relating to interconnection rates in Korea, and the KCC has changed this framework several times in the past. We cannot assure you that we will not be adversely affected by future changes in the KCC's interconnection policies.

In January 2003, the MIC announced its plan to implement number portability with respect to wireless telecommunications service in Korea. The number portability system allows wireless subscribers to switch wireless service operators while retaining the same mobile phone number. In addition, the MIC has also required all new subscribers to be given numbers with the '010' prefix starting January 2004, and it has been gradually retracting the mobile service identification numbers which had been unique to each wireless telecommunications service provider, including '011' for our cellular services. The KCC plans to continue to pursue the integration process and complete the process by around 2018, when all mobile telephone numbers would have the prefix identification number "010". Historically, '011' has had high brand recognition in Korea as the premium wireless telecommunications service. The Government's adoption of the number portability system and the consolidation of the prefix numbers have resulted in and may continue to result in weakened customer loyalty, increased competition among wireless service providers and higher costs of marketing, increased subscriber deactivations and increased churn rate, all of which had, and may continue to have, an adverse effect on our results of operations.

In addition, the KCC may revoke our licenses or suspend any of our businesses if we fail to comply with its rules, regulations and corrective orders, including the rules restricting beneficial ownership and control or any violation of the conditions of our licenses. Alternatively, in lieu of suspension of our business, the KCC may levy a monetary penalty of up to 3% of the average of our annual revenue for the preceding three fiscal years. The revocation of our cellular licenses, suspension of our business or imposition of monetary penalties by the KCC could have a material adverse effect on our business. We believe we are currently in compliance with the material terms of all our cellular licenses, including our WCDMA, LTE and WiBro licenses.

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

The KCC endeavors to promote competition in the Korean telecommunications markets through measures designed to prevent a dominant service provider from exercising its market power and deterring the emergence and development of viable competitors. We are currently designated by the KCC as the "market dominant service provider" in respect of our wireless telecommunications business. As such, we are subject to additional regulations to which certain of our competitors are not subject. For example, under current Government regulations, we must obtain prior approval from the KCC to raise our existing rates or introduce new rates. We could also be required by the KCC to charge higher usage rates than our competitors for future services. In addition, we were required to introduce number portability earlier than our competitors, KT and LG U+.

We also qualify as a "market-dominating business entity" under the Fair Trade Act, which subjects us to additional regulations. For instance, during our acquisition of Shinsegi Telecom, Inc. in 2002, the Fair Trade Commission of Korea, or the FTC, approved the acquisition on the condition that, among other things, our and Shinsegi Telecom's combined market share in the wireless telecommunications market, based on numbers of subscribers, be less than 50% as of June 30, 2001. In order to satisfy this condition, we reduced the level of our subscriber activations and adopted more stringent involuntary subscriber deactivation policies beginning in 2000 and ceased accepting new subscribers from April 1, 2001 through June 30, 2001. While we are no longer subject to any market share limitations, the Government may impose restrictions on our market share in the future. If we become subject to market share limitations, our ability to compete effectively will be impeded.

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

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

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

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

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

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

In recent years, difficulties affecting the global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The legislators and financial regulators in the United States and other jurisdictions, including Korea, have implemented a number of policy measures designed to add stability to financial markets. The overall impact of these legislative and regulatory efforts on the global financial markets continues to be uncertain, and they may not have the intended stabilizing effects. While the rate of deterioration of the global economy has slowed since the second half of 2009, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in 2012 and beyond remain uncertain. For example, commencing in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the downgrading by Standard & Poor’s Rating Services of the long-term sovereign credit rating of the United States to “AA+” from “AAA” in August 2011 and the financial difficulties affecting many other governments worldwide, in particular in Greece, Spain, Italy and other countries in Europe. In addition, measures adopted by the international community to sanction Iran for its nuclear weapons program, as well as political instability in various countries in the Middle East and Northern Africa, including in Egypt, Tunisia, Libya, Syria and Yemen, have resulted in volatility and uncertainty in the global energy markets. These or other developments could potentially trigger another financial and economic crisis.

We are exposed to risks related to changes in the global and Korean economic environments, changes in interest rates and instability in the global financial markets. Adverse global and Korean economic conditions may lead to overall decline and volatility in securities prices of Korean companies, including ours, which may result in

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

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

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

- an increase in the amount of Won required by us to make interest and principal payments on our foreign currency-denominated debt; and
- an increase, in Won terms, of the costs of equipment that we purchase from overseas sources which we pay for in Dollars or other foreign currencies.

Fluctuations in the exchange rate between the Won and the Dollar will affect the Dollar equivalent of the Won price of the shares of our common stock on the KRX KOSPI Market of the Korea Exchange, or the KRX KOSPI Market.

### **Risks Relating to Korea**

***Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.***

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

Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. Due to liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the U.S. dollar has also fluctuated significantly in recent years. Furthermore, as a result of adverse global and Korean economic conditions, there has been continuing volatility in the stock prices of Korean companies. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition, results of operations and cash flows.

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

- difficulties in the housing and financial sectors in the United States and elsewhere and increased sovereign default risks in selected countries and the resulting adverse effects on the global financial markets;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates and stock markets;

- continuing adverse conditions in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;
- substantial decreases in the market prices of Korean real estate;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- declines in consumer confidence and a slowdown in consumer spending;
- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased Korean government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;
- the economic impact of any pending or future free trade agreements, including the free trade agreements with the United States and the European Union;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the recurrence of severe acute respiratory syndrome or an outbreak of swine or avian flu in Asia and other parts of the world;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;
- the occurrence of severe earthquakes, tsunamis or other natural disasters in Korea and other parts of the world, particularly in trading partners (such as the March 2011 earthquake and tsunami in Japan, which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake);
- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the supply of oil or increase in the price of oil; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events.

In particular, since the death of Kim Jong-il, the former North Korean ruler, in mid-December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although before his death, Kim Jong-il designated his third son, Kim Jong-eun, as his successor and also named him as the vice chairman of the Central Military Commission and a general of the North Korean army, the eventual outcome of such leadership transition remains uncertain. Furthermore, as only limited information is available outside of North Korea about Kim Jong-eun, who is reported to be in his late twenties, and it is unclear which individuals or factions, if any, will share political power with Kim Jong-eun or assume the leadership if the transition is not successful, there is significant uncertainty regarding the policies, actions and initiatives that North Korea might pursue in the future.

In addition, in recent years, there have been heightened security concerns stemming from North Korea's nuclear weapon and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six-party multi-lateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program.

North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In May 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea. In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. The Korean government formally accused North Korea of causing the sinking, while North Korea has denied responsibility and has threatened retaliation for any attempt to punish it over the incident. In November 2010, North Korea reportedly fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the maritime border between Korea and North Korea on the west coast of Korea, killing two Korean soldiers and two civilians, wounding many others and causing significant property damage. Korea responded by firing artillery shells back and putting the military on its highest level of alert. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation. On April 13, 2012, North Korea launched a long-range rocket over the Yellow Sea. Korea, Japan and the United States condemned the launch and the United Nations Security Council adopted a chairman's statement condemning North Korea for the launch.

North Korea's economy also faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy or the economies of other countries in Asia, in general, and on our business, financial condition and results of operations and the market value of our common stock.

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



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

## **Risks Relating to Securities**

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

The Telecommunications Business Act currently sets a 49% limit on the aggregate foreign ownership of our issued shares. Under the Telecommunications Business Act, as amended, a Korean entity, such as SK Holdings, is deemed to be a foreign entity if its largest shareholder (determined by aggregating the shareholdings of such shareholder and its related parties) is a foreigner and such shareholder (together with the shareholdings of its related parties) holds 15% or more of the issued voting stock of the Korean entity. As of December 31, 2011, SK Holdings owned 20,363,452 shares of our common stock, or approximately 25.22%, of our issued shares. If SK Holdings were considered to be a foreign shareholder, then its shareholding in us would be included in the calculation of our aggregate foreign shareholding and our aggregate foreign shareholding (based on our foreign ownership level as of December 31, 2011, which we believe was 40.3%) would exceed the 49% ceiling on foreign shareholding. As of December 31, 2011, a foreign investment fund and its related parties collectively held a 3.1% stake in SK Holdings. We could breach the foreign ownership limitations if the number of shares of our common stock owned by other foreign persons significantly increases.

If our aggregate foreign shareholding limit is exceeded, the KCC may issue a corrective order to us, the breaching shareholder (including SK Holdings if the breach is caused by an increase in foreign ownership of SK Holdings) and the foreign investment fund and its related parties who own in the aggregate 15% or more of SK Holdings. Furthermore, if SK Holdings is considered a foreign shareholder, it may not exercise its voting rights with respect to the shares held in excess of the 49% ceiling, which may result in a change in control of us. In addition, the KCC may refuse to grant us licenses or permits necessary for entering into new telecommunications businesses until our aggregate foreign shareholding is reduced to below 49%.

If our convertible notes are converted by foreign holders and such conversion causes a violation of the foreign ownership restrictions of the Telecommunications Business Act, or in certain other circumstances, we may sell common stock in order to settle the converting holders' conversion rights in cash in lieu of delivering common stock or ADSs to them, and these sales might adversely affect the market price of our common stock.

In April 2009, we sold US\$332.5 million in 1.75% convertible notes due 2014, all of which currently remain outstanding. As of March 31, 2012, these convertible notes were convertible by the holders into shares of our common stock at the rate of Won 199,280 per share. These notes are held principally by foreign holders. If (1) the exercise by the holder of the conversion right would be prohibited by Korean law or we reasonably conclude that the delivery of common stock or ADSs upon conversion of these notes would result in a violation of applicable Korean law or (2) we do not have a sufficient number of shares of our common stock to satisfy the conversion right, then we will pay a converting holder a cash settlement payment. In such situations, we may sell such number of treasury shares held in trust for us that corresponds to the number of shares of common stock that would have been deliverable in the absence of the 49% foreign shareholding restrictions imposed by the Telecommunications Business Act or other legal restrictions. The number of shares sold in these circumstances might be substantial. We cannot assure you that such sales would not adversely affect the market prices of our common stock.

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

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

As of December 31, 2011, SK Holdings owned 25.22% of our total issued common stock and has not agreed to any restrictions on its ability to dispose of our shares. We can make no prediction as to the timing or amount of any sales of our common stock. We cannot assure you that future sales of shares of our common stock, or the availability of shares of our common stock for future sale, will not adversely affect the market prices of the shares of our common stock prevailing from time to time.

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

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

**Attachment 1: IFRS Consolidated Financial Statements**



## **SK TELECOM CO., LTD. AND SUBSIDIARIES**

*CONSOLIDATED FINANCIAL STATEMENTS*

*AS OF DECEMBER 31, 2011, DECEMBER 31, 2010 AND JANUARY 1, 2010 AND  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
AND INDEPENDENT AUDITORS' REPORT*

## **Independent Auditors' Report**

To the Board of Directors and Stockholders of  
SK Telecom Co., Ltd.

We have audited the accompanying consolidated statements of financial position of SK Telecom Co., Ltd. and subsidiaries (the "Company") as of December 31, 2011, December 31, 2010 and January 1, 2010, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2011. 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 consolidated financial statements present fairly, in all material respects, the financial position of SK Telecom Co., Ltd. and subsidiaries as of December 31, 2011, December 31, 2010 and January 1, 2010, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011, in conformity with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Our audits also comprehended the translation of the Korean won amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the accompanying consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers of the financial statements.

/s/ Deloitte Anjin LLC

March 13, 2012

**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2011, 2010 AND JANUARY 1, 2010**

			Korean won			Translation into U.S. dollars (Note 2)
A S S E T S			January 1, 2010	December 31, 2010	December 31, 2011	December 31, 2011
	<u>Notes</u>		(In millions)			(In thousands)
CURRENT ASSETS:						
Cash and cash equivalents	4,29	₩ 905,561	₩ 659,405	₩ 1,650,794	\$ 1,424,941	
Short-term financial instruments	4,29	471,970	567,152	979,564	845,545	
Short-term investment securities	4,7	376,722	400,531	94,829	81,855	
Accounts receivable - trade, net	4,5,28	1,832,967	1,949,397	1,823,170	1,573,733	
Short-term loans, net	4,5,28	75,941	94,924	100,429	86,689	
Accounts receivable - other, net	4,5,28	2,421,874	2,531,847	908,836	784,494	
Prepaid expenses		172,225	182,091	118,200	102,028	
Derivative assets	4,30	-	-	148,038	127,784	
Inventories, net	6,29	119,317	149,223	219,590	189,547	
Advanced payments and other	4,5,7	65,391	119,422	74,029	63,902	
Total Current Assets		6,441,968	6,653,992	6,117,479	5,280,518	
NON-CURRENT ASSETS:						
Long-term financial instruments	4,29	6,565	117	7,628	6,584	
Long-term investment securities	4,7	2,443,978	1,680,582	1,537,945	1,327,531	
Investments in associates	8	549,913	1,204,692	1,384,605	1,195,170	
Property and equipment, net	9,28,29	8,027,678	8,153,413	9,030,998	7,795,423	
Investment property	10	212,742	197,307	271,086	233,997	
Goodwill	11	1,736,733	1,736,649	1,749,933	1,510,516	
Intangible assets	12	2,004,218	1,884,956	2,995,803	2,585,933	
Long-term loans, net	4,5,28	81,109	84,323	95,565	82,490	
Long-term accounts receivable - other	4,5	761,735	527,106	5,393	4,655	
Long-term prepaid expenses	29	449,906	411,509	567,762	490,084	
Guarantee deposits	4,5,28	232,975	250,333	245,218	211,669	
Long-term derivative assets	4,30	314,658	203,382	105,915	91,424	
Deferred income tax assets	24	28,646	106,860	227,578	196,442	
Other	4,5	43,900	37,168	23,128	19,965	
Total Non-current Assets		16,894,756	16,478,397	18,248,557	15,751,883	
TOTAL ASSETS		₩ 23,336,724	₩ 23,132,389	₩ 24,366,036	\$ 21,032,401	

(Continued)

**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**DECEMBER 31, 2011, 2010 AND JANUARY 1, 2010**

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	Korean won		Translation into U.S. dollars (Note 2)	
		January 1, 2010	December 31, 2010	December 31, 2011	December 31, 2011
		(In millions)			(In thousands)
<b>CURRENT LIABILITIES:</b>					
Short-term borrowings	4, 13, 29	₩ 554,469	₩ 523,710	₩ 700,713	\$ 604,845
Accounts payable - trade	4, 28	164,314	195,777	195,391	168,659
Accounts payable - other	4, 28	1,307,236	1,434,329	1,507,877	1,301,577
Withholdings	4	288,455	408,261	496,860	428,882
Accrued expenses	4	419,816	677,480	744,673	642,791
Income tax payable	24	395,503	259,871	293,725	253,539
Unearned revenue		341,538	311,365	290,791	251,006
Derivative liabilities	4, 30	36,318	15,393	4,645	4,009
Provisions	15	516,382	652,889	657,198	567,284
Current portion of long-term debt, net	4, 13, 14, 16	1,262,383	1,601,231	1,662,841	1,435,340
Advanced receipts and other		96,364	121,864	118,876	102,612
Total Current Liabilities		5,382,778	6,202,170	6,673,590	5,760,544
<b>NON-CURRENT LIABILITIES:</b>					
Bonds payable, net	4, 13	4,453,300	3,658,546	3,229,009	2,787,233
Long-term borrowings	4, 13, 29	844,640	235,968	323,852	279,544
Long-term payables - other	4, 14	170,953	54,783	847,496	731,546
Long-term unearned revenue		274,876	241,892	212,172	183,144
Finance lease liabilities	4, 16	77,709	60,075	41,940	36,202
Retirement benefit obligation	17	53,659	67,870	85,941	74,183
Long-term derivative liabilities	4, 30	34,495	14,761	-	-
Long-term provisions	15	121,097	112,227	142,361	122,884
Long-term advanced receipts and other	4, 28	75,172	76,098	76,966	66,435
Total Non-current Liabilities		6,105,901	4,522,220	4,959,737	4,281,171
Total Liabilities		11,488,679	10,724,390	11,633,327	10,041,715
<b>EQUITY:</b>					
Share capital	1, 18	44,639	44,639	44,639	38,532
Share premium	18, 19	167,876	(78,953)	(285,347)	(246,307)
Retained earnings	20	9,563,940	10,721,249	11,642,525	10,049,655
Reserves	21	919,835	643,056	260,064	224,483
Non-controlling interests		1,151,755	1,078,008	1,070,828	924,323
Total Equity		11,848,045	12,407,999	12,732,709	10,990,686
TOTAL LIABILITIES AND EQUITY		₩ 23,336,724	₩ 23,132,389	₩ 24,366,036	\$ 21,032,401

See accompanying notes to consolidated financial statements.

**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Korean won		Translation into U.S. dollars (Note 2)
		2010	2011	2011
		(In millions except for per share data)		(In thousands except for per share data)
	<u>Notes</u>			
OPERATING REVENUE :				
Revenue	27,28	₩ 15,518,637	₩ 15,938,549	\$ 13,757,919
Other	22	80,525	49,729	42,925
Sub-total		15,599,162	15,988,278	13,800,844
OPERATING EXPENSES :	27,28			
Labor cost	17	1,067,820	1,173,247	1,012,729
Commissions paid		5,598,044	5,646,448	4,873,930
Depreciation and amortization	9, 10, 12	2,155,815	2,331,268	2,012,316
Network interconnection		1,316,296	1,264,109	1,091,160
Leased line		437,830	474,018	409,165
Advertising		338,447	374,269	323,063
Rent		367,292	401,706	346,747
Cost of goods sold		640,933	959,276	828,033
Other	12,22	1,390,774	1,232,479	1,063,857
Sub-total		13,313,251	13,856,820	11,961,000
OPERATING INCOME	27	2,285,911	2,131,458	1,839,844
Financial income	23	477,217	442,325	381,808
Financial costs	23	(441,623)	(343,776)	(296,742)
Equity in earnings of affiliates	8	41,828	39,131	33,777
Equity in losses of affiliates	8	(45,242)	(86,280)	(74,476)
INCOME FROM CONTINUING OPERATION BEFORE INCOME TAX		2,318,091	2,182,858	1,884,211
INCOME TAX FOR CONTINUING OPERATION	24	544,530	599,093	517,128
INCOME FROM CONTINUING OPERATION		1,773,561	1,583,765	1,367,083
INCOME(LOSS) FROM DISCONTINUED OPERATION	32	(6,726)	(1,692)	(1,461)
NET INCOME	27	₩ 1,766,835	₩ 1,582,073	\$ 1,365,622
ATTRIBUTABLE TO :				
Controlling interests		1,841,613	1,612,889	1,392,222
Non-controlling interests		(74,778)	(30,816)	(26,600)
		₩ 1,766,835	₩ 1,582,073	\$ 1,365,622
NET INCOME PER SHARE FROM CONTINUING OPERATION (In Korean won and U.S. dollars)	25	₩ 25,653	₩ 22,864	\$ 19.74
NET INCOME PER SHARE (In Korean won and U.S. dollars)	25	₩ 25,598	₩ 22,848	\$ 19.72
DILUTED NET INCOME PER SHARE FROM CONTINUING OPERATION (In Korean won and U.S. dollars)	25	₩ 24,995	₩ 22,238	\$ 19.20
DILUTED NET INCOME PER SHARE (In Korean won and U.S. dollars)	25	₩ 24,942	₩ 22,223	\$ 19.18

See accompanying notes to consolidated financial statements.



**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Korean won		Translation into U.S. dollars (Note 2)
		2010	2011	2011
		(In millions except for per share data)		(In thousands except for per share data)
	<u>Notes</u>			
NET INCOME		<u>₩ 1,766,835</u>	<u>₩ 1,582,073</u>	<u>\$ 1,365,622</u>
OTHER COMPREHENSIVE INCOME :				
Unrealized losses on valuation of available-for-sale financial assets	21, 24	(204,325)	(433,546)	(374,230)
Share in other comprehensive income of Investments in associates	8, 24	(390)	(2,173)	(1,876)
Gain (loss) on valuation of derivatives	21, 24	(76,613)	29,236	25,236
Foreign-based operations' translation adjustment		(1,459)	40,673	35,109
Actuarial gains (losses) on retirement benefit obligations	17, 24	(4,497)	(25,275)	(21,817)
Sub-total		<u>(287,284)</u>	<u>(391,085)</u>	<u>(337,578)</u>
TOTAL COMPREHENSIVE INCOME		<u>₩ 1,479,551</u>	<u>₩ 1,190,988</u>	<u>\$ 1,028,044</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO :				
Controlling interests		1,560,572	1,206,577	1,041,500
Non-controlling interests		<u>(81,021)</u>	<u>(15,589)</u>	<u>(13,456)</u>
		<u>₩ 1,479,551</u>	<u>₩ 1,190,988</u>	<u>\$ 1,028,044</u>

See accompanying notes to consolidated financial statements.

**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	Notes	Share premium					Retained earnings	Reserves	Controlling Interests	Non-controlling interests	Total stockholders' equity
		Common stock	Paid-in surplus	Treasury stock	Loss on disposal of treasury stock	Other					
(In millions of Korean won)											
Balance, January 1, 2010		₩44,639	₩2,915,887	(₩1,992,083)	(₩15,875)	(₩740,053)	₩9,563,940	₩919,835	₩10,696,290	₩1,151,755	₩11,848,045
Cash dividends	26	-	-	-	-	-	(680,043)	-	(680,043)	-	(680,043)
Total comprehensive income (loss)		-	-	-	-	-	1,837,352	(276,779)	1,560,573	(81,022)	1,479,551
Net income		-	-	-	-	-	1,841,613	-	1,841,613	(74,778)	1,766,835
Other comprehensive income	21	-	-	-	-	-	(4,261)	(276,779)	(281,040)	(6,244)	(287,284)
Treasury stock	19	-	-	(210,356)	-	-	-	-	(210,356)	-	(210,356)
Changes in subsidiaries		-	-	-	-	(36,473)	-	-	(36,473)	7,275	(29,198)
Balance, December 31, 2010		₩44,639	₩2,915,887	(₩2,202,439)	(₩15,875)	(₩776,526)	₩10,721,249	₩643,056	₩11,329,991	₩1,078,008	₩12,407,999
Balance, January 1, 2011		₩44,639	₩2,915,887	(₩2,202,439)	(₩15,875)	(₩776,526)	₩10,721,249	₩643,056	₩11,329,991	₩1,078,008	₩12,407,999
Cash dividends	26	-	-	-	-	-	(668,293)	-	(668,293)	(2,226)	(670,519)
Total comprehensive income (loss)		-	-	-	-	-	1,589,569	(382,992)	1,206,577	(15,589)	1,190,988
Net income		-	-	-	-	-	1,612,889	-	1,612,889	(30,816)	1,582,073
Other comprehensive income	21	-	-	-	-	-	(23,320)	(382,992)	(406,312)	15,227	(391,085)
Treasury stock	19	-	-	(208,012)	-	-	-	-	(208,012)	-	(208,012)
Effect of change in income tax rate	24	-	-	-	(2,980)	-	-	-	(2,980)	-	(2,980)
Changes in subsidiaries		-	-	-	-	4,598	-	-	4,598	10,635	15,233
Balance, December 31, 2011		₩44,639	₩2,915,887	(₩2,410,451)	(₩18,855)	(₩771,928)	₩11,642,525	₩260,064	₩11,661,881	₩1,070,828	₩12,732,709

(Continued)

**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Common stock	Share premium				Retained earnings	Reserves	Controlling interests	Non-controlling interests	Total stockholders' equity
			Paid-in surplus	Treasury stock	Loss on disposal of treasury stock	Other					
<u>Notes</u>											
<b>(In thousands of U.S. dollars)</b>											
Balance, January 1, 2011		\$38,532	\$2,516,950	(\$1,901,112)	(\$13,703)	(\$670,286)	\$9,254,423	\$555,076	\$9,779,880	\$930,521	\$10,710,401
Cash dividends	26	-	-	-	-	-	(576,861)	-	(576,861)	(1,921)	(578,782)
Total comprehensive income (loss)		-	-	-	-	-	1,372,093	(330,593)	1,041,500	(13,456)	1,028,044
Net income		-	-	-	-	-	1,392,222	-	1,392,222	(26,600)	1,365,622
Other comprehensive income	21	-	-	-	-	-	(20,129)	(330,593)	(350,722)	13,144	(337,578)
Treasury stock	19	-	-	(179,553)	-	-	-	-	(179,553)	-	(179,553)
Effect of change in income tax rate	24	-	-	-	(2,572)	-	-	-	(2,572)	-	(2,572)
Changes in subsidiaries		-	-	-	-	3,969	-	-	3,969	9,179	13,148
Balance, December 31, 2011		\$38,532	\$2,516,950	(\$2,080,665)	(\$16,275)	(\$666,317)	\$10,049,655	\$224,483	\$10,066,363	\$924,323	\$10,990,686

See accompanying notes to consolidated financial statements.

**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Korean won		Translation into U.S. dollars (Note 2)
		2010	2011	2011
	<u>Notes</u>	(In millions)		(In thousands)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash generated from operating activities				
Net income		₩ 1,766,835	₩ 1,582,073	\$ 1,365,622
Adjustments for income and expenses	31	3,089,520	3,225,682	2,784,361
Changes in assets and liabilities related to operating activities :	31	277,352	2,180,223	1,881,936
Sub-total		5,133,707	6,987,978	6,031,919
Interest received		208,444	156,745	135,300
Dividends received		32,394	34,521	29,798
Interest paid		(364,704)	(301,632)	(260,364)
Income tax paid		(666,436)	(571,217)	(493,066)
Net Cash Provided by Operating Activities		4,343,405	6,306,395	5,443,587
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash inflows from investing activities:				
Decrease in short-term investment securities, net		168,260	125,000	107,898
Collection of short-term loans		216,857	194,561	167,942
Decrease in long-term financial instruments		3	5	4
Proceeds from sales of long-term investment securities		630,030	256,666	221,550
Proceeds from disposal of associates		58,873	6,381	5,508
Proceeds from disposal of property and equipment		94,254	35,197	30,382
Proceeds from disposal of intangible assets		6,826	3,833	3,309
Collection of long-term loans		17,823	33,824	29,196
Decrease in other non-current assets		2,381	4,122	3,558
Cash inflows from transaction of derivatives		1,255	-	-
Cash inflows from acquisition		42,736	66,277	57,209
Sub-total		1,239,298	725,866	626,556
Cash outflows for investing activities:				
Increase in short-term financial instruments, net		88,682	412,256	355,853
Increase in short-term loans		221,308	233,189	201,285
Increase in long-term financial instruments		55	7,516	6,488
Acquisition of long-term investment securities		150,447	323,246	279,021
Acquisition of associates		736,105	239,975	207,143
Acquisition of property and equipment		2,142,309	2,960,556	2,555,508
Acquisition of investment property		1,991	86,285	74,480
Acquisition of goodwill		-	1,976	1,706
Acquisition of intangible assets		128,032	596,461	514,856
Increase in long-term loans		36,549	13,856	11,960
Increase in other non-current assets		10,778	3,071	2,651
Cash outflows from transaction of derivatives		35,260	4,007	3,459
Cash outflows from acquisition		26,814	82,533	71,241
Sub-total		3,578,330	4,964,927	4,285,651
Net Cash Used in Investing Activities		(₩ 2,339,032)	(₩ 4,239,061)	(\$ 3,659,095)

(Continued)

**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	Korean won		Translation into U.S. dollars (Note 2)
	2010	2011	2011
<u>Notes</u>	(In millions)		(In thousands)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash inflows from financing activities:			
Proceeds from short-term borrowings	₩ -	₩ 174,222	\$ 150,386
Issuance of bonds payable	149,308	1,129,533	974,996
Proceeds from long-term borrowings	108,044	92,367	79,730
Increase in equity of consolidated subsidiaries	6,452	5,769	4,980
Sub-total	263,804	1,401,891	1,210,092
Cash outflows for financing activities:			
Repayment of short-term borrowings	30,910	-	-
Repayment of current portion of long-term debt	739,334	224,581	193,855
Repayment of bonds payable	605,140	842,160	726,940
Repayment of long-term borrowings	200,000	512,377	442,276
Payment of dividends	682,283	668,293	576,861
Acquisition of treasury stock	252,259	208,012	179,553
Cash outflows from transaction of derivatives	-	25,783	22,256
Sub-total	2,509,926	2,481,206	2,141,741
Net Cash Used in Financing Activities	(2,246,122)	(1,079,315)	(931,649)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(241,749)	988,019	852,843
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	905,561	659,405	569,189
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCY	(4,407)	3,370	2,909
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₩ 659,405	₩ 1,650,794	\$ 1,424,941

See accompanying notes to consolidated financial statements.

**SK TELECOM CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**1. GENERAL**

SK Telecom Co., Ltd. ("SK Telecom") was incorporated in March 1984 under the laws of Korea to engage in providing cellular telephone communication services in the Republic of Korea. SK Telecom Co., Ltd. and its subsidiaries (the "Company") mainly provide wireless telecommunications in the Republic of Korea. The Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2011, the Company's total issued shares are held by the following:

	<u>Number of shares</u>	<u>Percentage of total shares issued (%)</u>
SK Holdings, Co., Ltd.	20,363,452	25.22
Tradewinds Global Investors, LLC	4,050,518	5.02
POSCO Corp.	2,341,569	2.90
Institutional investors and other minority stockholders	42,939,460	53.17
Treasury stock	11,050,712	13.69
	<u>80,745,711</u>	<u>100.00</u>

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company maintains its official accounting records in Republic of Korean won ("Won") and prepares consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB"). The Company has adopted IFRS as issued by IASB for the annual period beginning on January 1, 2011. In accordance with IFRS 1 First-time adoption of IFRS, the Company's transition date to IFRS is January 1, 2010. Refer to Note 3, for transition adjustments to IFRS.

The accompanying consolidated financial statements are stated 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 is included solely for the convenience of readers of financial statements and has been made at the rate of ₩1,158.50 to US\$1.00, 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 30, 2011.

The consolidated financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or at fair values. Major accounting policies used for the preparation of the consolidated financial statements are stated below and these accounting policies have been applied consistently to the financial statements for the current period and comparative periods. Historical cost is generally based on the fair value of the consideration paid in exchange for assets. The consolidated financial statements were approved by the board of directors on February 9, 2012.

*Recent Accounting Standards*

Currently, enactments and amendments of the IFRSs are in progress, and the financial information presented in the financial statements may change accordingly in the future. The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

## Financial Instruments: Recognition and Measurement

In November 2009, as part of the International Accounting Standards Board's (IASB) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments. It contained requirements for the classification and measurement of financial assets, and was updated in October 2010 to incorporate financial liabilities. The standard is applicable for annual periods starting on or after January 1, 2015. The full impact of this standard will not be known until the phases addressing hedging and impairments have been completed.

## Fair Value Measurements

In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which establishes a single source of guidance for all fair value measurements, clarifies the definition of fair value, and enhances the disclosures on fair value measurement. Prospective application of this standard is effective for fiscal years beginning on or after January 1, 2013, with early application permitted. The Company does not anticipate significant changes to its fair value measurements and related disclosures as a result of this standard.

## Reporting Entity

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statement, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, and amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangements by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation accounting to arrangements that meet the definition of a joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles. Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier application permitted if all five standards are collectively adopted. The Company is currently assessing the impact of these standards.

## Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 Employee Benefits, which revises the recognition, presentation and disclosure requirements for defined benefit plans. The revised standard requires immediate recognition of actuarial gains and losses in other comprehensive income, eliminating the previous options that were available, and enhances the disclosure requirements for defined benefit plans. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2013, with early application permitted. The Company does not anticipate significant impacts as a result of these amendments.

a. Basis of Consolidation

The consolidated financial statements include the accounts of SK Telecom and the following controlled subsidiaries of SK Telecom as of December 31, 2011.

Subsidiary	Primary business	Number of shares	Ownership Percentage(%)	Location
SK Telink Co., Ltd.	Telecommunication services	1,082,272	83.5	Korea
SK Communications Co., Ltd.	Internet website services	28,029,945	64.6	Korea
PAXNet Co., Ltd.	Internet website services	5,590,452	59.7	Korea
Loen Entertainment, Inc.	Release of music disc	17,088,125	67.6	Korea
Stonebridge Cinema Fund	Investment association	150	57.0	Korea
Ntreev Soft Co., Ltd.	Game software production	2,064,970	63.7	Korea
Commerce Planet Co., Ltd.	Online shopping mall operation agency	29,396	100.0	Korea
SK Broadband Co., Ltd.	Telecommunication services	149,638,354	50.6	Korea
Broadband D&M Co., Ltd.	Base station maintenance service	900,000	100.0	Korea
Broadband Media Co., Ltd.	Multimedia TV portal services	25,200,000	100.0	Korea
Broadband CS Co., Ltd.	Customer Q&A and services	1,210,596	100.0	Korea
K-net Culture and Contents Venture Fund	Investment association	295	59.0	Korea
2nd Benex Focus Investment Fund	Investment association	200	66.7	Korea
Open Innovation Fund	Investment association	450	98.9	Korea
PS&Marketing Corporation	Communications device retail business	46,000,000	100.0	Korea
Service Ace Co., Ltd.	Customer center management service	4,385,400	100.0	Korea
Service Top Co., Ltd.	Customer center management service	2,856,200	100.0	Korea
Network O&S Co., Ltd.	Base station maintenance service	3,000,000	100.0	Korea
BNCP Co., Ltd.	Internet website services	8,820,000	100.0	Korea
Service-In Co., Ltd.	Database & on-line information service	500,000	100.0	Korea
SK Planet Co., Ltd.	Telecommunication services	60,000,000	100.0	Korea
SK Telecom China Holdings Co., Ltd.	Equity Investment	-	100.0	China
Sky Property Mgmt., Ltd.	Real Estate Investment	22,980	60.0	China
Shenzhen E-eye High Tech Co., Ltd.	Manufacturing	-	65.5	China
SK China Real Estate Co., Ltd.	Real Estate Investment	70,000,000	99.4	Hongkong
SKT Vietnam PTE., Ltd.	Telecommunication services	180,476,700	73.3	Singapore
SKT Americas, Inc.	Information gathering and consulting	109	100.0	USA
YTK Investment Ltd	Investment Association	-	100.0	Cayman
Atlas Investment	Investment Association	-	100.0	Cayman
Technology Innovation Partners, L.P	Investment Association	-	100.0	Cayman
SK Telecom China Fund I L.P.	Investment Association	-	100.0	Cayman



The condensed financial information of the Company's controlled subsidiaries as of and for the year ended December 31, 2011 is as follows (In millions of Korean won):

	Total assets	Total liabilities	Revenue	Net income (loss)
SK Telink Co., Ltd.	₩ 420,829	₩ 228,687	₩ 419,131	₩ 35,269
SK Communications Co., Ltd.	314,700	82,658	262,140	(4,366)
PAXNet Co., Ltd.	33,949	11,461	33,004	(2,347)
Loen Entertainment, Inc.	157,104	48,386	167,273	21,398
Stonebridge Cinema Fund	18,506	196	21	1,069
Ntreev Soft Co., Ltd.	37,529	17,304	56,029	8,707
Commerce Planet Co., Ltd.	49,729	51,057	75,038	(556)
SK Broadband Co., Ltd.	3,314,479	1,942,652	2,302,563	9,499
Broadband D&M Co., Ltd.	11,872	7,399	46,433	(49)
Broadband Media Co., Ltd.	89,915	356,816	66,526	(32,214)
Broadband CS Co., Ltd.	6,948	18,744	74,104	63
K-net Culture and Contents Venture Fund	48,057	16	-	(113)
2nd Benex Focus Investment Fund	21,663	285	-	(10,358)
Open Innovation Fund	44,716	432	-	(427)
PS&Marketing Corporation	289,062	143,883	1,078,925	(31,820)
Service Ace Co., Ltd.	43,447	21,669	130,102	1,365
Service Top Co., Ltd.	37,165	23,255	123,366	1,829
Network O&S Co., Ltd.	80,249	61,555	199,653	5,646
BNCP Co., Ltd.	28,631	11,397	17,860	1,877
Service-In Co., Ltd.	3,247	759	6,225	(12)
SK Planet Co., Ltd.	1,677,730	423,903	280,722	11,014
SK Telecom China Holdings Co., Ltd.	36,810	2,442	26,944	(232)
Sky Property Mgmt., Ltd. (Note a)	820,639	317,038	51,204	6,386
Shenzhen E-eye High Tech Co., Ltd.	23,569	3,744	14,703	2,007
SKT Vietnam PTE., Ltd.	42,539	9,769	5,519	205
SKT Americas, Inc.	42,681	1,280	18,468	(14,604)
YTK Investment Ltd	51,218	-	-	-
Atlas Investment (Note b)	50,643	530	-	(2,056)

(Note a) The financial information of Sky Property Mgmt, Ltd. also includes the financial information of SK China Real Estate Co., Ltd., a subsidiary of the Company.

(Note b) The financial information of Atlas Investment includes financial information of Technology Innovation Partners, L.P., Technology Venture Fund, LP, SK Telecom Global Investment B.V. and SK Telecom China Fund I L.P., all of which are also subsidiaries of the Company.

#### *Change in scope of consolidation*

For the year ended December 31, 2011, the Company newly included the following subsidiaries in its consolidation: Service-In Co., Ltd., Atlas Investment and Technology Innovation Partners, L.P. as these entities became the wholly-owned subsidiaries of the Company; SK China Real Estate Co., Ltd. and SK Telecom China Fund I L.P. as the Company obtained ownership of more than 50% of total outstanding common stock of the respective entities ; BNCP Co., Ltd. as the Company acquired a controlling equity interest in the entity; and SK Planet Co., Ltd., a newly established entity which was previously a business unit of SK Telecom.

For the year ended December 31, 2011, the Company excluded SK I Media from its consolidation as the Company disposed of all its common stock. Refer to FN 32 *Discontinued operations*.

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating decisions of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the current period are included in the consolidated statement of income and comprehensive income from the effective date of acquisition and until the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if it results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full during the consolidation.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over its subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the income on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to net income or transferred directly to retained earnings).

#### b. Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in net income as incurred.

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net fair value of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held interest in the acquiree (if any); the excess is recognized immediately in net income as a bargain purchase gain.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in net income. Any changes in value of equity interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to net income as if that interest were disposed of.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in income or loss.

c. Foreign Currency Exchange

The individual financial statements of each entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Company entity are expressed in "Korean Won", which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in net income in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (refer to Note 2.q for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the Company are reclassified to net income.

d. Cash Equivalents

Cash and cash equivalents include cash, bank balances and short-term highly liquid investments with an original maturity of three months or less.

e. Financial Assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") investments, available-for-sale ("AFS") financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*1) Classification of financial assets*

*1-1) Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term or it is a derivative or embedded derivative separated from contracts that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in net income.

*1-2) HTM investments*

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue amortized on an effective yield basis.

*1-3) AFS financial assets*

Non-derivatives financial assets that are not classified as at HTM; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as at AFS financial assets. AFS financial assets are initially recognized and measured at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in net income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to net income. Dividends on AFS financial assets are recognized in net income when the Company's right to receive the dividends is established.

*1-4) Loans and receivables*

Non-derivatives financial assets like trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## *2) Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For listed and unlisted equity financial assets classified as AFS financial asset, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative unrealized gains or losses previously recognized in other comprehensive income are reclassified to net income in the period. In respect of AFS equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In case of debt securities, in subsequent periods, if the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss shall be reversed, with the amount of the reversal recognized in net income.

For financial assets carried at amortized cost, the amount of the impairment loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets carried at cost, the amount of the impairment loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current rate of return for a similar financial asset. Once an impairment loss has been recognized on a financial asset recognized at cost, it is not permitted to recognize a reversal.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in net income.

## *3) Derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset are expired, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

f. Financial Liabilities and equity Instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

1) Classification of financial liabilities and equity instruments

*1-1) Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

When the Company reacquires its own equity instruments ('treasury shares'), equity is directly deducted. No gain or loss is recognized in net income related to the acquisition, sale, issue or cancellation of treasury shares.

*1-2) Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term or it is a derivative, including embedded derivative separated from contracts, which is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. The net gain or loss recognized in net income incorporates any interest paid on the financial liability.

*1-3) Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

2) Derecognition of financial liabilities

The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or the liabilities are expired. An exchange between an existing borrower and lender of financial liabilities with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the financial liabilities derecognized and the consideration paid is recognized in net income.

g. Inventories

Inventories are stated at the acquisition cost using the average method. During the period, a perpetual inventory systems is used to value inventories, which is adjusted to the physical inventory counts performed at the period end. When the net realizable value of inventories is less than the acquisition cost, the carrying amount is reduced to the net realizable value and any difference is charged to current operations as operating expenses.

#### h. Investments in Associates and Joint Ventures

Associates are those entities over which the Company has significant influence but doesn't control or has joint control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the net income and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and assessed for impairment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in net income.

When the Company or its subsidiary transacts with its associate, unrealized gains from the transactions are eliminated to the extent of the Company's interests in the associate. Unrealized losses are also eliminated, as long as the unrealized loss is not an impairment indicator of an asset which is being transferred.

When necessary, the Company may revise an associate's financial statements, to apply consistent accounting policies as the Company, prior to applying the equity method of accounting for its investment in the associate.

The requirements of IFRS 39 Financial Instruments: Recognition and Measurement are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IFRS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IFRS 36 to the extent that the recoverable amount of the investment subsequently increases.

#### i. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Assets	Useful lives (years)
Buildings and structures	15 ~ 50
Machinery	3 ~ 15
Office equipment, tools and misc.	4 ~ 10

The Company reviews its depreciation method, the estimated useful lives and residual values of property and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item, and is included in net income when the item is derecognized.

For Company's policy on impairment on Property & Equipment and Intangible Assets other than Goodwill refer to Note 2.m below.

j. Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 15 ~ 50 years using the straight-line method.

The Company reviews the depreciation method, the estimated useful lives and residual values of investment property at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income in the period in which the property is derecognized.

k. Goodwill

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not depreciated, but tested for impairment at the end of each annual reporting period. Goodwill is carried at cost less accumulated impairment losses and the impairment losses are not reversed.

Goodwill is not subject to amortization but is tested for impairment annually or whenever there is an indication that the asset may be impaired. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognized for goodwill are not reversed in a subsequent period. Recoverable amount



is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

#### I. Intangible Assets

Intangible assets with definite useful lives are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized on a straight-line basis over the estimated useful lives of the related intangible assets as follows:

Assets	Useful lives (years)
Frequency use rights	6 ~ 13
Land use right	5
Industrial right	5 ~10
Software development costs	5
Customer relationships	4 ~ 9
Other	5 ~20

The Company reviews the amortization method, the estimated useful lives and residual values of intangible assets at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not amortized, but tested for impairment at the end of each annual reporting period. In the case of amortizable intangible assets, the Company reviews impairment at such time when events occur that indicate the carrying amount may not be recoverable.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. The gains or losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

For Company's policy on impairment on Property & Equipment and Intangible Assets other than Goodwill refer to Note 2.m below.

#### m. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its plant and property and its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for

which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in income or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

n. Government Grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to the grants and it is probable that the Company will receive such grants.

Government grants for acquiring or constructing non-current assets are recognized as a deduction of the related assets' book value in the consolidated statement of financial position, and is recognized into income or expense as a deduction to depreciation expense over the useful life of the related assets. Other government grants are recognized in income or expense when Company recognizes the related expenses for which the grants are intended to reimburse.

Government grants for specific expenditure reimbursement, losses already incurred by the Company, and immediate financial support with no future expenditure requirements are recognized in other operating revenue in the period in which they become receivable by the Company.

o. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in net income in the period in which they are incurred.

p. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in net income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred

q. Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in income or expense immediately, unless the derivative is designated and is effective as a hedging instrument. The Company enters into cash flow and fair value hedges.

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in income or loss.

*Cash flow Hedge Accounting*

For derivative instruments designated as cashflow hedges, the effective portions of the gains or losses on the hedging instruments are recorded as part of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in income or loss. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to income or loss in the periods when the hedged item is recognized in income or loss, in the same line of the consolidated statement of income as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

*Fair value Hedge Accounting*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in income or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of income relating to the hedged item.

r. Retirement Benefit Obligation

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. The present value of the defined benefit obligation is denominated in the same currency in which the benefits are expected to be paid, and calculated at the discount rate which is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligation. The Company recognizes actuarial gains and losses arising from defined benefit plans as other comprehensive income in retained earnings, actuarial gains and losses are not reclassified to income or loss thereafter.

s. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of the time value of money is material, the provision is measured using the cash flows estimated to settle the present obligation. The discount rate used is the pre-tax interest rate reflecting the inherent risk of liabilities and the market's valuation on the present value of money. Changes in provisions caused by elapse of time are the financial cost as incurred and recognized in income or expense.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

t. Revenue Recognition

Revenue is recognized to the extent the Company has delivered goods or rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Revenue is measured at the fair value of the consideration received, exclusive of taxes and discounts.

The Company principally obtains revenue from providing the wireless telecommunication services (which include activation charge, basic charges, voice charge, data charge, interconnection charges) and data-roaming services. The Company also provides fixed line services (which include fixed line telephone services and broadband internet services), sale of handsets, commerce services and portal services.

*Wireless services including interconnection services*

Revenue for basic charges, voice charge, data charge, interconnection charges and data-roaming services by contract customers is recognized as services are performed. Unbilled revenue resulting from services already provided is accrued for at the end of each period, while unearned revenue related to services to be provided for in future periods are deferred and recognized when are rendered. Revenues related to activation of service is deferred and recognized over the average customer retention period, while the related activation costs are expensed as incurred.

*Fixed line services*

Revenues from fixed line telephone services (which include domestic short, long distance charges, international phone connection charge) and broadband internet services are recognized as services are performed.

*Sale of Handsets*

Revenue for handset sales are recognized when the handsets are delivered to the end customer and the sale is considered complete. Any discounts related to the handsets are deducted from sales.

### *Bundled Arrangements*

When the Company sells both handsets and wireless services to subscribers, the Company recognizes these transactions separately as sales for handset sales and wireless telecommunication services

### *Commerce Services and Portal Services*

Commerce services represent revenue obtained from the Company's on-line shopping mall. Portal services include on-line advertising and social network service provided by SK Communication, a subsidiary of the Company. Revenue for commerce services and portal services are recognized to the extent the Company has delivered goods or rendered services under an agreement. Meanwhile, when the Company acts as an agent of a supplier, the Company records its revenue on a net basis (total sales less related expenses paid to the suppliers).

### *Rainbow Points*

For its marketing purposes, the Company grants Rainbow Points to its subscribers based on their usage of services. Points are provided based on the historical usage experience and the Company's marketing policy. These points are recorded as a deduction of revenue and deferred until the customer uses the points or the points expire. Points expire on their fifth anniversary. For the Company's Point Box Points, refer to FN 15.

## u. Income Tax and Deferred Tax

Income tax consists of current tax and deferred tax.

### 1) Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statement of income and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company offsets deferred tax assets and liabilities if, and only if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

### 3) Current and deferred tax for the year

Current and deferred tax are recognized in income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### v. Handset Subsidies to Dealers for Long-term Mobile Subscribers

The Company provides lump-sum handset subsidies to dealers that subscribe customers who agree to use the Company's service for a predetermined service period. The subsidies are charged to commission paid expense when the customer subscribes to the service.

When customers agree to use the Company's service for a predetermined service period and purchase handsets on an installment basis, the subsidies to dealers are also charged to commission paid expense when the customers subscribe to the service, however, net of amounts expected to be forfeited due to the customer not fulfilling the contractual obligation.

#### w. Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

#### x. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily

apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are critical assumptions and key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1) Fair value measurement of financial instruments

Subsequent to initial recognition, available-for-sale financial assets and derivative financial assets are stated at fair value with any gains or losses arising on remeasurement recognized in net income or other comprehensive income. When measuring fair value, if there is quoted price in active market, the Company uses it. But, if quoted price does not exist, the Company uses valuation techniques that require management's judgments on the expected future cash flows and discount rates. Refer to FN 4.

2) Allowance for doubtful accounts of trade/other receivables and loans

The Company estimates allowance for uncollectible receivables for the period involving judgment and estimations based on the aging of accounts receivables at the end of the period, past customer default experience and their credit status, and economic and industrial factors. Refer to FN 5.

3) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected related to the respective cash-generating unit and the determination of an appropriate discount rate in order to calculate present value. Refer to FN 11.

4) Measurement of property and equipment, intangible assets

If the Company acquires property and equipment or intangible assets from a business combination, it is required to estimate the fair value of the assets at the acquisition date and to estimate the useful lives of such assets for depreciation and amortization.

5) Business combinations

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Company makes judgments and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognized as goodwill and if negative, it is recognized in the income statement.

6) Estimation of useful life

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the consolidated income statement. The useful lives and residual values of the Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life

such as changes in technology. Furthermore, network infrastructure is only depreciated over a period that extends beyond the expiry of the associated license under which the operator provides telecommunications services if there is a reasonable expectation of renewal or an alternative future use for the asset. Historically changes in useful lives and residual values have not resulted in material changes to the Company's depreciation charge.

#### 7) Provisions

Determining whether the Company will be required to settle the obligation incurred as a result of past events, and estimating the reliable value of obligation requires management's judgment. Refer to FN 15.

#### 8) Retirement benefit plans

The Company has defined retirement benefit plans. The cost of providing benefits under the plan are determined using an actuarial valuation method that requires management assumptions on discount rates, expected rate of salary increase and expected rate of return on plan assets. These assumptions involve critical uncertainties due to the long-term nature of the retirement benefit plans. Refer to FN 17.

#### 9) Deferred tax

Recognition and measurement of deferred tax assets and liabilities requires significant management judgment. Especially, when determining if deferred tax assets will be realizable or not in the future, involves significant management assumptions and judgment on the Company's future performance. Refer to FN 24.



### 3. Transition to International Financial Reporting Standards (“IFRS”)

The Company's financial statements are prepared in accordance with the requirements of IFRS on or after January 1, 2010, the date of transition, for IFRSs effective as of December 31, 2011. The consolidated statements of financial position as of December 31, 2010 and the consolidated statements of comprehensive income for the year ended December 31, 2010, which are comparatively presented, were previously prepared in accordance with previous GAAP (“Korean GAAP”) but were restated in accordance with IFRS 1, *First-time adoption of International Financial Reporting Standard*.

For the opening IFRS statement of financial position, the Company has applied the following exemptions from the requirements of IFRS and exceptions to the retrospective application of some aspects of IFRS as permitted by IFRS 1, *First-time adoption of International Financial Reporting Standard*.

#### a. Exemptions from IFRS

##### *Business combinations*

The Company has elected not to apply IFRS 3, *Business Combinations*, retrospectively to past business combinations that occurred before January 1 2010, the date of transition to IFRS. The Company has recorded the value of goodwill at transition date of IFRS at its carrying value under Korean GAAP after any impairment on goodwill. No intangible assets were identified that might have been embedded in the goodwill.

##### *Fair value or revaluation as deemed cost*

The Company has elected to measure its certain property, plant and equipments at their fair value at the date of transition to IFRS and use that fair value as their deemed cost at that date.

Effect of revaluation in certain property, plant and equipment as of January 1, 2010 are as follows  
(in millions of Korean won)

<u>Korean GAAP</u>		<u>Revaluation increase</u>		<u>IFRS</u>	
₩	8,165,879	₩	69,538	₩	8,235,417

##### *Leases*

The Company has elected to apply the transitional provisions in International Financial Reporting Interpretations Committee (“IFRIC”) 4, Determining Whether an Arrangement Contains a Lease (“IFRIC 4”); thereby determining whether the Company has any arrangements that exist at the date of transition to IFRS that contain a lease on the basis of facts and circumstances existing at January 1, 2010. No such arrangements were identified.

##### *Borrowing costs*

The Company has elected to apply the transitional provisions of IAS 23, Borrowing Costs (“IAS 23”), prospectively from the date of transition.

##### *Cumulative translation differences*

The Company has reset the cumulative currency translation adjustments for all foreign operations to zero as of the date of transition to IFRS.

#### b. Significant differences between IFRS and Korean GAAP in accounting policies

## (1) Scope of Consolidation

The definition of control is similar to those in IFRS. However, some of the scope of consolidation is restricted by the Act on External Audit of Stock Companies as below.

- An entity that another entity owns more than 30% of shares as the largest shareholder is included in consolidation.
- A subsidiary with less than 10 billion Won in its total assets as of the previous fiscal year end is excluded from consolidation.
- An unincorporated entity such as a partnership is excluded from consolidation.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All entities controlled by the Company are consolidated regardless of quantitative significance. As a result, at transition date to IFRS, the Company's change in scope of consolidation as compared with those of Korean GAAP.

Added : Broadband D&M Co., Ltd  
Broadband CS Co., Ltd

Excluded : F&U Credit Information Co., Ltd

IHQ, Inc

BMC Movie Expert Fund

BMC Digital Culture and Contents Fund

## (2) Employ benefits and retirement benefit obligation

Allowances for retirement benefits accrued equal to the amounts to be paid at the end of reporting period, assuming that all entitled employees with a service year more than a year would retire at once. Retirement benefit expenses incur at the point when the payment obligation is fixed. The Company recognized allowances for long-term employee benefit at the point when the payment obligation is fixed.

The Company has defined benefit plans and the amounts of defined benefit obligation are measured based on actuarial assumptions. The Company recognizes the expected cost of long-term employee benefit when the employees render service that increases their entitlement to future long-term employee benefit.

## (3) Property and Equipment

Under K-GAAP, the Company uses the cost model in the measurement after initial recognition.

The depreciation method is required to be applied consistently at each period and cannot be changed unless there are justified reasons. For a newly acquired asset, the same depreciation methods applied to the existing, similar assets are applied consistently.

The Company revalued its property and equipment as at 1 January 2010 and used their fair values as deemed cost in the opening IFRS statement of financial position.

For the measurement after initial recognition, IAS 16, Property, Plant and Equipment allows for an entity to choose either the cost model or the revaluation model by the class of property and equipment and the Company has chosen the cost model.

The residual value, the useful life and the depreciation method of property and equipment are required to be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes should be accounted for as a change in an accounting

Korean GAAP	IFRS
	<p>estimate in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.</p> <p>The Company changed its depreciation method of equipment from a declining balance method to a straight-line method in connection with the adoption of IFRS.</p>
<p>(4) Goodwill</p> <p>Under Korean GAAP, the Company amortized Goodwill acquired as a result of business combination on a straight line method basis over 5~20 years.</p>	<p>Under IFRS, goodwill is not amortized. Impairment test was performed at the reporting date.</p>
<p>(5) Transfer of financial assets</p> <p>Under Korean GAAP, when the Company transferred a financial asset to a financial institution and it was determined that the control over such asset had been transferred; the Company derecognized the financial asset.</p>	<p>Under IFRS, if the Company substantially retains all the risks and rewards of ownership of the asset, the asset is not derecognized but instead the related cash proceeds are recognized as financial liabilities.</p>
<p>(6) Deferral of non-refundable activation fees</p> <p>Under Korean GAAP, the Company recognized non-refundable activation revenue when the activation service was performed.</p>	<p>Under IFRS, the Company defers such revenue and recognizes it over the expected term of the customer relationship.</p>
<p>(7) Income tax</p> <p>Under Korean GAAP, deferred tax assets and liabilities were classified as either current or non-current based on the classification of their underlying assets and liabilities assuming that all differences from one entity are recovered or settled together. If there are no corresponding assets or liabilities, deferred tax assets and liabilities were classified based on the periods the temporary differences were expected to reverse.</p> <p>Under Korean GAAP, differences between the carrying value and the tax base of the investments in subsidiaries, associates and interest in joint ventures were considered as temporary differences and recognized as deferred tax assets and liabilities.</p>	<p>Under IFRS, deferred tax assets and liabilities are all classified as non-current on the statement of financial position.</p> <p>Under IFRS, the temporary differences associated with investments in subsidiaries, and associates and interest in joint ventures is recognized as deferred assets and liabilities reflecting the manner in which Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.</p>
<p>(8) Other reclassifications</p> <p>1) Membership</p> <p>Under Korean GAAP, facility-use memberships were</p>	<p>Under IFRS, facility-use memberships are</p>

Korean GAAP	IFRS
classified as other non-current assets	recognized as intangible assets with an indefinite useful life.
2) Investment property	
Under Korean GAAP, properties acquired for earning rental income and/or for capital appreciation were classified as property and equipment.	Under IFRS, the properties owned to earn rentals or for capital appreciation or both is classified and accounted for as investment property in accordance with IAS 40, <i>Investment Property</i> .
(9) Effects on equity method investments	The aggregate effects of IFRS transition related to the Company's equity method investments in associates.

In connection with the opening IFRS statements of financial position, the effects on the Company's financial position, management performance and cash flows due to the adoption of IFRS are as follows:

c. Reconciliations to IFRS from Korean GAAP

(1) Reconciliations of equity at January 1, 2010 (date of transition to IFRS) (In million of Korean won)

	Note	Total assets	Total liabilities	Net equity
Based on Korean GAAP		₩23,206,256	₩10,861,631	₩12,344,625
Adjustments:				
Changes in scope of consolidation	b-(1)	(62,440)	3,735	(66,175)
Property and equipment	b-(3)	69,538	-	69,538
Employee benefits and retirement benefit obligation	b-(2)	15	25,048	(25,033)
Transfer of financial assets	b-(5)	416,242	400,753	15,489
Non-refundable activation fees	b-(6)	-	593,981	(593,981)
Other adjustments	b-(8)	(107,730)	(73,521)	(34,209)
Deferred tax and tax effect of adjustments	b-(7)	(185,157)	(322,948)	137,791
Total adjustment		130,468	627,048	(496,580)
Based on IFRS		₩23,336,724	₩11,488,679	₩11,848,045

(2) Reconciliations of equity at December 31, 2010 and total comprehensive income for the year ended December 31, 2010 (in million of Korean won):

	Note	Total assets	Total liabilities	Net equity	Total comprehensive income
Based on Korean GAAP		₩22,651,704	₩10,173,055	₩12,478,649	₩1,021,501
Adjustments:					
Changes in scope of consolidation	b-(1)	(103,743)	(13,053)	(90,690)	1,247
Property and equipment	b-(3)	477,044	-	477,044	407,811
Goodwill	b-(4)	151,900	-	151,900	142,176
Employee benefits and retirement benefit obligation	b-(2)	17	38,799	(38,782)	(5,514)
Transfer of financial assets	b-(5)	-	-	-	(15,489)
Effects on equity method investments	b-(9)	18,430	-	18,430	7,717
Nonrefundable activation fees	b-(6)	-	533,783	(533,783)	60,199
Other adjustments	b-(8)	44,507	94,943	(50,436)	598
Deferred tax and tax effect of adjustments	b-(7)	(107,470)	(103,137)	(4,333)	(140,695)
Total adjustment		480,685	551,335	(70,650)	458,050
Based on IFRS		₩23,132,389	₩10,724,390	₩12,407,999	₩1,479,551

(3) Details of cash flow adjustments

Under IFRS, dividends received, interest received, interest paid, and income tax paid which were not presented separately in the consolidated statement of cash flows under Korean GAAP, are now separately presented and the related income (expense) and assets (liabilities) have been adjusted for accordingly. Also, under IFRS, foreign currency translation amounts are presented gross as part of the related transactions and deducted against the effects of foreign exchange rate changes on the balance of cash held in foreign currencies. No other significant differences between the consolidated statements of cash flows prepared under Korean GAAP compared to IFRS have been noted.

- (4) For details on reclassification from operating to non-operating income due to the transition to IFRS from Korean GAAP, refer to FN 22 Other Operating Income and Expense.

#### 4. FINANCIAL INSTRUMENTS

- a. Details of financial assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

December 31, 2011					
Financial assets designated as FVTPL	Available-for- sale financial assets	Loans and receivables	Derivatives designated as hedging instruments	Total	
Cash and cash equivalents	₩-	₩-	₩1,650,794	₩-	₩1,650,794
Financial Instruments	-	-	987,192	-	987,192
Short-term investment securities	-	94,829	-	-	94,829
Long-term investment securities (Note a)	16,617	1,521,328	-	-	1,537,945
Trade receivables, net (Note c)	-	-	1,835,641	-	1,835,641
Loan and other receivables, net (Note b)	-	-	1,377,750	-	1,377,750
Derivatives assets	1,018	-	-	252,935	253,953
Total	₩17,635	₩ 1,616,157	₩5,851,377	₩252,935	₩7,738,104

December 31, 2010					
Financial assets designated as FVTPL	Available-for-sale financial assets	Loans and receivables	Derivatives designated as hedging instruments	Total	
Cash and cash equivalents	₩ -	₩-	₩659,405	₩-	₩659,405
Financial Instruments	-	-	567,269	-	567,269
Short-term investment securities	-	400,531	-	-	400,531
Long-term investment securities (Note a)	-	1,680,582	-	-	1,680,582
Trade receivables, net (Note c)	-	-	1,971,815	-	1,971,815
Loan and other receivables, net (Note b)	-	-	3,518,690	-	3,518,690
Derivatives assets	1,961	-	-	201,421	203,382
Total	₩1,961	₩ 2,081,113	₩6,717,179	₩201,421	₩9,001,674

	January 1, 2010				
	Financial assets			Derivatives	
	designated as	Available-for-sale	Loans and	designated as	
	FVTPL	financial assets	receivables	hedging instruments	Total
Cash and cash equivalents	₩ -	₩-	₩905,561	₩-	₩905,561
Financial Instruments	-	-	478,535	-	478,535
Short-term investment securities	-	376,722	-	-	376,722
Long-term investment securities (Note a)	-	2,443,978	-	-	2,443,978
Trade receivables, net (Note c)	-	-	1,865,874	-	1,865,874
Loan and other receivables, net (Note b)	-	-	3,594,065	-	3,594,065
Derivatives assets	148,569	-	-	166,089	314,658
Total	₩148,569	₩2,820,700	₩6,844,035	₩166,089	₩9,979,393

(Note a) Long-term investment securities designated as FVTPL consist of financial instruments with an embedded derivative (convertible options) which cannot be bifurcated from the host contract; as such the entire financial instrument is measured at fair value whose changes are recognized in current period income.

(Note b) Details of loan and other receivables as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Short-term loans, net	₩100,429	₩ 94,924	₩ 75,941
Accounts receivable – other, net	908,836	2,531,847	2,421,874
Advanced payments and other (*)	22,309	30,157	20,431
Long-term loans, net	95,565	84,323	81,109
Long-term accounts receivable – other, net	5,393	527,106	761,735
Guarantee deposits	245,218	250,333	232,975
	₩ 1,377,750	₩ 3,518,690	₩ 3,594,065

(\*) Advanced payments and other noted above is included in the Company's statement of financial position, current assets, Advance payments and other line balance. However, the financial statement line item includes additional other balances not shown in above schedule.

(Note c) Details of Trade receivables, net as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts receivable – trade, net	₩1,823,170	₩ 1,949,397	₩ 1,832,697
Long-term trade receivables, net (*) (FN 5.b)	12,471	22,418	33,177
	₩ 1,835,641	₩ 1,971,815	₩ 1,865,874

(\*) Long-term trade receivables, net are included in the Company's statement of financial position, non-current assets and other.

- b. Details of financial liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

December 31, 2011				
	Financial liabilities designated as FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Accounts payable-trade	₩ -	₩195,391	₩-	₩195,391
Derivatives liabilities	-	-	4,645	4,645
Borrowings (FN 13.a, 13.b)	-	1,035,074	-	1,035,074
Bonds payable (Note a) (FN 13.c)	397,886	4,363,002	-	4,760,888
Other payables (Note b)	-	3,312,642	-	3,312,642
Total	₩397,886	₩8,906,109	₩4,645	₩9,308,640

December 31, 2010				
	Financial liabilities designated as FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Accounts payable-trade	₩-	₩195,777	₩-	₩195,777
Derivatives liabilities	5,043	-	25,111	30,154
Borrowings (FN 13.a, 13.b)	-	1,272,056	-	1,272,056
Bonds payable (Note a) (FN 13.c)	461,655	4,071,328	-	4,532,983
Other payables (Note b)	-	2,485,789	-	2,485,789
Total	₩ 466,698	₩8,024,950	₩25,111	₩8,516,759

January 1, 2010				
	Financial liabilities designated as FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Accounts payable-trade	₩-	₩164,314	₩-	₩164,314
Derivatives liabilities	3,372	-	67,441	70,813
Borrowings (FN 13.a, 13.b)	-	1,548,251	-	1,548,251
Bonds payable (Note a) (FN 13.c)	442,422	4,904,309	-	5,346,731
Other payables (Note b)	-	2,246,413	-	2,246,413
Total	₩ 445,794	₩8,863,287	₩67,441	₩9,376,522

(Note a) Bonds payables designated as FVTPL consist of financial instruments with an embedded derivative (convertible options) which cannot be bifurcated from the host contract, as such the entire financial instrument is measured at fair value with changes recognized in current period income or expenses.

(Note b) Details of other payables as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payables-other	₩1,507,458	₩1,433,812	₩1,306,486
Withholdings	10,835	5,137	5,069
Accrued expenses	744,673	677,480	419,816
Current portion of LT payables and other (Note c)	120,452	214,416	219,810
Long-term payables – other	847,496	54,783	170,953
Finance lease liabilities	41,940	60,075	77,709
Other non-current liabilities	39,788	40,086	46,570
	<u>₩3,312,642</u>	<u>₩2,485,789</u>	<u>₩2,246,413</u>

(Note c) Details of current portion of long-term debt, net as of December 31, 2011, December, 2010 and January 1, 2010 are as follows ( in millions of Korean won);

	December 31, 2011	December 31, 2010	January 1, 2010
Current portion of LT payables (FN 14)	₩89,144	₩168,948	₩149,217
Current portion of finance lease liabilities (FN 16)	31,308	45,468	70,593
Current portion of LT payables and other	120,452	214,416	219,810
Current portion of LT borrowings (FN 13.b)	₩10,510	₩512,378	₩149,142
Current portion of bonds-payables, net (FN 13.c)	1,531,879	874,437	893,431
	<u>₩1,662,841</u>	<u>₩1,601,231</u>	<u>₩1,262,383</u>

#### c. Financial Instruments Hierarchy

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, classified as Level 1, 2, or 3, based on observable or unobservable fair value of the instrument.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;

Level 3: Inputs that are not based on observable market data.

Fair values of financial instruments by hierarchy level as of December 31, 2011 and 2010 are as follows (in millions of Korean won):

Type	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets designated as FVTPL	₩-	₩16,617	₩1,018	₩17,635
Available- for-sale financial assets (*)	1,192,386	532	197,019	1,389,937
Derivatives assets designated as hedging instruments	-	252,935	-	252,935
Financial liabilities designated as FVTPL	397,886	-	-	397,886
Derivatives liabilities designated as hedging instruments	-	4,645	-	4,645



(\*) Certain AFS securities which the Company was not able to reasonably estimate its fair value are recognized at acquisition cost, as such, excluded from above fair value disclosure.

Type	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Financial assets designated as FVTPL	₩-	-	₩1,961-	₩1,961
Available- for-sale financial assets	1,613,857	3,097	288,951	1,905,905
Derivatives assets designated as hedging instruments	-	201,421	-	201,421
Financial liabilities designated as FVTPL	461,655	5,043-	-	466,698
Derivatives liabilities designated as hedging instruments	-	25,111	-	25,111

For the year ended December 31, 2011 and 2010, there is no transfer between Level 1 and Level 2.

Details of changes in financial assets classified as Level 3 for the year ended December 31, 2011 and 2010 are as follows (In millions of Korean won):

Type	For the year ended December 31, 2011						Ending Balance
	Beginning Balance	Acquisition	Income / (loss)	Comprehensi -ve Income	Transfer	Disposal	
Financial assets designated as FVTPL	₩1,961	₩-	(₩943)	₩-	₩-	₩-	₩1,018
Available- for-sale financial assets	288,951	1,976	-	(93,593)	-	(315)	197,019

Type	For the year ended December 31, 2010						Ending Balance
	Beginning Balance	Acquisition	Income / (loss)	Comprehensi -ve Income	Transfer	Disposal	
Financial assets designated as FVTPL	₩1,235	₩-	₩726	₩-	₩-	₩-	₩1,961
Available- for-sale financial assets	225,664	-	-	82,280	(18,993)	-)	288,951

## 5. TRADE AND OTHER RECEIVABLES

- a. Details of short-term trade and other receivables as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts receivable – trade	₩2,063,611	₩2,198,050	₩2,066,492
Less allowance for doubtful accounts	(240,441)	(248,653)	(233,525)
Accounts receivable – trade, net	1,823,170	1,949,397	1,832,967
Short-term loans	102,693	96,353	80,819
Less allowance for doubtful accounts	(2,264)	(1,429)	(4,878)
Short-term loans, net	100,429	94,924	75,941
Accounts receivable - other	953,821	2,577,961	2,471,992
Less allowance for doubtful accounts	(44,985)	(46,114)	(50,118)
Accounts receivable – other, net	908,836	2,531,847	2,421,874
Accrued income	21,989	29,579	13,478
Less allowance for accrued income	(142)	-	(266)
Accrued income, net	21,847	29,579	13,212
Other	462	579	7,219
	₩2,854,744	₩4,606,326	₩4,351,213

- b. Details of long-term trade and other receivables as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Long-term accounts receivable – trade	₩12,471	₩22,418	₩32,907
Long-term loans	126,553	115,509	113,002
Less allowance for doubtful accounts	(30,988)	(31,186)	(31,893)
Long-term loans, net	95,565	84,323	81,109
Long-term accounts receivable - other	5,393	527,106	761,735
Guarantee deposits	245,218	250,333	232,975
	₩358,647	₩884,180	₩1,108,726

- c. Details of changes in allowance for doubtful accounts for the years ended December 31, 2011 and December 31, 2010 are as follows (In millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Beginning balance	₩327,382	₩320,680
Increase of bad debt	96,595	90,073
Reversal of allowance for doubtful accounts	(2,301)	(805)
Write-off	(121,805)	(97,979)
Collection of receivables written off	18,839	15,782
Change in scope of consolidation and foreign exchange differences	110	(369)
Ending balance	₩318,820	₩ 327,382

- d. Details of accounts receivable-trade and other receivables, overdue but not impaired, and impaired-accounts receivable as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011		December 31, 2010		January 1, 2010	
	Accounts receivable-trade	Other receivables (Note)	Accounts receivable-trade	Other receivables (Note)	Accounts receivable-trade	Other receivables (Note)
Accounts receivable	₩1,417,574	₩1,287,606	₩1,573,968	₩3,413,129	₩1,474,817	₩3,521,278
Overdue but not impaired accounts receivable	34,030	32,144	69,105	25,035	41,475	18,269
Impaired-accounts receivable	624,478	136,379	577,395	159,256	583,107	141,673
Sub-total	2,076,082	1,456,129	2,220,468	3,597,420	2,099,399	3,681,220
Doubtful accounts	(240,441)	(78,379)	(248,653)	(78,729)	(233,525)	(87,155)
Ending balance	₩1,835,641	₩1,377,750	₩1,971,815	₩3,518,691	₩1,865,874	₩3,594,065

(Note) Consists of short-term loans, net, accounts-receivable-other, net, accrued income, net, long-term loans, net, long-term accounts receivable-other, net, guarantee deposits, and other.

The Company estimates allowance for doubtful accounts for the period based on the aging of accounts receivables at the end of the period, past customer default experience and their credit status, and economic and industrial factors.

Details of aging analysis of accounts receivable which are overdue but not impaired as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011		December 31, 2010		January 1, 2010	
	Accounts receivable-trade	Other receivable (Note)	Accounts receivable-trade	Other receivable (Note)	Accounts receivable-trade	Other receivable (Note)
Less than 1 month	₩9,125	₩15,384	₩9,070	₩4,823	₩5,445	₩3,355
1 ~ 3 months	8,063	3,147	6,149	3,046	1,127	1,205
3 ~ 6 months	4,124	713	3,579	1,677	25,561	1,220
More than 6 months	12,718	12,900	50,307	15,489	9,342	12,489
	₩34,030	₩32,144	₩69,105	₩25,035	₩41,475	₩18,269

(Note) Consist of short-term loans, net, accounts-receivable-other, net, accrued income, net, long-term loans, net, long-term accounts receivable-other, net, guarantee deposits, and other.

## 6. INVENTORIES

Inventories as of December 31, 2011, December 31, 2010 and January 1, 2010 consist of the following (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Raw materials and supplies	₩4,630	₩3,319	₩3,347
Work in process and semi-finished goods	286	475	-
Finished goods and merchandise	<u>219,823</u>	<u>147,445</u>	<u>117,273</u>
Total	224,739	151,239	120,620
Write-down of Inventory	<u>(5,149)</u>	<u>(2,016)</u>	<u>(1,303)</u>
Net	<u>₩ 219,590</u>	<u>₩149,223</u>	<u>₩119,317</u>

Cost of inventory recognized as an expenses for the years ended December 31, 2011 and 2010 were ₩ 959,276 million and ₩ 640,933 million, respectively.

## 7. INVESTMENT SECURITIES

### a. Short-term Investment Securities

Short-term investment securities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	Acquisition cost at December 31, 2011	Fair value at December 31, 2011	Carrying amount		
			December 31, 2011	December 31, 2010	January 1, 2010
Beneficiary certificate (Note)	₩94,251	₩91,539	₩91,539	₩204,716	₩370,125
Current portion of long-term investment securities	<u>3,004</u>	<u>3,290</u>	<u>3,290</u>	<u>195,815</u>	<u>6,597</u>
Total	<u>₩97,255</u>	<u>₩94,829</u>	<u>₩94,829</u>	<u>₩400,531</u>	<u>₩376,722</u>

(Note) The distributions arising from some beneficiary certificates as of December 31, 2011, are accounted for as accrued income.

**b. Long-term Investment Securities**

Long-term investment securities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Equity securities:			
Marketable equity securities	₩ 1,100,847	₩ 1,409,142	₩ 1,821,677
Unlisted equity securities	97,397	90,368	44,081
Investment in funds	<u>281,877</u>	<u>345,589</u>	<u>228,836</u>
Sub-total	1,480,121	1,845,099	2,094,594
Debt securities (Note 1):			
Public bonds (Note 2)	413	417	1,481
Bond-type beneficiary certificate	-	-	305,677
Investment bonds (Note 3)	<u>60,701</u>	<u>30,881</u>	<u>48,823</u>
Sub-total	61,114	31,298	355,981
Total	<u>1,541,235</u>	<u>1,876,397</u>	<u>2,450,575</u>
Less current portion	<u>(3,290)</u>	<u>(195,815)</u>	<u>(6,597)</u>
Long-term portion	<u>₩ 1,537,945</u>	<u>₩ 1,680,582</u>	<u>₩ 2,443,978</u>

(Note 1) The interest income earned from public bonds for the years ended December 31, 2011 and December 31, 2010 was ₩7,660 million, ₩2,057 million, respectively.

(Note 2) Details of maturity for the public bonds as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won)

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Less than 1 year	₩45	₩4	₩1,063
1 ~ 5 years	<u>368</u>	<u>413</u>	<u>418</u>
Total	413	417	1,481

(Note 3) The Company acquired convertible bonds of Nano En-Tech (Book Value: 16,617 million) during the year ended December 31, 2011 which are classified as financial asset at FVTPL. The difference between acquisition cost and fair value is accounted as a gain (loss) within financial asset at FVTPL of finance income (loss).

## 8. INVESTMENTS IN ASSOCIATES

Investments in associates accounted for using the equity method as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won, except for share data):

	December 31, 2011			Carrying amount		
	Number of shares	Ownership percentage (%)	Acquisition Cost	December 31, 2011	December 31, 2010	January 1, 2010
SK Marketing & Company Co., Ltd.	5,000,000	50.0	₩ 190,000	₩ 128,320	₩117,905	₩112,531
SK China Company Ltd.	720,000	22.5	49,529	48,488	46,573	3,918
SK USA, Inc.	49	49.0	3,184	4,534	5,972	5,498
MRO Korea Inc.(Note a)	680,000	42.5	12,250	12,250	-	-
Benex Sector Limited Partnership IV	2,500	49.7	25,000	24,907	24,953	-
F&U Credit information Co., Ltd.	300,000	50.0	2,410	3,565	4,529	4,481
Korea IT Fund (Note b)	190	63.3	190,000	230,980	226,633	220,957
JYP Entertainment Corporation	691,680	25.5	4,150	4,008	4,150	-
Konan Technology	78,550	29.5	13,456	4,760	4,410	3,320
Etoos Co., Ltd (Note c)	701,000	15.6	18,993	13,928	14,339	-
BMC Digital Culture and Contents Venture Fund	100	39.8	10,000	8,415	8,925	9,824
Wave City Development Co., Ltd. (Note c)	382,000	19.1	1,967	1,124	1,392	1,532
IBKC-bmc Cultural Contents Fund	-	25.0	2,500	2,326	2,292	2,398
Hanhwa No.2 Daisy Entertainment Investment Fund	-	20.0	2,000	1,165	2,008	2,102
BMC Movie Expert Fund	135	46.6	13,500	13,926	13,977	13,261
HanaSK Card Co., Ltd.	57,647,058	49.0	400,000	396,553	386,417	-
Daehan Kanggun BcN Co., Ltd.	1,461,486	29.0	8,376	8,001	7,264	7,272
Television Media Korea Ltd. (Note d)	18,564,000	51.0	18,568	15,262	18,568	-
Candle Media Co., Ltd. (formerly PREGM Co., Ltd.)	11,010,280	28.9	26,334	11,814	19,313	15,000
NanoEnTek, Inc. (Note e)	1,807,130	9.3	11,000	10,470	-	-
UNISK(Beijing) Information Technology Co., Ltd.	49	49.0	3,475	5,886	4,714	4,247
SK Industrial Development China Co., Ltd.(Note f)	-	35.0	83,691	83,691	-	18,009
PT. Melon Indonesia	4,900,000	49.0	6,492	5,326	6,210	-
Packet One Network (Note g)	1,151,556	28.2	137,751	103,409	116,160	-
Mobile Money Ventures, LLC	-	50.0	12,762	983	3,206	5,534
SK Technology Innovation Company (Note h)	-	49.0	85,873	75,974	25,052	-
LightSquared Inc. (Note c)	3,387,916	3.3	72,096	49,441	72,096	-
ViKi, Inc. (Note i)	-	26.3	17,799	17,799	-	-
IHQ, Inc. (Note j)	-	-	-	-	-	20,178
Skytel Co.,Ltd. (Note j)	-	-	-	-	-	14,958
HanaroDream Incorporated (Note j)	-	-	-	-	-	6,687
TR Entertainment and other	-	-	156,907	97,300	67,634	78,206
Total			₩ 1,580,063	₩1,384,605	₩1,204,692	₩549,913

- (Note a) For the year ended December 31, 2011, the Company acquired 680,000 shares of MRO Korea Inc. As a result, the Company holds 42.5% ownership in MRO Korea Inc.
- (Note b) Under an agreement with Korea IT Fund, the Company only has 14.3% voting rights, as such does not have control over Korea IT Fund.
- (Note c) The Company classified the investments in Etoos Co., Ltd., Wave City Development Co., Ltd., and LightSquared Inc., as investments in associates as the Company can exercise significant influence on these investees through participation of their board of directors even though the Company has less than 20% of equity interests in those investees. Lightsquared has incurred recurring operating losses and recently faces financial and operational difficulties, which if not resolved may result in the Company recognizing a write-down on its investments in the near future.
- (Note d) Though the Company has 51% ownership of Television Media Korea Ltd., it does not have control and the entity is considered a joint venture. Additionally, the Company accounts for joint ventures under the equity method, as such entity has been classified as investments in associates.
- (Note e) For the year ended December 31, 2011, the Company acquired 1,807,130 shares of NanoEnTek, Inc. Though the Company only holds 9.3% ownership of NanoEnTek, Inc., it has the ability to exercise significant influence on NanoEnTek, Inc., through participation on their board of directors and as such the entity is considered as an equity method investee.
- (Note f) For the year ended December 31, 2011, the Company additionally invested ₩83,691 million in SK Industrial Development China Co., Ltd. As a result, the Company holds 35.0% ownership in SK Industrial Development China Co., Ltd.
- (Note g) For the year ended December 31, 2011, the Company additionally invested ₩17,895 million in Packet One Network and acquired additional 172,082 shares.
- (Note h) For the year ended December 31, 2011, the Company additionally invested ₩57,727 million in SK Technology Innovation Company.
- (Note i) For the year ended December 31, 2011, SK Planet Co., Ltd., the Company's subsidiary, invested ₩17,799 million and holds 26.3% ownership in ViKi, Inc. SK Planet acquired interest in Viki Inc., during November 2011.
- (Note j) For the year ended December 31, 2010, the Company sold majority of its interest in IHQ Inc. and Skytel Co., Ltd. which subsequently are accounted for as available for sale securities, while the Company sold all of its interest in Hanaro Dream Incorporation.

Details of changes in Investments in associates accounted for using the equity method for the years ended December 31, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	For the year ended December 31, 2011							Ending balance
	Beginning balance	Acquisition	Disposal	Equity in earnings (losses)	Other comprehensive income	Other increase (decrease)	Dividend	
SK Marketing & Company Co., Ltd.	₩117,905	₩ -	₩ -	₩9,952	₩ 817	(₩ 354)	₩ -	₩ 128,320
SK China Company Ltd.	46,573	-	-	1,022	893	-	-	48,488
SK USA, Inc.	5,972	-	-	(1,472)	34	-	-	4,534
MRO Korea Inc.	-	12,250	-	-	-	-	-	12,250
Benex Sector Limited Partnership IV	24,953	-	-	(26)	(20)	-	-	24,907
F&U Credit information Co., Ltd.	4,529	-	-	36	-	-	(1,000)	3,565
Korea IT Fund	226,633	-	-	11,904	(466)	-	(7,091)	230,980
JYP Entertainment Corporation	4,150	-	-	(142)	-	-	-	4,008
Konan Technology	4,410	-	-	351	(1)	-	-	4,760
Etoos Co., Ltd	14,339	-	-	(710)	299	-	-	13,928
BMC Digital Culture and Contents Venture Fund	8,925	-	-	(510)	-	-	-	8,415
Wave City Development Co., Ltd.	1,392	-	-	(268)	-	-	-	1,124
IBKC-bmc Cultural Contents Fund	2,292	-	-	34	-	-	-	2,326
Hanhwa No.2 Daisy Entertainment Investment Fund	2,008	-	-	(843)	-	-	-	1,165
BMC Movie Expert Fund	13,977	-	-	(51)	-	-	-	13,926
HanaSK Card Co., Ltd.	386,417	-	-	10,213	(112)	35	-	396,553
Daehan Kanggun BcN Co., Ltd.	7,264	1,068	-	(331)	-	-	-	8,001
Television Media Korea Ltd.	18,568	-	-	(3,306)	-	-	-	15,262
Candle Media Co., Ltd. (formerly PREGM Co., Ltd.)	19,313	1,000	-	(8,743)	244	-	-	11,814
NanoEnTek, Inc.	-	11,000	-	(490)	(22)	(18)	-	10,470
UNISK (Beijing) Information Technology Co., Ltd.	4,714	-	-	597	575	-	-	5,886
SK Industrial Development China Co., Ltd.	-	83,691	-	-	-	-	-	83,691
PT. Melon Indonesia	6,210	-	-	(910)	26	-	-	5,326
Packet One Network	116,160	17,895	-	(32,569)	(345)	2,268	-	103,409
Mobile Money Ventures, LLC	3,206	-	-	595	-	59	(2,877)	983
SK Technology Innovation Company	25,052	57,727	-	(5,675)	(1,130)	-	-	75,974
LightSquared Inc.	72,096	-	-	(21,142)	(1,513)	-	-	49,441
ViKi, Inc. (Note a)	-	17,799	-	-	-	-	-	17,799
TR Entertainment and other	67,634	37,545	(3,807)	(6,733)	401	2,260	-	97,300
Total	₩ 1,204,692	₩239,975	(₩3,807)	(₩49,217)	(₩320)	₩4,250	(₩10,968)	₩ 1,384,605

(Note a) SK Planet acquired interest in Viki Inc., during November 2011.

For the year ended December 31, 2011, equity in earnings (losses) of investments in associates in the statements of income includes ₩2,861 million of gain on disposal of investments in associates and ₩793 million of loss on disposal of investments in associates, which is not reflected above.



For the year ended December 31, 2010

	Beginning balance	Acquisition	Disposal	Equity in earnings (losses)	Other comprehensive income	Other increase (decrease)	Dividend	Ending balance
SK Marketing & Company Co., Ltd.	₩112,531	₩-	₩-	₩5,421	(₩47)	₩-	₩-	₩117,905
SK China Company Ltd.	3,918	44,859	(947)	935	(2,192)	-	-	46,573
SK USA, Inc.	5,498	-	-	618	(144)	-	-	5,972
Benex Sector Limited Partnership IV	-	25,000	-	(264)	217	-	-	24,953
F&U Credit information Co., Ltd.	4,481	-	-	48	-	-	-	4,529
Korea IT Fund	220,957	-	-	7,680	954	-	(2,958)	226,633
JYP Entertainment Corporation	-	2,903	-	-	-	1,247	-	4,150
Konan Technology	3,320	-	-	1,090	-	-	-	4,410
Etoos Co., Ltd	-	-	-	(474)	-	14,813	-	14,339
BMC Digital Culture and Contents Venture Fund	9,824	-	-	(899)	-	-	-	8,925
Wave City Development Co., Ltd.	1,532	-	-	(140)	-	-	-	1,392
IBKC-bmc Cultural Contents Fund	2,398	-	-	(106)	-	-	-	2,292
Hanhwa No.2 Daisy Entertainment Investment Fund	2,102	-	-	(94)	-	-	-	2,008
BMC Movie Expert Fund	13,261	-	-	716	-	-	-	13,977
HanaSK Card Co., Ltd.	-	400,000	-	(13,481)	(102)	-	-	386,417
Daehan Kanggun BcN Co., Ltd.	7,272	-	-	(8)	-	-	-	7,264
Television Media Korea Ltd.	-	18,568	-	-	-	-	-	18,568
Candle Media Co., Ltd. (formerly PREGM Co., Ltd.)	15,000	-	2,959	1,394	(40)	-	-	19,313
UNISK(Beijing) Information Technology Co., Ltd.	4,247	-	-	427	40	-	-	4,714
SK Industrial Development	18,009	-	(18,009)	-	-	-	-	-
PT. Melon Indonesia	-	6,493	-	13	(296)	-	-	6,210
Packet One Network	-	119,856	-	(3,823)	127	-	-	116,160
Mobile Money Ventures, LLC	5,534	-	-	(2,225)	-	(103)	-	3,206
SK Technology Innovation	-	28,146	-	(2,836)	(258)	-	-	25,052
LightSquared Inc.	-	72,096	-	-	-	-	-	72,096
IHQ, Inc. (Note a)	20,178	-	(13,642)	(1,490)	(16)	(5,030)	-	-
Skytel Co., Ltd. (Note a)	14,958	-	(7,859)	2,833	1,337	(10,825)	(444)	-
Hanaro Dream Incorporation (Note a)	6,687	-	(6,687)	-	-	-	-	-
TR Entertainment and other	78,206	18,184	(13,120)	(10,712)	(269)	(4,655)	-	67,634
Total	₩549,913	₩736,105	(₩57,305)	(₩15,377)	(₩689)	(₩4,553)	(₩3,402)	₩1,204,692

(Note a) For the year ended December 31, 2010, the Company sold majority of its interest in IHQ Inc. and Skytel Co., Ltd. which subsequently are accounted for as available for sale securities, while the Company sold all of its interest in Hanaro Dream Incorporation.

For the year ended December 31, 2010, equity in earnings (losses) of investments in associates in the statements of income includes ₩21,895 million of gain on disposal of investments in associates and ₩9,932 million of loss on disposal of investments in associates, which is not reflected above.

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, 2011 and December 31, 2010 are as follows (In millions of Korean won):

	For the year ended December 31, 2011			
	Beginning Balance	Increase/ (Decrease)	Amortization	Ending balance
MRO Korea Inc.	₩-	₩8,323	₩-	₩8,323
Benex Sector Limited Partnership IV	116	-	-	116
F&U Credit information Co., Ltd.	461	-	-	461
JYP Entertainment Corporation	3,479	-	-	3,479
Konan Technology	1,312	-	-	1,312
Etoos Co., Ltd	13,876	-	(462)	13,414
HanaSK Card Co., Ltd.	47,848	-	(2,328)	45,520
Television Media Korea Ltd.	240	-	-	240
Candle Media Co., Ltd.	5,531	397	-	5,928
NanoEnTek, Inc.	7,145	-	-	7,145
Packet One Network	76,479	-	(115)	76,364
TR Entertainment and other	14,422	2,133	-	16,555
Total	₩170,909	₩10,853	(₩2,905)	₩178,857

	For the year ended December 31, 2010			
	Beginning Balance	Increase/ (Decrease)	Amortization	Ending balance
Benex Sector Limited Partnership IV	₩116	₩-	₩-	₩116
F&U Credit information Co., Ltd.	461	-	-	461
JYP Entertainment Corporation	-	3,479	-	3,479
Konan Technology	1,312	-	-	1,312
Etoos Co., Ltd	-	14,112	(236)	13,876
HanaSK Card Co., Ltd.	-	48,671	(823)	47,848
Television Media Korea Ltd.	-	240	-	240
Candle Media Co., Ltd.	12,805	(7,274)	-	5,531
NanoEnTek, Inc.	-	7,145	-	7,145
Packet One Network	-	76,588	(109)	76,479
TR Entertainment and other	5,243	9,179	-	14,422
Total	₩19,937	₩152,140	(₩1,168)	₩170,909

Details of changes in unrealized intercompany gains incurred from sales of assets for the years ended December 31, 2011 and 2010 are as follows (In millions of Korean won):

For the year ended December 31, 2011				
	Beginning balance	Increase	Decrease	Ending balance
SK China Company Ltd.	₩823	₩-	₩-	₩823
Konan Technology	79	-	(23)	56
Etoos Co., Ltd	(186)	-	-	(186)
ULand Company Ltd. and other	3,844	-	(1,269)	2,575
Total	₩4,560	₩-	(₩1,292)	₩3,268

For the year ended December 31, 2010				
	Beginning balance	Increase	Decrease	Ending balance
SK China Company Ltd.	₩1,086	₩-	(₩263)	₩823
Konan Technology	102	-	(23)	79
Etoos Co., Ltd	-	(239)	53	(186)
ULand Company Limited and other	5,260	-	(1,416)	3,844
Total	₩6,448	(₩239)	(₩1,649)	₩4,560

As the investments in associate are written down to zero and the equity method accounting ceased, accumulated unrecorded equity in losses as of December 31, 2011 are as follows;

	Unrealized loss	Unrealized change in equity
SK Wyverns Baseball Club Co., Ltd.	₩1,099	₩-
ULand Company Limited	496	50
Cyworld Holdings Hong Kong and other	2,937	334
Total	₩4,532	₩384

The condensed financial information of the investees as of and for the year ended December 31, 2011 and 2010 is as follows (In millions of Korean won):

	As of and for the year ended December 31, 2011			
	Total assets	Total liabilities	Revenue	Net income (loss)
SK Marketing & Company Co., Ltd.	₩753,508	₩496,867	₩652,749	₩21,543
SK China Company Ltd.	281,579	58,124	43,526	4,542
SK USA, Inc.	20,184	10,932	10,623	(2,133)
MRO Korea Inc.	31,335	22,095	124,986	1,001
Benex Sector Limited Partnership IV	50,357	478	-	(1,717)
F&U Credit information Co., Ltd.	13,511	7,303	50,554	110
Korea IT Fund	364,706	-	-	10,502
JYP Entertainment Corporation	17,467	14,424	17,722	407
Konan Technology	15,507	3,622	11,790	651
Etoos Co., Ltd.	69,994	67,889	107,174	(743)
BMC Digital Culture and Contents	21,288	166	187	(621)
Wave City Development Co., Ltd.	129,768	123,882	431	(1,399)
IBKC-bmc Cultural Contents Fund	9,387	81	638	106
Hanhwa No.2 Daisy Entertainment	5,877	51	92	(1,518)
BMC Movie Expert Fund	30,068	153	4,690	1,019
HanaSK Card Co., Ltd.	9,810,720	9,094,326	849,719	25,593
Daehan Kanggun BcN Co., Ltd.	213,896	186,305	12,772	(1,132)
Television Media Korea Ltd.	34,606	5,151	4,919	(6,481)
Candle Media Co., Ltd.	25,978	5,588	27,494	(5,650)
NanoEnTek, Inc.	52,649	20,379	13,088	(8,809)
UNISK(Beijing) Information	20,401	8,388	16,028	1,202
SK Industrial Development China Co., Ltd.	245,294	517	-	4,214
PT. Melon Indonesia	12,112	1,242	803	(1,860)
Packet One Network	269,362	197,048	99,918	(72,307)
Mobile Money Ventures, LLC	2,191	227	6,294	1,189
SK Technology Innovation	159,745	4,695	-	(11,556)
LightSquared Inc.	4,647,136	3,125,885	33,374	(669,558)

	As of and for the year ended December 31, 2010			
	Total assets	Total liabilities	Revenue	Net income (loss)
SK Marketing & Company Co., Ltd.	₩659,847	₩422,452	₩415,270	₩18,751
SK China Company Ltd.	212,370	1,784	15,876	4,155
SK USA, Inc.	22,035	10,706	9,303	10,358
Benex Sector Limited Partnership IV	49,538	3	-	(644)
F&U Credit information Co., Ltd.	18,747	10,648	47,767	213
Korea IT Fund	367,721	-	28,377	22,014
JYP Entertainment Corporation	15,186	12,550	21,680	904
Konan Technology	15,590	4,814	14,596	3,620
Etoos Co., Ltd.	74,938	73,164	29,719	(3,683)
BMC Digital Culture and Contents	21,531	4	336	(2,035)
Wave City Development Co., Ltd.	126,413	119,128	693	(734)
IBKC-bmc Cultural Contents Fund	9,190	20	395	13
Hanhwa No.2 Daisy Entertainment	10,092	50	4	(203)
BMC Movie Expert Fund	28,899	3	2,385	410
HanaSK Card Co., Ltd.	3,315,740	2,684,243	492,499	(58,914)

Daehan Kanggun BcN Co., Ltd.	165,754	140,707	-	4
Television Media Korea Ltd.	36,402	465	-	(291)
Candle Media Co., Ltd.	40,191	16,109	19,613	(23,691)
UNISK(Beijing) Information	14,769	5,149	10,261	871
PT. Melon Indonesia	13,759	1,085	-	27
Packet One Network	268,617	145,422	74,893	(59,635)
Mobile Money Ventures, LLC	9,407	2,996	4,472	(3,767)
SK Technology Innovation	52,949	1,849	-	(5,934)

## 9. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Land	₩730,361	₩707,970	₩706,599
Buildings and structures	2,100,510	1,988,759	1,960,584
Machinery	21,340,424	19,742,398	19,723,401
Other	1,617,736	1,414,837	1,169,438
Construction in progress	805,410	447,480	417,028
Total	26,594,441	24,301,444	23,977,050
Less accumulated depreciation	(17,561,502)	(16,146,012)	(15,947,353)
Accumulated impairment	(1,941)	(2,019)	(2,019)
Property and equipment, net	₩9,030,998	₩8,153,413	₩8,027,678

Details of changes in property and equipment for the years ended December 31, 2011 and 2010 are as follows  
(In millions of Korean won):

For the year ended December 31, 2011							
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Change of consolidation scope	Ending balance
Land	₩707,970	₩ 3,300	(₩ 1,968)	₩21,059	₩-	₩-	₩730,361
Buildings and structures	1,260,633	93,230	(6,313)	27,952	(85,309)	-	1,290,193
Machinery	5,167,143	390,376	(26,662)	1,640,380	(1,677,640)	(25)	5,493,572
Other	570,187	1,289,809	(6,347)	(1,039,031)	(104,996)	1,839	711,461
Construction in progress	447,480	1,183,841	(8,322)	(817,588)	-	-	805,411
Total	₩8,153,413	₩2,960,556	(₩49,612)	(₩167,228)	(₩1,867,945)	₩1,814	₩9,030,998

For the year ended December 31, 2010						
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩ 706,599	₩1,622	(₩7,000)	₩6,749	₩-	₩707,970
Buildings and structures	1,316,534	11,848	(910)	11,641	(78,480)	1,260,633
Machinery	5,211,662	318,969	(91,333)	1,282,418	(1,554,573)	5,167,143
Other	375,856	982,562	(6,028)	(691,521)	(90,682)	570,187
Construction in progress	417,027	827,308	(46,581)	(750,274)	-	447,480
Total	<u>₩8,027,678</u>	<u>₩2,142,309</u>	<u>(₩151,852)</u>	<u>(₩140,987)</u>	<u>(₩1,723,735)</u>	<u>₩8,153,413</u>

## 10. INVESTMENT PROPERTY

Investment property as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Land	₩23,153	₩29,179	₩23,602
Buildings	<u>295,767</u>	<u>183,406</u>	<u>200,432</u>
Total	318,920	212,585	224,034
Less accumulated depreciation	<u>(47,834)</u>	<u>(15,278)</u>	<u>(11,292)</u>
Investment property, net	<u>₩271,086</u>	<u>₩197,307</u>	<u>₩212,742</u>

Details of changes in investment property for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

For the year ended December 31, 2011						
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩19,670	₩-	₩-	₩3,483	₩-	₩23,153
Buildings	177,637	86,285	-	(8,887)	(7,102)	247,933
Total	<u>₩ 197,307</u>	<u>₩86,285</u>	<u>₩-</u>	<u>(₩5,404)</u>	<u>(₩7,102)</u>	<u>₩271,086</u>

  

For the year ended December 31, 2010						
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩23,602	₩-	₩-	(₩3,932)	₩-	₩19,670
Buildings	189,140	1,991	-	(8,236)	(5,258)	177,637
Total	<u>₩ 212,742</u>	<u>₩1,991</u>	<u>₩-</u>	<u>(₩12,168)</u>	<u>(₩5,258)</u>	<u>₩197,307</u>

Details of fair value of investment property as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (In millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Land	₩ 40,540	₩ 39,082	₩ 41,768
Buildings	<u>272,794</u>	<u>176,465</u>	<u>176,669</u>
	<u>₩313,334</u>	<u>₩215,547</u>	<u>₩218,437</u>

The fair value of investment property was appraised on the basis of market price by an independent appraisal company.

Details of rent income and operating expenses from investment property for the year ended December 31, 2011 and December 2010 are as follows (In millions of Korean won):

	<u>2011</u>	<u>2010</u>
Rent income	₩ 54,088	₩ 46,460
Operating expenses	(42,141)	(30,212)

## 11. GOODWILL

Details of goodwill as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Goodwill related to acquisition of Shinsegi Telecomm, Inc	₩1,306,236	₩1,306,236	₩1,306,236
Goodwill related to acquisition of SK Broadband Co., Ltd.	358,443	358,443	358,443
Other goodwill	82,952	80,975	80,975
Net foreign exchange differences	<u>2,302</u>	<u>(9,005)</u>	<u>(8,921)</u>
	<u>₩1,749,933</u>	<u>₩1,736,649</u>	<u>₩1,736,733</u>

Changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	<u>For the year ended December 31, 2011</u>	<u>For the year ended December 31, 2010</u>
Beginning of period	₩1,736,649	₩1,736,733
Goodwill increase due to acquisition and subsidiary change during the period	13,242	-
Effects of exchange of rate change	<u>42</u>	<u>(84)</u>
Ending of period	<u>₩1,749,933</u>	<u>₩1,736,649</u>

### Impairment test of goodwill

The Company determines its recoverable amounts for its cash generating units ("CGU") as the value-in-use of its CGUs.

#### (1) Goodwill related to acquisition of Shinsegi Telecomm, Inc.

For its investment in Shinsegi, the Company estimated the value-in-use based on cash flows from financial forecasts. The Company based its calculation on a five year financial forecast and used a 2% annual growth rate for periods subsequent to the forecast, using a discount rate of 5.6%.

Management believes the 2% annual growth rate will not exceed the Company's long-term wireless business growth and that the total carrying amount will not exceed the total recoverable amount, even considering reasonable fluctuations in its current assumptions.

#### (2) Goodwill related to acquisition of SK Broadband Co., Ltd.

For its investment in SK Broadband, the Company estimated the value-in-use based on cash flows from financial forecasts. The Company based on its calculation on a five year financial forecast and used a 2.4% annual growth rate for periods subsequent to the forecast, using a discount rate of 7.6%.

Management believes the 2.4% annual growth rate will not exceed the Company's long-term wired business growth and that the total carrying amount will not exceed the total recoverable amount, even considering reasonable fluctuations in its current assumptions.

## 12. INTANGIBLE ASSETS

Details of changes in intangible assets for the years ended December 31, 2011 and 2010 are as follows (In millions of Korean won):

	For the year ended December 31, 2011							Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Change of Consolidation Scope	
Frequency use rights	₩ 709,043	₩1,333,796	₩-	₩-	(₩153,737)	₩ -	₩ -	₩1,889,102
Land use right	17,551	7,623	(54)	-	(5,794)	-	-	19,326
Industrial right	60,740	1,848	(1)	646	(3,759)	-	-	59,474
Software development costs	26,470	7,006	-	(609)	(8,481)	(459)	(2,966)	20,961
Customer relationships	226,940	1,791	-	-	(92,796)	-	5,883	141,818
Membership (Note a)	111,736	6,864	(2,440)	1,551	-	-	-	117,711
Other (Note b)	732,476	114,328	(1,784)	245,539	(343,089)	(2,120)	2,061	747,411
Total	<u>₩1,884,956</u>	<u>₩1,473,256</u>	<u>(₩4,279)</u>	<u>₩247,127</u>	<u>(₩607,656)</u>	<u>(₩ 2,579)</u>	<u>₩ 4,978</u>	<u>₩2,995,803</u>



For the year ended December 31, 2010

	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Ending balance
Frequency use rights	₩ 727,239	₩ -	₩ -	₩102,432	(₩120,628)	₩ -	₩ 709,043
Land use right	12,534	9,489	(189)	-	(4,283)	-	17,551
Industrial right	60,918	3,914	-	(8)	(4,084)	-	60,740
Software development costs	35,714	13,762	(243)	(2,280)	(8,945)	(11,538)	26,470
Customer relationships	317,670	-	-	-	(90,730)	-	226,940
Membership (Note a)	107,495	1,246	(359)	3,354	-	-	111,736
Other (Note b)	742,648	99,621	(7,122)	242,821	(344,601)	(891)	732,476
Total	₩2,004,218	₩128,032	(₩7,913)	₩346,319	(₩573,271)	(₩12,429)	₩1,884,956

(Note a) Memberships are classified as intangible assets with indefinite useful life and are not amortized.

(Note b) Other intangible assets consist of computer software and usage rights to a research facility which the Company built and donated to a university which in turn the Company is given rights-to-use for a definite number of years.

The book value and residual useful lives of major intangible assets as of December 31, 2011 are as follows (in millions of Korean won):

	Amount	Description	Residual useful lives
W-CDMA license	₩485,652	Frequency use rights relating to W-CDMA service	(Note a)
W-CDMA license	81,555	Frequency use rights relating to W-CDMA service	(Note b)
800MHz license	385,168	Frequency use rights relating to CDMA and LTE service	(Note c)
1.8GHz license	928,203	Frequency use rights relating to LTE service	(Note d)
WiBro license	5,325	WiBro service	(Note e)
DMB license	3,120	DMB service	4 years and 6 months
Customer relationships	133,898	Customer relationships related to acquisition of SK Broadband Co., Ltd.	1 years and 9 months

(Note a) The Company purchased the W-CDMA license from Korea Communication Commission ("KCC") former Ministry of Information Communication) on December 4, 2001. Amortization of the W-CDMA license commenced once the Company began its commercial W-CDMA services on December 29, 2003, under a straight-line basis over the remaining useful life of the license. The W-CDMA license will expire in December 2016.

(Note b) The Company purchased an additional W-CDMA license from KCC in May 2010. Amortization of the additional W-CDMA license commenced once the Company started its related commercial W-CDMA services on October 7, 2010, under a straight-line basis over the remaining useful life of the W-CDMA license. The additional W-CDMA license will expire in December 2016.

(Note c) The Company purchased 800MHz license from KCC in June 2011. Amortization of the 800MHz license commenced once the Company started its related commercial CDMA and LTE services on July, 2011, under a straight-line basis over the remaining useful life of the 800MHz license. The 800MHz license will expire in June 2021.

(Note d) The Company purchased 1.8GHz license from KCC in December 2011. Amortization of the 1.8GHz license commenced once the Company started its related commercial LTE services in late 2012, under a straight-line basis over the remaining useful life of the 1.8GHz license. The 1.8GHz license will expire in December 2021.

(Note e) The Company purchased a WiBro license from KCC on March 30, 2005. Amortization of the WiBro license commenced when the Company started its commercial WiBro services on June 30, 2006, under a straight line basis over the remaining useful life. The WiBro license will expire in March 2012.

### 13. BORROWINGS AND BONDS PAYABLE

#### a. Short-term borrowings

Short-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars and thousands of Chinese yuan):

			December 31,	December 31,	January 1,
	Lender	rate (%)	2011	2010	2010
Short-term borrowing (Korean won)	Hana Bank, etc.	4.49 ~ 6.87	₩394,033	₩328,710	₩235,232
Short-term borrowing (Foreign	SK China		106,680		9,237
currency)	Company, Ltd	-	(US\$92,500)	-	(CNY54,000)
Commercial Paper	Shinhan Bank, etc.	3.83 ~ 3.85	200,000	195,000	310,000
Total			₩700,713	₩523,710	₩554,469

b. Long-term borrowings

Long-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars and thousands of Chinese yuan:

Lender	Maturity	Annual interest rate (%) (Note)	December 31, 2011	December 31, 2010	January 1, 2010
Shinhan Bank	2011	91 days CD yield + 0.25	₩-	₩-	₩200,000
Korea Development Bank	2011	91 days CD yield + 1.02	-	₩100,000	₩100,000
Citibank	2011	91 days CD yield + 1.20	-	₩100,000	₩100,000
Nonghyup	2011	91 days CD yield + 1.30	-	₩100,000	₩100,000
Hana Bank	2011	91 days CD yield + 1.50	-	₩150,000	₩150,000
Nonghyup	2011	91 days CD yield + 1.50	-	₩50,000	₩ 50,000
Industrial Bank of Korea	2010	2.78	-	-	₩128
Korea Development Bank	2011	3.22	-	₩3,251	₩9,751
Kookmin Bank	2012	3.80	₩1,977	₩5,930	₩9,883
Korea Development Bank	2013	"	₩5,288	₩8,814	₩10,577
Korea Development Bank	2014	"	₩8,238	₩9,885	₩9,885
Shinhan Bank	2015	"	₩10,273	₩10,273	-
Kookmin Bank	2016	"	₩9,749	-	-
Credit Agricole	2013	6M Libor + 0.29	US\$30,000	US\$30,000	US\$30,000
Bank of China	"	"	US\$20,000	US\$20,000	US\$20,000
DBS Bank	"	"	US\$25,000	US\$25,000	US\$25,000
SMBC	"	"	US\$25,000	US\$25,000	US\$25,000
Korea Exchange Bank	2010	5.44	-	-	US\$117,161
China Merchants Bank	2018	5.35	CNY360,000	CNY360,000	-
Korea Exchange Bank	2015	5.18 ~ 5.44	CNY200,000	CNY200,000	-
Hana Bank HK	2014	3M Libor + 3.2	US\$75,000	-	-
Total			₩35,525	₩538,153	₩740,224
			US\$175,000	US\$100,000	US\$217,161
			CNY560,000	CNY560,000	CNY-
Equivalent in Korean won			₩334,362	₩748,346	₩993,782
Less portion due within one year			(10,510)	(512,378)	(149,142)
Long-term portion			₩323,852	₩235,968	₩844,640

(Note) As of December 31, 2011, 3-month Libor rate is 0.58% and the 6-month Libor rate is 0.81%.

c. Bonds payable

Bonds payable as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars, thousands of Japanese yen and thousands of Singapore dollars):

	Maturity	Annual Interest rate (%)	December 31, 2011	December 31, 2010	January 1, 2010
Domestic general bonds	2010	3.20~6.77	₩ -	₩ -	₩510,000
"	2011	3.00~4.44	-	200,000	280,000
"	2013	4.00~6.92	450,000	450,000	450,000
"	2014	4.86~5.0	250,000	200,000	200,000
"	2015	4.62~5.0	250,000	200,000	200,000
"	2016	3.95~5.92	580,000	470,000	470,000
"	2018	5.0	200,000	200,000	200,000
"	2021	4.22	190,000	-	-
Unsecured private bonds	2010	6.50~7.07	-	-	20,000
Unsecured public bonds	2010	6.30~6.81	-	-	110,000
"	2011	9.08	-	25,000	25,000
Debentures	2010	8.75~9.25	-	-	80,000
"	2011	6.65~9.20	-	315,718	315,718
" (Note b)	2013	3.99	150,000	150,000	-
" (Note b)	2014	4.40~4.53	390,000	-	-
Dollar denominated bonds (US\$300,000)	2011	4.25	-	341,670	350,280
Dollar denominated bonds (US\$500,000)(Note c)	2012	7.0	576,650	596,951	611,301
Dollar denominated bonds (US\$400,000)	2027	6.63	461,320	455,560	467,040
Yen denominated bonds (JPY 15,500,000)(Note a)	2012	3 M Euro Yen LIBOR+0.55~2.5	230,200	216,547	195,737
Yen denominated bonds (JPY 5,000,000)(Note a)	2012	3 M Euro Yen TIBOR+2.5	74,258	69,854	63,141
Floating rate notes(US\$ 150,000)(Note a)	2010	3 M LIBOR+3.05	-	-	175,140
Floating rate notes(US\$ 220,000)(Note a)	2012	3 M LIBOR+3.15	253,726	250,558	256,872
Floating rate notes(US\$ 250,000)(Note a)	2014	3 M LIBOR+1.60	288,325	-	-
Floating rate notes(SGD 65,000)(Note a)	2014	SOR rate+1.20	57,619	-	-
Convertible bonds (US\$ 332,528)(Note d)	2014	1.75	397,886	461,655	442,422
Sub total			4,799,984	4,603,513	5,422,651
Less discounts on bonds			(39,096)	(70,530)	(75,920)
Net			4,760,888	4,532,983	5,346,731
Less portion due within one year			(1,531,879)	(874,437)	(893,431)
Long-term portion			₩ 3,229,009	₩ 3,658,546	₩ 4,453,300

(Note a) The 3-months Euro Yen LIBOR rate, the 3-months Euro Yen TIBOR rate, the 3-month LIBOR rate and SOR rate as of December 31, 2011 are 0.20%, 0.33%, 0.58% and 0.55%, respectively.

(Note b) According to the covenant provision of the related borrowings, SK Broadband Co., Ltd., a subsidiary of the Company, is required to maintain its debt ratio lower than 1,000 percent and it cannot dispose of its property and equipment more than twenty times of net assets or ₩10 trillion of its net assets in any given fiscal year.

(Note c) According to the covenants of foreign currency debentures, when a private person or other corporation except for AIG-Newbridge-TVG Consortium acquires more than 45% of ownership of SK Broadband Co., Ltd., a subsidiary of the Company, and its credit rating on the global bond (US\$ 500,000 thousand) is downgraded below BB by S&P or Ba2 by Moody's, SK Broadband Co., Ltd. is required to offer a buy-back of the related foreign currency debentures at the price of 101% of the principal. If the Company does not comply with the covenant, it may be required to perform an immediate redemption.

(Note d) The convertible bonds are classified as financial liabilities as FVTPL in current portion of long-term debt as the bond holders can redeem their notes at April 7, 2012.

On April 7, 2009, the Company issued convertible bonds with a maturity of five years in the principal amount of US\$332,528,000 for US\$326,397,463 with a conversion price, determined at the time, of ₩230,010 per share of the Company's common stock, which was greater than the market value at the date of issuance. Conversion price will subsequently change based on changes in the Company's common shares amount. The Company may redeem the 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 100% of the principal amount on April 7, 2012 (3 years from the issuance date). The conversion right may be exercised during the period from May 18, 2009 to March 24, 2014 and the number of common shares that can be converted as of December 31, 2011 is 2,192,102 shares.

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 such 49% ownership limitation is violated due to the exercise of conversion rights, the Company will pay a bond holder a cash settlement which will be determined at the average price of one day after a holder exercises its conversion right or the weighted average price for the following five or twenty 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. Unless either previously redeemed or converted, the notes are redeemable at 100% of the principal amount at maturity.

In accordance with a resolution of the Board of Directors on January 21, 2011 and on July 28, 2011, the conversion price changed from ₩220,000 to ₩209,853 and the number of common shares that can be converted changed from 2,090,996 shares to 2,192,102 shares due to the payment of periodic dividends and payment of interim dividends. During the year ended December 31, 2011, no conversion was made.

#### 14. LONG-TERM PAYABLES

As of December 31, 2011, long-term payables consist of payables related to acquisition of W-CDMA licenses for 2.1GHz, 800MHZ and 1.8GHz frequency and other details are as follows (in millions of Korean won):

	2.1GHz	800MHZ	1.8GHz	Total
Period of repayment	2012~2014	2013~2015	2012~2021	
Coupon rate (Note a)	3.58%	3.51%	3.00%	
Annual effective interest rate (Note b)	5.89%	5.69%	5.25%	
Nominal value	₩52,600	₩208,250	₩746,250	₩1,007,100
Present value at December 31, 2010	₩50,166	₩ -	₩ -	50,166
Present value at the time of acquisition in 2011	-	197,190	679,607	876,797
Amortization of present value discount in 2011	1,025	1,925	205	3,155
Less portion due within one year	(17,296)	-	(71,848)	(89,144)
Long-term portion of W-CDMA payables	₩33,895	₩199,115	₩607,964	₩840,974
Other				6,522
Long-term payables - other				₩847,496

(Note a) The Company applied an annual interest equal to the government's previous year public funds financing account rate less 1%.

(Note b) The Company estimated the discount rate based on its credit ratings and corporate bond yield rate as there is no market interest rate available for long-term account payable-other.

As of December 31, 2010 and January 1, 2010, the Company's long-term payables - other consist of payables related to the acquisition of frequency use rights and other, in the amount of ₩54,783 million and ₩170,953 million, respectively.

The repayment schedule of long-term payables at December 31, 2011 is as follows (in millions of Korean won):

<u>Year ending December 31,</u>	<u>Long-term payables</u>
2012	92,158
2013	161,575
2014	161,575
2015 and thereafter	591,792
Total	1,007,100

## 15. PROVISIONS

Details of change in the provisions for the years ended December 31, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	<u>For the years ended December 31, 2011</u>				<u>As of December 31, 2011</u>	
	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>	<u>Current</u>	<u>Non-current</u>
Provision for handset subsidy	₩732,041	₩877,042	(₩846,994)	₩762,089	₩653,112	₩108,977
Provision for point programs	353	1,052	(617)	788	60	728
Provision for restoration	32,522	8,466	(4,610)	36,378	3,876	32,502
Provision for warranty	140	14	-	154	-	154
Provision for sales return	49	77	(45)	81	81	-
Other provisions	11	69	(11)	69	69	-
Total	₩765,116	₩886,720	(₩852,277)	₩799,559	₩657,198	₩142,361

  

	<u>For the years ended December 31, 2010</u>				<u>As of December 31, 2010</u>	
	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>	<u>Current</u>	<u>Non-current</u>
Provision for handset subsidy	₩609,733	₩941,586	(₩819,278)	₩732,041	₩652,563	₩79,478
Provision for point programs	894	461	(1,002)	353	266	87
Provision for restoration	26,473	6,202	(153)	32,522	-	32,522
Provision for warranty	317	173	(350)	140	-	140
Provision for sales return	40	19	(10)	49	49	-
Other provisions	22	10	(21)	11	11	-
Total	₩637,479	₩948,451	(₩820,814)	₩765,116	₩652,889	₩112,227

#### *Provision for handset subsidies*

The Company recognizes a provision for handset subsidies given to the subscribers who purchase handsets on an installment basis.

#### *Provision for point programs*

For marketing purposes, the Company grants points to subscribers when they enter into certain programs, such as, receiving paperless invoices or completing surveys for affiliates. The Company records a provision related to the unused and unexpired granted points, in accordance with the expected points' usage duration. All unused points expire on their fifth anniversary.

#### *Provision for restoration*

In the course of the Company's activities, base station and other assets are utilized on leased premises which are expected to have costs associated with restoring the location where these assets are situated upon ceasing their use on those premises. The associated cash outflows, which are long-term in nature, are generally expected to occur at the dates of exit of the assets to which they relate.

These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements.

The Company records these restoration costs as PP&E and subsequently allocates them to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to finance costs.

## **16. FINANCIAL LEASE LIABILITIES**

SK Broadband Co., Ltd., a subsidiary, has leased certain equipment related to telecommunication under the finance lease agreement with Cisco Capital Korea. The Company's financial lease liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
<b><u>Finance lease liabilities :</u></b>			
Less due within one year (FN 4.b.Note (c))	₩ 31,308	₩ 45,468	₩ 70,593
Long-term portion	41,940	60,075	77,709

The Company's related interest and principal as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011		December 31, 2010		January 1, 2010	
	Minimum lease payments	Present value	Minimum lease payments	Present value	Minimum lease payments	Present value
2012	₩ 34,198	₩ 31,308	₩ 50,680	₩ 45,468	₩ 77,577	₩ 70,593
2013 ~ 2017	44,119	41,940	63,336	60,075	84,849	77,709
Sub-total	78,317	73,248	114,016	105,543	162,426	148,302
Less portion due within 1 year		(31,308)		(45,468)		(70,593)
Long-term portion		₩ 41,940		₩ 60,075		₩ 77,709

#### 17. RETIREMENT BENEFIT OBLIGATION

The Company has defined benefit plans it offers to its employees. Details regarding its plans and the Company's retirement benefit obligations as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows.

- a. Details of retirement benefit obligation as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit obligation	₩188,120	₩160,363	₩127,255
Fair value of plan assets	(102,179)	(92,493)	(73,596)
Total	₩85,941	₩67,870	₩53,659

- b. Principal actuarial assumptions as of December 31, 2011 and 2010 are as follows:

	December 31, 2011	December 31, 2010
Discount rate for defined benefit obligations	4.11 ~ 6.15%	5.41 ~ 6.30%
Inflation rate	3.00%	3.00%
Expected rate of return on plan assets	2.00 ~ 8.11%	4.00 ~ 5.64%
Expected rate of salary increase	3.50 ~ 5.10%	4.36 ~ 8.42%



Discount rate for defined benefit obligation is determined based on the Company's credit ratings and yield rate of corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of return on plan assets represent weighted average rate of market value of the individual assets on the plan. Expected rate of return on plan assets is determined based on the historical yield rate and current market conditions. Meanwhile, expected rate of salary increase is determined the Company historical promotion index, inflation rate and salary increase ratio in accordance with salary agreement. Inflation rate represents target inflation rate declared by Bank of Korea.

- c. Changes in defined benefit obligations before tax for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Beginning balance	₩160,363	₩127,255
Current service cost	63,925	81,754
Interest cost	9,086	8,211
Actuarial gain or loss	30,503	3,856
Benefit paid	(77,754)	(62,689)
Others	1,997	1,976
Ending balance	₩188,120	₩160,363

Changes in plan assets for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Beginning balance	₩92,493	₩73,596
Expected return on plan assets	4,059	3,292
Actuarial gain or loss	(1,048)	(676)
Contributions by employer directly to plan assets	44,961	25,628
Benefit payment	(38,343)	(11,256)
Others	57	1,909
Ending balance	₩102,179	₩92,493

- d. Expenses recognized in statements of income for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Current service cost	₩63,925	₩81,754
Interest cost	9,086	8,211
Expected return on plan assets	(4,059)	(3,292)
Total	₩68,952	₩86,673

These expenses are recognized as labor cost, research and development expense in the period as income or expenses and construction in progress.

- e. Details of plan assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Equity instruments	₩-	₩26,247	₩2,027
Debt instruments	12,455	51,489	38,629
Others	<u>89,724</u>	<u>14,757</u>	<u>32,940</u>
Total	<u>₩102,179</u>	<u>₩92,493</u>	<u>₩73,596</u>

Actual return on plan assets for the years ended December 31, 2011 and December 31, 2010 is ₩3,011 million and ₩2,616 million, respectively.

## 18. SHARE CAPITAL AND SHARE PREMIUM

The Company's outstanding share capital consists entirely of common stock with a par value of ₩500. The number of authorized, issued and outstanding common shares and share premium as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won, except for share data):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Authorized shares	220,000,000	220,000,000	220,000,000
Issued shares (Note)	80,745,711	80,745,711	80,745,711
Share capital			
Common stock	<u>₩44,639</u>	<u>₩44,639</u>	<u>₩44,639</u>
Share premium :			
Paid-in surplus	₩2,915,887	₩2,915,887	₩2,915,887
Treasury stock	(2,410,451)	(2,202,439)	(1,992,083)
Loss on disposal of treasury stock	(18,855)	(15,875)	(15,875)
Others	<u>(771,928)</u>	<u>(776,526)</u>	<u>(740,053)</u>
Total	<u>(₩ 285,347)</u>	<u>(₩78,953)</u>	<u>₩167,876</u>

There are no changes in share capital for the years ended December 31, 2011, and 2010.

(Note) During the year ended December 31, 2003, December 31, 2006 and December 31, 2009, the Company retired 7,002,235 shares, 1,083,000 shares and 448,000 shares, respectively, of treasury stock which reduced its retained earnings before appropriation in accordance with the Korean Commercial Law. As a result, the Company's outstanding number of shares decreased without change in the share capital.

## 19. TREASURY STOCK

Through 2009, the Company acquired 8,400,712 shares of treasury stock in the open market for ₩1,992,083 million to use as stock dividends, to increase shareholder value, and to use for stabilizing stock prices in the market if deemed necessary.

Meanwhile from July 26, 2010 through October 20, 2010, the Company additionally acquired 1,250,000 shares of treasury stock for ₩210,356 million and from July 21, 2011 through September 28, 2011, the Company additionally acquired 1,400,000 shares of treasury stock for ₩208,012 million in accordance with the resolution of the Board of Directors on July 22, 2010 and July 19, 2011, respectively.

As a result of aforementioned treasury stock transactions, as of December 31, 2011 and 2010, the Company has 11,050,712 shares of treasury stock at ₩2,410,451 million and 9,650,712 shares of treasury stock at ₩2,202,439 million, respectively.

## 20. RETAINED EARNINGS

Retained earnings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Appropriated :			
Legal reserve (Note a)	₩22,320	₩22,320	₩22,320
Reserve for research & manpower development (Note b)	535,595	658,928	672,595
Reserve for business expansion (Note b)	8,009,138	7,519,138	7,045,138
Reserve for technology development (Note b)	1,524,000	1,150,000	1,150,000
Sub-total	10,091,053	9,350,386	8,890,053
Unappropriated	1,551,472	1,370,863	673,887
Total	<u>₩ 11,642,525</u>	<u>₩ 10,721,249</u>	<u>₩ 9,563,940</u>

(Note a) Mandatory Reserve - Legal Reserve

The Korean Commercial Law requires the Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period, until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may be used to offset a future deficit, if any, or may be transferred to share capital.

(Note b) Voluntary Reserve

Reserve for research & manpower development and reserve for technology development were originally appropriated, in order to recognize certain tax deductible benefits through the early recognition of future expenditure for tax purposes. These reserves will be reversed from appropriated and retained earnings in accordance with the relevant tax laws in taxable income in the year of reversal. However, for the years ended December 31, 2011 and 2010, all reserves are on now on a voluntary basis and there are no restrictions on these reserves. As such, the Company can utilize these if deemed necessary.

Reserve for business expansion is appropriated for on a voluntary basis, there are no restrictions on the reserve. As such, the Company can utilize these if deemed necessary.

## 21. RESERVES

- a. Details of reserves as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Net change in fair value of available-for-sale financial assets	₩354,951	₩793,645	₩998,527
Share of other comprehensive income of associates	(93,599)	(91,413)	(91,244)
Loss on valuation of derivatives	(25,100)	(56,862)	12,552
Foreign currency translations of foreign operations	23,812	(2,314)	-
Total	₩260,064	₩643,056	₩919,835

- b. Details of change in reserves for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	Net change in fair value of available-for- sale financial assets	Share of other comprehensive loss of associates	Gain (loss) on valuation of derivatives	Foreign currency differences from foreign operations	Total
Balance, January 1, 2010	₩998,527	(₩91,244)	₩12,552	₩-	₩919,835
Changes	(260,479)	(133)	(87,129)	(2,314)	(350,055)
Tax effect	55,597	(36)	17,715	-	73,276
Balance, December 31, 2010	₩793,645	(₩91,413)	(₩56,862)	(₩2,314)	₩643,056
Balance, January 1, 2011	₩793,645	(₩91,413)	(₩56,862)	(₩2,314)	₩643,056
Changes	(555,612)	(906)	40,865	26,126	(489,527)
Tax effect	116,918	(1,280)	(9,103)	-	106,535
Balance, December 31, 2011	₩354,951	(₩93,599)	(₩25,100)	₩23,812	₩260,064

- c. Details of change in fair value of available-for-sale financial assets for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended					
	December 31, 2011			December 31, 2010		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Beginning balance	₩1,023,458	(₩229,813)	₩793,645	₩1,284,221	(₩285,694)	₩998,527
Recognized in other comprehensive income during the period	(418,349)	84,227	(334,122)	(209,631)	43,033	(166,598)
Reclassified from equity to income or expense for the period	(137,263)	32,691	(104,572)	(50,848)	12,564	(38,284)
Ending balance	₩467,846	(₩ 112,895)	₩354,951	₩1,023,742	(₩230,097)	₩793,645

- d. Details of change in valuation of derivatives for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended					
	December 31, 2011			December 31, 2010		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Beginning balance	(₩77,448)	₩20,586	(₩56,862)	₩9,681	₩2,871	₩12,552
Recognized in other comprehensive income during the period	55,158	(13,023)	42,135	(74,674)	13,379	(61,295)
Reclassified from equity to net income for the period	(14,293)	3,920	(10,373)	(12,455)	4,336	(8,119)
Ending balance	<u>(₩36,583)</u>	<u>₩11,483</u>	<u>(₩25,100)</u>	<u>(₩77,448)</u>	<u>₩20,586</u>	<u>(₩56,862)</u>

## 22. OTHER OPERATING INCOME AND EXPENSES

Details of other operating income and expenses for the years ended December 31, 2011 and 2010 are as follows (In millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
<b><u>Other operating income :</u></b>		
Reversal of allowance for doubtful accounts (Note)	₩2,301	₩805
Gain on disposal of property and equipment and intangible assets (Note)	6,275	11,340
Other (Note)	<u>41,153</u>	<u>68,380</u>
	<u>₩49,729</u>	<u>₩80,525</u>
<b><u>Other operating expenses :</u></b>		
Communication expenses	₩64,404	₩62,793
Utilities	168,288	163,145
Taxes and dues	47,467	55,353
Repair	250,801	232,557
Research and development	271,382	270,603
Training	38,139	32,590
Bad debt for account receivables – trade	83,748	77,780
Travels	32,973	29,275
Supplies and other	106,855	100,523
Loss on disposal of property and equipment and intangible assets (Note)	21,136	70,025
Loss on disposal of investment assets (Note)	434	11,329
Loss on impairment of intangible assets (Note)	2,580	7,550
Donations (Note)	104,656	204,876
Other bad debt other receivables (Note)	12,847	12,293
Other (Note)	<u>26,769</u>	<u>60,082</u>
	<u>₩1,232,479</u>	<u>₩1,390,774</u>

(Note) Under previous GAAP (Korean GAAP) these were classified as other non-operating income and expenses. While, under IFRS, these are classified as other operating income and expenses.

## 23. FINANCE INCOME AND COSTS

Details of finance income and costs for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
<b><u>Finance income :</u></b>		
Interest income	₩168,148	₩237,392
Dividends	26,433	28,680
Gain on foreign currency transactions	11,135	10,163
Gain on foreign currency translation	1,984	16,950
Gain on valuation of financial asset at FVTPL	2,617	-
Gain on disposal of long-term investment securities	164,454	174,801
Reversal of loss on impairment of investment securities	-	39
Gain on valuation of derivatives	3,785	1,241
Gain on derivative settlement	-	7,951
Gain on valuation of financial liability at FVTPL	63,769	-
	<u>₩442,325</u>	<u>₩477,217</u>
<b><u>Finance costs :</u></b>		
Gain on derivative settlement	₩297,172	₩379,289
Loss on foreign currency transactions	10,382	14,471
Loss on foreign currency translation	6,409	1,788
Loss on disposal of short-term investment securities	-	1,866
Loss on disposal of long-term investment securities	447	2,368
Loss on impairment of investment securities	12,846	3,404
Loss on valuation of derivatives	943	19,198
Loss on derivative settlement	15,577	-
Loss on disposal of accounts receivable	-	6
Loss on valuation of financial liability at FVTPL	-	19,233
	<u>₩343,776</u>	<u>₩441,623</u>

Details of interest income included in finance income for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Interest income on cash equivalents and deposits	₩61,577	₩27,987
Interest income on installment receivables and other interest income	106,571	209,405
	<u>₩168,148</u>	<u>₩237,392</u>

Details of interest expenses included in finance for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Interest expense on bank overdrafts and borrowings	₩ 60,271	₩ 89,178
Interest on finance lease liabilities	4,422	8,383
Interest on bonds	208,403	252,646
Other interest expenses	24,076	29,082
	<u>₩ 297,172</u>	<u>₩ 379,289</u>

Details of income and costs by type of financial assets or financial liabilities for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the year ended			
	December 31, 2011		December 31, 2010	
	Financial income	Financial Costs	Financial income	Financial costs
<b>Financial assets:</b>				
Financial assets designated as at FVTPL	₩3,013	₩943	₩1,991	₩21,064
Available-for-sale financial assets	198,547	13,293	223,425	5,772
Loans and receivables	173,498	12,603	228,909	16,221
Derivatives designated as hedging instruments	-	8,088	505	-
Sub-total	<u>375,058</u>	<u>34,927</u>	<u>454,830</u>	<u>43,057</u>
<b>Financial liabilities:</b>				
Financial liabilities designated as at FVTPL	67,158	2,353	-	19,233
Financial liabilities at amortized cost	109	301,360	15,691	379,333
Derivatives designated as hedging instruments	-	5,136	6,696	-
Sub-total	<u>67,267</u>	<u>308,849</u>	<u>22,387</u>	<u>398,566</u>
Total	<u>₩442,325</u>	<u>₩343,776</u>	<u>₩477,217</u>	<u>₩441,623</u>

Details of impairment losses for each class of financial assets for the years ended December 31, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Impairment loss on long-term investment securities	₩ 12,846	₩ 3,404
Bad debt	83,748	77,780
Other bad debt	12,847	12,293
	<u>₩ 109,441</u>	<u>₩ 93,477</u>

## 24. INCOME TAX FOR CONTINUING OPERATIONS

- a. Income tax expenses for continuing operations for the years ended December 31, 2011 and 2010 consist of the following (in millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
I. Current tax :		
Currently	₩520,370	₩532,096
Adjustments recognized in the period for current tax of prior periods	90,389	11,847
	<u>610,759</u>	<u>543,943</u>
II. Deferred tax:		
Changes in net deferred tax assets	(120,718)	(78,214)
Deferred tax assets directly added to (deducted from) equity	108,563	78,727
Changes in scope of consolidation	330	-
Others (Tax effect from statutory tax rate change)	159	74
	<u>(11,666)</u>	<u>587</u>
III. Income tax for continuing operation	<u>₩599,093</u>	<u>₩544,530</u>

- b. The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2011 and 2010 is attributable to the following (in millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
Income taxes at statutory income tax rate of 24.2% (Note)	₩ 528,225	₩ 560,952
Non-taxable income	(10,230)	(8,381)
Non-deductible expenses	7,994	43,382
Tax credit and tax reduction	(42,572)	(30,443)
Tax effects of temporary differences, unused tax losses and unused tax credits not recognized in deferred tax assets	33,170	7,666
Additional income tax(refund) for prior periods	90,389	(6,632)
Deferred tax effect from statutory tax rate change for future periods	(7,883)	(22,014)
Income tax for continuing operation	<u>₩ 599,093</u>	<u>₩ 544,530</u>

(Note) Tax rate represents statutory tax rate in Korea applied to the Company. The statutory income tax rate is 11.0% up to ₩200 million of net taxable income and 24.2% above ₩200 million of net taxable income for the years ended December 31, 2011 and 2010. Beginning for the year ended December 31, 2012, the statutory tax rate will be 11.0% up to ₩200 million of net taxable income, above ₩200 million and up to ₩20,000 million of net taxable income will be reduced to 22% and above ₩20,000 million of net taxable income will be 24.2%.



- c. Deferred tax assets (liabilities) directly added to (deducted from) equity for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
Net change in fair value of available-for-sale financial assets (FN 21.b)	₩ 116,918	₩ 55,597
Share of other comprehensive income of associates (FN 21.b)	(1,280)	(36)
Gain or loss on valuation of derivatives (FN 21.b)	(9,103)	17,715
Actuarial gain or loss	6,276	35
Loss on disposal of treasury stock	(2,980)	-
Others	(1,268)	5,416
	<u>₩ 108,563</u>	<u>₩ 78,727</u>

- d. Details of changes in deferred tax assets (liabilities) for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

For the year ended December 31, 2011

Account	Beginning	Changes in scope of consolidation	Deferred tax expense (income)	Directly added to (deducted from) equity	Other	Ending
<u>Deferred tax assets (liabilities) related to temporary differences</u>						
Allowance for doubtful accounts	₩51,748	₩-	(₩10,300)	₩-	₩3	₩41,451
Accrued interest income	(716)	-	(684)	-	-	(1,400)
Available-for-sale financial assets	(241,325)	-	44,629	116,918	-	(79,778)
Investments in subsidiaries and associates	18,941	-	15,610	(1,280)	168	33,439
Property and equipment (depreciation)	(196,282)	-	(14,438)	-	-	(210,720)
Provisions	180,965	-	4,300	-	1	185,266
Retirement benefit obligation	10,027	-	2,942	6,276	-	19,245
Gain or loss on valuation of derivatives	(5,727)	-	26,046	(9,103)	-	11,216
Gain or loss on foreign currency translation	7,634	-	1,576	-	-	9,210
Tax free reserve for research and manpower development	(80,740)	-	27,280	-	-	(53,460)
Goodwill relevant to leased line	140,809	-	(24,522)	-	-	116,287
Unearned revenue (activation fees)	117,432	-	(920)	-	-	116,512
Others	103,584	330	(64,536)	(4,248)	(13)	35,117
	<u>106,350</u>	<u>330</u>	<u>6,983</u>	<u>108,563</u>	<u>159</u>	<u>222,385</u>
<u>Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards</u>						
Tax loss carryforwards	78	-	4,341	-	-	4,419
Tax credit carryforwards	432	-	342	-	-	774
	<u>510</u>	<u>-</u>	<u>4,683</u>	<u>-</u>	<u>-</u>	<u>5,193</u>
	<u>₩106,860</u>	<u>₩330</u>	<u>₩11,666</u>	<u>₩108,563</u>	<u>₩159</u>	<u>₩227,578</u>

For the year ended December 31, 2010

Account	Beginning	Deferred tax expense (income)	Directly added to (deducted from) equity	Other	Ending
<u>Deferred tax assets (liabilities) related to temporary differences</u>					
Allowance for doubtful accounts	₩56,413	(₩4,665)	₩-	₩-	₩51,748
Accrued interest income	(837)	121	-	-	(716)
Available-for-sale financial assets	(247,170)	(49,752)	55,597	-	(241,325)
Investments in subsidiaries and associates	(31,915)	50,772	(36)	120	18,941
Property and equipment (depreciation)	(129,190)	(67,092)	-	-	(196,282)
Provisions	151,946	29,019	-	-	180,965
Retirement benefit obligation	7,026	2,966	35	-	10,027
Gain or loss on valuation of derivatives	(29,614)	6,172	17,715	-	(5,727)
Gain or loss on foreign currency translation	11,159	(3,525)	-	-	7,634
Tax free reserve for research and manpower development	(124,227)	43,487	-	-	(80,740)
Goodwill relevant to leased line	189,372	(48,563)	-	-	140,809
Unearned revenue (activation fees)	130,676	(13,244)	-	-	117,432
Others	43,728	54,486	5,416	(46)	103,584
	27,367	182	78,727	74	106,350
<u>Deferred tax assets related to unused tax loss carryforwards and unused tax credit carryforwards</u>					
Tax loss carryforwards	383	(305)	-	-	78
Tax credit carryforwards	896	(464)	-	-	432
	1,279	(769)	-	-	510
	₩28,646	(₩587)	₩78,727	₩74	₩106,860

- e. Details of temporary differences, unused tax losses and unused tax credits which are not recognized as deferred tax assets (liabilities), as the Company does not believe it is probable that the deferred tax assets will be realizable in the future, in the consolidated statements of financial position as of December 31, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
Allowance for doubtful accounts	₩140,010	₩139,500
Investments in subsidiaries and associates	797,955	656,844
Other temporary differences	210,616	222,985
Unused tax loss carryforwards	836,752	900,394
Unused tax credit carryforwards	899	2,669
	₩1,986,232	₩1,922,392

- f. The expirations of the tax loss carryforwards and tax credit carryforwards of the Company related to certain subsidiaries which are expected to be utilized, as of December 31, 2011 are as follows (in millions of Korean won):

	<u>Tax loss carryforwards</u>	<u>Tax credit carryforwards</u>
Less than 1 year	₩40,867	₩483
1 ~ 2 years	164,810	189
2 ~ 3 years	358,122	174
More than 3 years	<u>272,953</u>	<u>53</u>
Total	<u>₩836,752</u>	<u>₩899</u>

## 25. NET INCOME PER SHARE

Net income from continuing operations per share and net income per share for the years ended December 31, 2011 and 2010 are computed as follows (in millions of Korean won, except for share data):

### *Net income per share from continuing operation*

	For the year ended	
	December 31, 2011	December 31, 2010
Net income from continuing operation attributable to the owners of the Company	₩1,613,986	₩1,845,513
Weighted average number of common shares outstanding	<u>70,591,937</u>	<u>71,942,387</u>
Net income per share from continuing Operation (in Korean won)	<u>₩22,864</u>	<u>₩25,653</u>

Net income from continuing operation attributable to the controlling interests for the years ended December 31, 2011 and 2010 are computed as follows (in millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
Net income attributable to the controlling interests	₩1,612,889	₩1,841,613
The controlling interests' portion of net loss (income) from discontinued operation attributable to the controlling interests (FN. 32)	<u>1,097</u>	<u>3,900</u>
Net income from continuing operation attributable to the controlling interests	<u>₩1,613,986</u>	<u>₩1,845,513</u>

**Net income per share**

	For the year ended	
	December 31, 2011	December 31, 2010
Net income attributable to the owners of the Company	₩1,612,889	₩1,841,613
Weighted average number of common shares outstanding	70,591,937	71,942,387
Net income per share (in Korean won)	₩22,848	₩25,598

The weighted average number of common shares outstanding for the years ended December 31, 2011 and 2010 are calculated as follows:

For the year ended December 31, 2011

	Number of shares	Weighted number of days	Weighted number of shares
For the years ended December 31, 2011			
Outstanding common shares at January 1, 2011	80,745,711	365 / 365	80,745,711
Treasury stocks at January 1, 2011	(9,650,712)	365 / 365	(9,650,712)
Acquisition of treasury stock	(1,400,000)	131 / 365 (Note)	(503,062)
Total	69,694,999		70,591,937

For the year ended December 31, 2010

	Number of Shares	Weighted number of days	Weighted number of shares
For the years ended December 31, 2010			
Outstanding common shares at April 1, 2010	80,745,711	365 / 365	80,745,711
Treasury stocks at July 1, 2010	(8,400,712)	365 / 365	(8,400,712)
Acquisition of treasury stock	(1,250,000)	118 / 365 (Note)	(402,612)
Total	71,094,999		71,942,387

(Note) The Company acquired treasury stocks on many different dates, and weighted number of shares was calculated considering each transaction date.

Diluted net income from continuing operations per share and diluted net income per share amounts for the years ended December 31, 2011 and 2010 are computed as follows (in millions of Korean won, except for share data):

**Diluted net income per share from continuing operation**

	For the year ended	
	December 31, 2011	December 31, 2010
Diluted net income from continuing operation attributable to the owners of the Company	₩1,618,606	₩1,850,471
Diluted weighted average number of common shares outstanding	72,784,039	74,033,383
Diluted net income per share (in Korean won)	₩22,238	₩24,995

Diluted net income from continuing operation attributable to the controlling interests for the years ended December 31, 2011 and 2010 are computed as follows (in millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
Net income attributable to the controlling interests	₩1,617,509	₩1,846,571
The controlling interests' portion of net loss from discontinued operation attributable to the controlling interests	1,097	3,900
Net income from continuing operation attributable to the controlling interests	<u>₩1,618,606</u>	<u>₩1,850,471</u>

***Diluted net income per share***

	For the year ended	
	December 31, 2011	December 31, 2010
Adjusted net income to the owners of the Company	₩1,617,509	₩1,846,571
Adjusted weighted average number of common shares outstanding	<u>72,784,039</u>	<u>74,033,383</u>
Diluted net income per share (in Korean won)	<u>₩22,223</u>	<u>₩24,942</u>

Adjusted net income per share and the adjusted weighted average number of common shares outstanding for the years ended December 31, 2011 and 2010 are calculated as follows (In millions of Korean won, except for share data):

	For the year ended	
	December 31, 2011	December 31, 2010
Net income and ordinary income	₩1,612,889	₩1,841,613
Effect of convertible bonds (Note)	<u>4,620</u>	<u>4,958</u>
Adjusted net income and ordinary income	<u>₩1,617,509</u>	<u>₩1,846,571</u>
Weighted average number of common shares outstanding	70,591,937	71,942,387
Effect of exchangeable bonds (Note)	<u>2,192,102</u>	<u>2,090,996</u>
Adjusted weighted average number of common shares outstanding	<u>72,784,039</u>	<u>74,033,383</u>

(Note) Assuming the conversion of the convertible bonds occurred at the beginning of the period, related interest expense would not have been incurred, resulting in an increase in net income and an increase in the weighted average number of common shares outstanding would have occurred.

Net income and diluted net income per share from discontinued operation for the years ended December 31, 2011 and 2010 are computed as follows (in millions of Korean won, except for share data):

	For the year ended	
	December 31, 2011	December 31, 2010
The controlling interests' portion of net loss (income) from discontinued operation attributable to the controlling interests (FN. 32)	1,097	3,900
Weighted average number of common shares outstanding	70,591,937	71,942,387
Net income and diluted net income per share(in Korean won)	(₩16)	(₩54)

## 26. DIVIDEND DISCLOSURE

Details of dividends declared for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won, except for face value and share data):

Fiscal year	Dividend type	Number of shares outstanding	Face value	Dividend ratio	Dividends
2011	Cash dividends (interim)	71,094,999	₩500	200%	₩71,095
	Cash dividends (year-end)	69,694,999	₩500	1,680%	585,438
	Total				₩656,533
2010	Cash dividends (interim)	72,344,999	₩500	200%	₩72,345
	Cash dividends (year-end)	71,094,999	₩500	1,680%	597,198
	Total				₩669,543

Dividends payout ratios for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won and %):

	For the year ended	
	December 31, 2011	December 31, 2010
Dividends calculated	₩656,533	₩669,543
Net income attributable to the controlling interest	₩1,612,889	₩1,841,613
Dividends payout ratio	40.71%	36.36%

Dividends yield ratios for the years ended December 31, 2011 and December 31, 2010 are as follows (in Korean won and %):

	For the year ended	
	December 31, 2011	December 31, 2010
Dividend per share	₩9,400	₩9,400
Stock price at the year-end	141,500	173,500
Dividends yield ratio	6.64%	5.42%

## 27. SEGMENT INFORMATION

The Company's segments are classified at the business unit level, at which the Company generates separately identifiable revenue and costs, and the related information is reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance. The Company's reportable segments under IFRS 8 *Operating Segments* are; 1) cellular services and 2) fixed-line telecommunication services. Other businesses which do not meet the quantitative thresholds are grouped and presented as Other in the following schedules.

Cellular services include cellular voice service, wireless data service and wireless internet services. Fixed-line telecommunication services include telephone services, internet services, and leased line services. Other includes the Company's Internet portal services, game manufacturing and other immaterial operations.

On October 1, 2011, in accordance with the Company's Board of Directors resolution on July 19, 2011 and the shareholder's general meeting held on August 31, 2011, the Company spun off its platform business into a new wholly-owned subsidiary, SK Planet Co., Ltd.. SK Planet operates the Company's platform business such as T Store, online marketplace for mobile application, 11<sup>th</sup> Street, online shopping mall. For the years ended December 31, 2011 and 2010, the new platform business segment does not meet the quantitative thresholds for separate disclosures under IFRS 8. In addition, for periods prior to October 1, 2011, the Company did not maintain separate financial information for the platform business and it is not feasible for the Company to generate such information as of December 31, 2011.

The accounting policies of the respective reportable segments discussed below are the same as the Company's accounting policies described in FN 2. Segment information below does not include the Company's discontinued operations information. Refer to FN 32 for details on discontinued operations.

Details of the two segments and other for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended December 31, 2011					
	Cellular services (Note a)	Fixed-line Telecomm- unication services	Other (Note a)	Sub-total	Consolidation adjustments	Consolidated amount
Total sales	₩ 14,107,174	₩2,908,758	₩1,015,149	₩18,031,081	(₩2,042,803)	₩15,988,278
Internal sales	1,005,229	746,190	291,384	2,042,803	(2,042,803)	-
External sales	13,101,945	2,162,568	723,765	15,988,278	-	15,988,278
Operating income	2,067,345	21,309	42,804	2,131,458	-	2,131,458
Net income (loss)	1,627,247	(62,761)	17,587	1,582,073	-	1,582,073
Total assets	20,970,450	3,844,042	3,503,663	28,318,155	(3,952,119)	24,366,036
Total liabilities	8,804,588	2,554,298	982,656	12,341,542	(708,215)	11,633,327

For the years ended December 31, 2010

	Cellular services (Note a)	Fixed-line Telecomm- unication services	Other (Note a)	Sub-total	Consolidation adjustments	Consolidated amount
Total sales	₩13,522,608	₩2,653,479	₩577,423	₩16,753,510	(₩1,154,348)	₩15,599,162
Internal sales	602,347	426,172	125,829	1,154,348	(1,154,348)	-
External sales	12,920,261	2,227,307	451,594	15,599,162	-	15,599,162
Operating income(loss)	2,316,740	(52,105)	21,276	2,285,911	-	2,285,911
Net income(loss)	1,882,056	(132,314)	17,093	1,766,835	-	1,766,835
Total assets	20,116,200	3,658,214	1,502,572	25,276,986	(2,144,597)	23,132,389
Total liabilities	8,307,958	2,377,101	331,044	11,016,103	(291,713)	10,724,390

(Note a) Platform business related financial information for the period October 1, 2011 (spin-off date) to December 31, 2011 is presented in Other; for the period January 1, 2011 to September 30, 2011 and the year ended December 31, 2010, the related financial information is presented in Cellular services.

No single customer contributed 10% or more to the Company's total sales for the years ended December 31, 2011 and 2010.

Though the Company is expanding into new geographic regions, as of December 31, 2011, the Company still principally operates in its domestic market in Korea.

The Company's revenues are generated as follows (in millions of Korean won).:

	2011	2010
<b>Cellular revenue</b>		
Wireless Service	10,459,685	10,634,402
Interconnection	1,090,874	1,168,696
Digital Handset Sales	787,493	534,544
Other (Note a)	763,893	582,619
	<u>13,101,945</u>	<u>12,920,261</u>
<b>Fixed-line telecommunication services revenue</b>		
Fixed-line Service	2,078,764	2,138,553
Interconnection	83,804	88,754
	<u>2,162,568</u>	<u>2,227,307</u>
<b>Other revenue (Note a)</b>		
Commerce service (Note b)	141,787	-
Portal Service (Note c)	235,632	239,545
Other (Note d)	346,346	212,049
	<u>723,765</u>	<u>451,594</u>
<b>Total</b>	<u><u>15,988,278</u></u>	<u><u>15,599,162</u></u>

(Note a) Other cellular revenue includes internet platform solutions sales and licensing for the year ended December 31, 2010 and the period January 1, 2011 to September 30, 2011.

(Note b) Commerce service revenue includes sales from online shopping mall, such as, 11<sup>th</sup> Street.

(Note c) Portal service revenue includes revenues from Nate, an online portal service and Cyworld, a social network service.

(Note d) Other includes revenue from T store, online marketplace for mobile application, and the platform businesses for the period October 1, 2011 to December 31, 2011, subsequent to spin-off.



## 28. TRANSACTIONS WITH RELATED PARTIES

Significant related party transactions for the years ended December 31, 2011 and 2010, and account balances as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (In millions of Korean won):

### a. Transactions

	For the year ended December 31, 2011			For the year ended December 31, 2010		
	Purchases of property and equipment	Commissions paid and other expenses	Commissions earned and other income	Purchases of property and equipment	Commissions paid and other expenses	Commissions earned and other income
Ultimate parent company:						
SK C&C Co., Ltd.	₩299,170	₩321,437	₩15,607	₩270,865	₩316,361	₩19,500
Parent Company:						
SK Holdings Co., Ltd.	-	31,029	1,068	118	33,788	1,486
Associates:						
SK Marketing & Company Co., Ltd.	8,405	154,103	13,366	12,377	171,592	8,124
F&U Credit Information Co., Ltd.	-	45,433	1,609	-	44,299	2,132
SK Wyverns Baseball Club Co., Ltd.	-	19,612	17	-	18,000	67
HanaSK Card Co., Ltd.	33	284,111	168,234	-	95,044	3,562
MRO Korea Co., Ltd.	7,459	6,925	22	7,041	5,761	161
Others	7,667	30,947	1,587	7,220	17,639	206
Others :						
SK innovation Co., Ltd.	-	765	4,577	-	951	8,248
SK MNS Co., Ltd.	167	16,243	505	921	16,372	605
SK Engineering & Construction Co., Ltd.	386,144	55,109	6,213	357,786	29,168	10,500
SKC Co., Ltd.	-	26	1,656	-	26	1,010
SK Telesys Co., Ltd.	265,851	44,639	61,561	336,265	46,513	12,361
SK Mobile energy Co., Ltd.	1,209	-	12	3,522	-	22
SK Networks Co., Ltd.	9,647	1,216,951	17,223	9,252	1,083,796	28,494
SK Networks Service Co., Ltd.	2,215	86,564	847	663	54,049	-
SK Pinx Co., Ltd.	9,850	2,323	10	3,317	196	-
SK Shipping Co., Ltd.	-	-	3,373	-	-	3,370
Others	4,896	51,126	14,029	1,656	10,082	433
Total	₩1,002,713	₩2,367,343	₩311,516	₩1,011,003	₩1,943,637	₩100,281

**b. Account balances**

	As of December 31, 2011			
	Accounts receivable and loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:				
SK C&C Co., Ltd.	₩3,330	₩-	₩172,047	₩3,585
Parent Company:				
SK Holdings Co., Ltd.	147	-	-	-
Associates:				
SK Marketing & Company Co., Ltd.	9,876	-	36,901	10
F&U Credit Information Co., Ltd.	-	-	3,736	-
SK Wyverns Baseball Club Co., Ltd.	3,812	-	-	-
Wave City Development Co., Ltd.	38,412	-	-	-
Daehan Kanggun BcN Co., Ltd.	8,683	14	2,358	-
HanaSK Card Co., Ltd.	20,562	-	-	-
MRO Korea Co., Ltd.	1	-	1,768	-
Others	69	-	1,539	222
Others :				
SK innovation Co., Ltd.	954	91	2	-
SK MNS Co., Ltd.	644	-	4,679	-
SK Engineering & Construction Co., Ltd.	1,271	-	39,215	82
SKC Co., Ltd.	184	-	-	-
SK Telesys Co., Ltd.	132	-	65,619	-
SK Mobile energy Co., Ltd.	1	-	71	-
SK Networks Co., Ltd.	24,403	5,513	158,884	896
SK Networks Service Co., Ltd.	6	-	4,754	-
SK Shipping Co., Ltd.	365	-	-	-
Others	5,089	-	10,876	433
Total	₩117,941	₩5,618	₩502,449	₩5,228

As of December 31, 2010				
	Accounts receivable and loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:				
SK C&C Co., Ltd.	₩935	₩-	₩203,031	₩3,585
Parent Company:				
SK Holdings Co., Ltd.	480	-	1,595	-
Associates:				
SK Marketing & Company Co., Ltd.	12,497	-	35,068	-
F&U Credit Information Co., Ltd.	47	-	7,002	-
SK Wyverns Baseball Club Co., Ltd.	3,295	-	-	-
Wave City Development Co., Ltd.	38,412	-	-	-
Daehan Kanggun BcN Co., Ltd.	30,224	-	-	-
HanaSK Card Co., Ltd.	8,478	-	19,948	-
Others	1	-	2,706	-
Others :				
SK innovation Co., Ltd.	1,204	96	-	23
SK MNS Co., Ltd.	1,591	-	4,036	-
SK Engineering & Construction Co., Ltd.	2,610	-	42,880	82
SKC Co., Ltd.	109	-	6	-
SK Telesys Co., Ltd.	14,207	-	63,350	-
SK Mobile energy Co., Ltd.	2	-	645	-
SK Networks Co., Ltd.	3,203	5,513	99,284	689
MRO Korea Co., Ltd.	6	-	1,985	-
SK Networks Service Co., Ltd.	1	-	10,585	-
SK Pinx Co., Ltd.	-	-	6	-
SK Shipping Co., Ltd.	69	-	-	-
Others	850	-	3,510	258
Total	₩118,221	₩5,609	₩495,637	₩4,637

	As of January 1, 2010			
	Accounts receivable and loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:				
SK C&C Co., Ltd.	₩1,070	₩-	₩260,732	₩5
Parent Company:				
SK Holdings Co., Ltd.	249	-	2	23
Associates:				
SK Marketing & Company Co., Ltd.	3,542	-	31,366	248
F&U Credit Information Co., Ltd.	17	-	3,746	-
SK Wyverns Baseball Club Co., Ltd.	6,022	-	2,982	-
Wave City Development Co., Ltd.	38,412	-	-	-
Others	1,520	-	3,275	265
Others :				
SK innovation Co., Ltd.	1,712	96	177	172
SK MNS Co., Ltd.	60	-	3,196	-
SK Engineering & Construction Co., Ltd.	208	-	44,420	82
SKC Co., Ltd.	67	-	6	-
SK Telesys Co., Ltd.	242	-	55,585	-
SK Mobile energy Co., Ltd.	1	-	-	-
SK Networks Co., Ltd.	5,240	330	281,346	54,461
MRO Korea Co., Ltd.	3	-	926	-
SK Networks Service Co., Ltd.	1	-	13,028	-
SK Pinx Co., Ltd.	1,310	-	-	-
SK Shipping Co., Ltd.	504	-	-	1,657
Others	7,298	5,401	10,852	6,213
Total	₩67,478	₩5,827	₩711,639	₩63,126

### c. Compensation for the key management

The Company considers registered directors who have substantial roles and responsibility in planning, operating, and controlling of the business as key management. The considerations given to such key management for the years ended December 31, 2011 and 2010 are as follows (In millions of Korean won):

Payee	For the year ended					
	December 31, 2011			December 31, 2010		
	Payroll	Severance indemnities	Total	Payroll	Severance indemnities	Total
Eight (8) Registered directors (including outside directors)	₩9,643	₩837	₩10,480	₩2,994	₩702	₩3,696

## 29. COMMITMENTS AND CONTINGENCIES

### Restricted deposits

- a. At December 31, 2011, the Company has guarantee deposits related to its checking accounts which are restricted for use by the banks totaling ₩39 million. In addition, the Company restricts a portion of its deposits for various charitable contributions amounting to ₩78,000 million.
- b. At December 31, 2011, certain short-term and long-term financial instruments totaling ₩162,012 million are secured for payment guarantee of short-term borrowings, accounts payable and others.

### Collateral assets and commitments

- c. As of December 31, 2011, SK Broadband Co., Ltd., a subsidiary, agreed to provide guarantees for Broadband Media Co., Ltd.'s loans. For the guarantee, SK Broadband Co., Ltd. has provided its properties as collaterals as follows: ₩65,000 million to Hana Bank, ₩78,000 million to IBK Capital and ₩52,000 million to Kookmin Bank, respectively. The Company also provided its short-term financial instruments as collaterals as follows: ₩60,000 million to Korea Exchange Bank, ₩35,000 million to Hana Bank, ₩39,000 million to Nonghyup and ₩20,000 million to Woori Bank, respectively.
- d. SK Broadband Co., Ltd. has provided guarantees for loans of Broadband CS Co., Ltd. For the guarantee, SK Broadband Co., Ltd. has pledged its properties as collateral in the amount of ₩16,900 million to Kookmin Bank as of December 31, 2011.
- e. SK Broadband Co., Ltd. has pledged its properties as collateral for leases in the amount of 18,300 million as of December 31, 2011.
- f. As of December 31, 2011, SK Telink Co., Ltd., a subsidiary, pledged its machinery totaling ₩156,100million (book value of ₩25,800 million) as collateral for borrowings to Korea Development Bank.
- g. For year ended December 31, 2011, PS & Marketing Corporation, a subsidiary, borrowed ₩20,000 million from Shinhan Bank and obtained a line of credit for ₩20,000 million, for operational purposes. In relation to the borrowings and line of credit, PS & Marketing Corporation pledged ₩52,000 million of inventory as collateral to Shinhan Bank.
- h. As of December 31, 2011, Sky Property Mgmt, Ltd., a subsidiary, pledged CNY800 million of building and land use right (long-term prepaid expenses) as collateral for its long-term borrowing amounting to CNY560 million to Korean Exchange Bank and China Merchants Bank.
- i. As of December 31, 2011, the Company has participated in "Tactical Airship" program with Joint Defense Corporation. For an advance receipt amounting to ₩4,200 million, which Joint Defense Corporation received, the Company provides payment guarantees to the Defense Acquisition Program Administration.

### Contingencies

- j. Since April 2008, customers of SK Broadband (then Hanarotelecom Incorporated), a subsidiary, have filed lawsuits against SK Broadband alleging that subscribers' personal information was leaked due to the company's poor data protection policies. In July 2011, the Seoul Central District Court rendered a judgment that accepted the plaintiffs' claims in part, totaling approximately Won ₩4,500 million compared to the plaintiff's claims of approximately ₩24,700 million. As of December 31, 2011, the case is pending at the appellate court after appeals by SK Broadband and the plaintiffs; the Company has accrued a provision for this case in the amount of ₩4,500 million.

### 30. DERIVATIVE INSTRUMENTS

#### a. Currency swap contract under cash flow hedge accounting

The Company has entered into a floating-to-fixed cross currency swap contract with Credit Agricole Corporate & Investment 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, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ¥4,461 million (net of tax effect totaling ¥924 million and foreign exchange translation loss arising from U.S. dollar denominated long-term borrowings totaling ¥20,530 million) is accounted for as accumulated other comprehensive loss.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with HSBC and SMBC Bank to hedge the foreign currency risk and the interest rate risk of its unguaranteed Japanese yen denominated bonds with face amounts totaling JPY12,500,000,000 issued on November 13, 2007. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ¥1,772 million (net of tax effect totaling ¥1,162 million and foreign exchange translation loss arising from unguaranteed Japanese yen denominated bonds totaling ¥81,583 million) is accounted for as accumulated other comprehensive income.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with Mizuho Corporation Bank to hedge the foreign currency risk and the interest rate risk of its unguaranteed Japanese yen denominated bonds with face amounts totaling JPY3,000,000,000 issued on January 22, 2009. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ¥2,344 million (net of tax effect totaling ¥748 million and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling ¥1,577 million) is accounted for as accumulated other comprehensive income.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with Bank of Tokyo-Mitsubishi Bank to hedge the foreign currency risk and the interest rate risk of its unguaranteed Japanese yen denominated bonds with face amounts totaling JPY5,000,000,000 issued on March 5, 2009. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ¥957 million (net of tax effect totaling ¥305 million and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling ¥4,355 million) is accounted for as accumulated other comprehensive income.

In addition, the Company has entered into a fixed-to-fixed cross currency swap contract with Morgan Stanley and five banks to hedge the foreign currency risk of unguaranteed U.S. dollar denominated bonds with face amounts totaling US\$400,000,000 at annual fixed interest rate of 6.63% issued on July 20, 2007. As of December 31, 2011, in connection with unsettled foreign currency swap contract to which cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ¥53,284 million (excluding tax effect totaling ¥17,012 million and foreign exchange translation loss arising from unguaranteed U.S. dollar denominated bonds totaling ¥3,736 million) is accounted for as other comprehensive loss. Meanwhile, the gain on valuation of currency swap which was incurred before application of hedge accounting, amounting to ¥129,806 million was charged to current operations for the year ended December 31, 2011.

In addition, on October 14, 2011, the Company has entered into a floating-to-fixed cross currency swap contract with DBS and Credit Agricole Corporate & Investment Bank to hedge the foreign currency risk and the interest rate risk of its unguaranteed U.S. dollar denominated bonds with face amounts totaling US\$220,000,000 issued on April 29, 2009. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated loss

on valuation of derivatives amounting to ₩399 million (excluding tax effect totaling ₩127 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling ₩1,026 million) is accounted for as other comprehensive loss.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with DBS Bank and Citi Bank to hedge the foreign currency risk and the interest rate risk of its U.S. dollar denominated bonds with face amounts totaling US\$250,000,000 issued on December 15, 2011. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩18,801 million (net of tax effect totaling ₩6,003 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling ₩1,284million) is accounted for as accumulated other comprehensive income.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with United Overseas Bank to hedge the foreign currency risk and the interest rate risk of its Singapore dollar denominated bonds with face amounts totaling S\$65,000,000 issued on December 15, 2011. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩2,147 million (net of tax effect totaling ₩685 million and foreign exchange translation loss arising from unguaranteed Singapore dollar denominated bonds totaling ₩154 million) is accounted for as accumulated other comprehensive income.

In addition, SK Broadband Co., Ltd., a subsidiary of the Company, has entered into a fixed-to-fixed cross currency swap contract with Korea Development Bank and other five banks to hedge the foreign currency risk of U.S. dollar denominated bonds with face amounts totaling US\$500,000,000 at annual fixed interest rate of 7.0% issued on February 1, 2005. As of December 31, 2011, in connection with unsettled foreign currency swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩3,657 million (excluding foreign exchange translation loss arising from U.S. dollar denominated bonds totaling ₩107,529 million) is accounted for as accumulated other comprehensive income. Meanwhile, loss on valuation of currency swap which was incurred before the application of hedge accounting, amounting to ₩46,856 million was charged to current operations for the year ended December 31, 2011.

b. Convertible option where no hedge accounting is applied

In addition, SK Communications Co., Ltd., a subsidiary of the Company, sold its shares of Etoos Co., Ltd. on October 19, 2009 and acquired convertible bonds on disposal of its shares. In connection with convertible option which is embedded in convertible bonds, loss on valuation of convertible option of ₩943 million and gain on valuation of convertible option of ₩736 million for the years ended December 31, 2011 and December 31, 2010, respectively, are charged to current operations.

As of December 31, 2011, fair values of above derivatives recorded in assets or liabilities and details of derivative instruments are as follows (In thousands of U.S. dollars, Singapore dollars, Japanese yen and millions of Korean won):

Type	Hedged item	Amount	Duration of Contract	Fair value		
				Designated as Cash Flow Hedge	Not Designated	Total
<u>Current assets:</u>						
Floating-to-fixed cross currency interest swap	Japanese yen denominated bonds	JPY 3,000,000	Jan. 22, 2009 ~ Jan. 22, 2012	₩1,515	₩-	₩1,515
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	US\$500,000	Feb. 1, 2005 ~Feb. 1, 2012	64,330	-	64,330
Floating-to-fixed cross currency swap	Japanese yen denominated bonds	JPY12,500,000	Nov. 13, 2007 ~ Nov. 13, 2012	82,193	-	82,193
<u>Non-current assets:</u>						
Floating-to-fixed cross currency swap	U.S. dollar denominated long-term borrowings	US\$100,000	Oct. 10, 2006 ~ Oct. 10, 2013	15,145	-	15,145
Fix-to-fixed cross currency swap	Singapore dollar denominated bonds	US\$400,000	Jul. 20, 2007 ~ Jul. 20, 2027	63,246	-	23,520
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	US\$250,000	Dec. 15, 2011 ~ Dec. 12, 2014	23,520	-	2,986
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	S\$65,000	Dec. 15, 2011 ~ Dec. 12, 2014	2,986		
Convertible Option	Convertible bonds securities	₩50,000	Sep. 1, 2009 ~Aug. 31, 2014	-	1,018	1,018
<b>Total assets</b>				<u>₩252,935</u>	<u>₩1,018</u>	<u>₩253,953</u>
<u>Current liabilities:</u>						
Floating-to-fixed cross currency interest swap	Japanese yen denominated bonds	JPY 5,000,000	Mar. 05, 2009 ~ Mar. 5, 2012	₩3,093	₩ -	₩3,093
Floating-to-fixed Interest rate swap	U.S. dollar denominated bonds	US\$220,000	Oct. 14, 2011 ~ Apr.29, 2012	1,552	-	1,552
<b>Total liabilities</b>				<u>₩4,645</u>	<u>₩-</u>	<u>₩4,645</u>



### 31. CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjustments for income and expenses from operating activities for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Reversal of allowance for doubtful accounts	(₩2,301)	(₩805)
Gain on disposal of property, equipment and intangible assets	(6,275)	(11,340)
Interest income	(168,148)	(237,392)
Dividend income	(26,433)	(28,680)
Gain on foreign currency translation	(1,984)	(16,950)
Gain on valuation of short-term securities	(2,617)	-
Gain on disposal of long term investment securities	(164,454)	(174,801)
Reversal of impairment loss on long term investment securities	-	(39)
Gain on valuation of derivatives	(3,785)	(1,241)
Gain on transaction of derivatives	-	(7,951)
Gain on valuation of financial liabilities at FVTPL	(63,769)	-
Equity in earnings of investments in affiliates	(39,131)	(41,828)
Other income	(1,733)	(5,164)
Provision for retirement benefits	68,814	86,672
Depreciation and amortization	2,482,703	2,302,264
Bad debt expenses	83,748	77,780
Loss on disposal of property, equipment and intangible assets	21,136	70,025
Loss on disposal of long term investment securities	434	11,329
Loss on impairment of intangible assets	2,580	12,293
Other bad debt expenses	12,847	12,293
Interest expenses	297,172	379,289
Loss on foreign currency translation	6,409	1,788
Loss on disposal of short-term investment securities	-	1,866
Loss on disposal of long term investment securities	447	2,368
Loss on impairment of long term investment securities	12,846	3,404
Loss on valuation of derivatives	943	19,198
Loss on transaction of derivatives	15,577	-
Loss on valuation of financial liabilities at FVTPL	-	19,233
Equity in losses of investments in affiliates	86,280	45,242
Income tax expense	599,093	544,530
Other expenses	15,283	26,137
	<u>₩3,225,682</u>	<u>₩3,089,520</u>

Changes in assets and liabilities from operating activities for the years ended December 31, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Accounts receivable – trade	₩61,728	(₩6,636)
Accounts receivable – other	1,617,947	(115,643)
Accrued income	12,570	(14,976)
Advance payments	30,734	(66,474)
Prepaid expenses	64,165	18,695
Inventories	(132,223)	(98,275)
Other current assets	(12,270)	(7,416)
Long-term accounts receivables - other	521,691	234,563
Accounts payable –trade	4,528	19,433
Accounts payable –other	66,048	138,965
Advanced receipts	(4,721)	20,549
Withholdings	97,380	133,924
Accrued expenses	(24,961)	67,678
Unearned revenue	(55,799)	(63,179)
Retirement benefit payment	(77,754)	(62,689)
Plan assets	(6,618)	(14,372)
Other non-current	4,697	(6,874)
Others	13,081	100,079
	<u>₩2,180,223</u>	<u>₩277,352</u>

Significant non-cash transactions for the years ended December 31, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Transfer of construction in progress to property and equipment	₩1,859,694	₩1,544,699
Transfer of inventories to tangible assets account	60,212	67,694
Accounts payable -other of tangible assets and others	876,795	-
Write-off of accounts receivable-trade and others	121,805	97,979
Transfer of bonds payable to current portion of long-term debt account	1,579,779	931,670
Transfer of long-term borrowings to current portion of long-term debt account	113,543	911,958

### 32. DISCONTINUED OPERATION

The Company's income (loss) of discontinued operation, which include financial information related to SK i-media which was sold during the year ended December 31, 2011 and SK-KTB Music Investment Fund which was liquidated during the year ended December 31, 2010, are as follows (In millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
Operating loss generated by discontinued operation	(₩2,945)	(₩ 7,944)
Financial income (loss) generated by discontinued operation	(145)	308
Gain on disposal of discontinued operation	1,398	910
Loss generated by discontinued operation	<u>(₩1,692)</u>	<u>(₩6,276)</u>
Attributable to:		
Controlling interests	(₩1,097)	(₩ 3,900)
Non-controlling interests	<u>(₩ 595)</u>	<u>(₩ 2,826)</u>
	<u>(₩1,692)</u>	<u>(₩6,726)</u>

Net cash flows related to discontinued operation for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the year ended	
	December 31, 2011	December 31, 2010
Cash flows from operating activities	(₩ 1,864)	(₩ 1,266)
Cash flows from investing activities	207	(2,226)
Cash flows from financing activities	<u>1,600</u>	<u>1,400</u>
Net cash flows	<u>(₩ 57)</u>	<u>(₩2,092)</u>

#### 2011 Sale of SK i-media

The Company disposed of its common shares in SK i-media Co., Ltd., a game software production business, during the year ended December 31, 2011, and general information on the discontinued operation is as follows:

	Description
Main business	On-line & Mobile game software production and provision
Date of initial public announcement	September 30, 2011
Date of sale	October 20, 2011
Method of disposal	Disposal of common stock
Purchasing company	LK Media tech Inc.

#### *2010 Liquidation of SK-KTB Music Investment Fund*

The Company liquidated SK-KTB Music Investment Fund in October 2010, SK-KTB Music Investment Fund's operation in the consolidated income statement is treated as a discontinued operation, and accordingly is presented as a single item between income tax expenses for continuing operation and net income.

### **33. SUBSEQUENT EVENTS**

#### **a. Resolution of acquisition of common stock in Hynix Semiconductor Inc.**

On November 11, 2011, in accordance with the resolution of the Board of Directors, the Company decided to acquire 146,100,000 shares of common stock in Hynix Semiconductor Inc. for approximately ₩3,426,657 million. The acquisition was completed on February 14, 2012. The Company acquired the investee's common stock by cash settlement; the Company purchased old and new stocks issued by Hynix). As a result of the acquisition, the Company's ownership of Hynix Semiconductor Inc. is 21.05%.

#### **b. Borrowing of bank loans**

On November 10, 2011, in accordance with the resolution of the Board of Directors, the Company decided to borrow ₩2,500,000 million (classified as short term borrowing of 500,000 million and long term borrowing of ₩2,000,000 million) of a syndicated loan from Kookmin Bank and Woori Bank. On February 14, 2012, the Company executed the loan to pay for the acquisition of the equity interest of Hynix Semiconductor. The maturity of the short-term borrowing is one year and long-term borrowing is three years from the execution date.

#### **c. Disposal of available-for-sale financial assets**

On January 13, 2012, in accordance with the resolution of the Board of Directors, SK Communications Co., Ltd, a subsidiary of the Company, decided to dispose its ₩20,000 million of convertible securities issued by Etoos Co., Ltd. to Shinhan the 2nd Private Investment Company for ₩19,000 million. The transaction was completed on February 2, 2012.

### **34. RISK MANAGEMENT**

#### ***Financial Risk Management***

The Company is exposed to credit risk, liquidity risk and market risk. The Company implements a risk management system to monitor and manage these specific risks.

The Company's financial assets under financial risk management consist of cash and cash equivalents, financial instruments, financial assets available-for-sale, trade and other receivables, and financial liabilities such as trade and other payables, borrowings, and bonds payable.

#### ***a. Market risk***

##### ***a-(1) Currency risk***

The Company is exposed to currency risk of its revenue and expenditure that are denominated in a currency other than the functional currency of the Company. The Company primarily transacts in USD, JPY and EUR, besides its functional currency of KRW. The Company has hedging policies based on its business characteristics and its current financial instruments (which hedge its currency risks). In addition, the Company analyzes, manages and reports currency risk periodically through its foreign currency denominated receivables and payables management system.

The book value of the Company's monetary assets and liabilities denominated in foreign currencies as of December 31, 2011, is as follows (In millions of Korean won, thousands of U.S. dollars, thousands of Euros, thousands of Japanese yen, thousands of other currencies):

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
US\$	91,388	₩105,440	1,876,911	₩2,164,641
EUR	8	12	6,761	10,101
JPY	166,072	2,466	20,616,595	306,189
CNY	-	-	560,002	97,010
SGD	-	-	64,423	57,107
Others	3,938	380	546	167
		₩108,298		₩2,635,215

In addition, the Company has entered into a cross currency swaps to hedge against currency risk related to foreign currency borrowings and bonds payable. (Refer to Note 30)

Effects of a 10% change in foreign currency to the Company's functional currency on income before income tax for the year ended f December 31, 2011 are as follows (In millions of Korean won, thousands of U.S. dollars, thousands of Euros, thousands of Japanese yen, thousands of other currencies):

	10% increase in KRW against foreign currency	10% decrease in KRW against foreign currency
US\$	(₩37,556)	₩37,556
EUR	(1,009)	1,009
JPY	58	(58)
CNY	(9,701)	9,701
Others	21	(21)

#### a-(2) Equity price risk

The Company has investments in listed and non-listed equity securities for its liquidity and ongoing operational purposes. Refer to Note 7 for details on the carrying value of these investments. As of December 31, 2011, marketable equity securities are ₩1,288,348 million.

#### a-(3) Interest rate risk

The Company's interest bearing assets are mostly fixed-interest bearing assets, as such, the Company's revenue and operating cash flow are not influenced by the changes in market interest rates. However, the Company is exposed to interest rate risk due to its borrowing with floating interest rate. The Company considers various alternatives to hedge its interest rate risk and optimize its financing, which includes refinancing, renewal, alternative finance and hedging options.

As of December 31, 2011, borrowings and bonds payables with floating interest rate amounted to ₩1,146,775 million and the Company has entered into interest rate swaps to hedge interest rate risk related to floating-rate borrowings and bonds payables (Refer to Note 31).

For the year ended December 31, 2011, assuming an interest rate change of 1% and considering all other variables as fixed, income before income tax would change upward or downward by ₩1,320 million due to the interest expenses of borrowings and bonds payables with floating interest rate.

*b. Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations. To manage credit risk, the Company evaluates the credit worthiness of each customer or counterparty considering the party's financial information, its own trading records and other factors; based on such information the Company establishes credit limits for each customer or counterparty.

For the year ended December 31, 2011, the Company has no trade and other receivables or loans which have indications of significant impairment loss or are significantly overdue. As a result, the Company believes that the possibility of default is low. Also, the Company's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Company has a policy to deal with high credit worthy financial institutions. The amount of maximum exposure to credit risk of the Company is the same as the book value of financial assets as of December 31, 2011.

In addition, the aging analysis of trade and other receivables that are past due at the end of the reporting period but not impaired is stated in Note 5 and the analysis of financial assets that are individually determined to be impaired at the end of the reporting period is stated in Note 23.

*c. Liquidity risk*

The Company's approach to managing liquidity is to ensure that it maintains sufficient cash and cash equivalents and liquidity through the utilization of its various committed credit lines, while operating an effective business.

The contractual maturity of financial liabilities of the Company as of December 31, 2011 is as follows (In millions of Korean won):

	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Borrowings (Note a)	₩ 711,222	₩ 257,960	₩ 65,893	₩1,035,075
Bonds payable (Note b)	1,532,720	2,605,943	661,320	4,799,983
Derivatives liabilities	4,645	-	-	4,645
Trade payables	195,391	-	-	195,391
Other payables (Note c)	<u>2,393,624</u>	<u>1,000,762</u>	<u>4,985</u>	<u>3,399,371</u>
Total	<u>₩4,837,602</u>	<u>₩3,864,665</u>	<u>₩732,198</u>	<u>₩9,434,465</u>

(Note a) Includes both principal and debt payments

(Note b) Exclusive of bond discount.

(Note c) Includes undiscounted long-term payables and long-term security deposits the Company received.

### ***Capital Management***

The Company manages its equity to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity balance. The Company's overall strategy remains unchanged since 2010.

The Company monitors its debt-equity ratio as a capital management indicator. This ratio is calculated as total liabilities divided by total equity; the total liabilities and equity balances are extracted from the consolidated financial statements.

The Company's debt-equity ratio as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (In millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Total liabilities	₩ 11,633,327	₩ 10,724,390	₩ 11,488,679
Equity	<u>12,732,709</u>	<u>12,407,999</u>	<u>11,848,045</u>
Debt-equity ratio	<u>91.37%</u>	<u>86.43%</u>	<u>96.97%</u>

**Attachment 2: IFRS Separate Financial Statements**





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

*SEPARATE FINANCIAL STATEMENTS*

*AS OF DECEMBER 31, 2011, DECEMBER 31, 2010 AND JANUARY 1, 2010 AND*

*FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010*

*AND INDEPENDENT AUDITORS' REPORT*

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## **Independent Auditors' Report**

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of  
SK Telecom Co., Ltd.

We have audited the accompanying separate financial statements of SK Telecom Co., Ltd. (the "Company"). The separate financial statements consist of the separate statements of financial position as of December 31, 2011 and 2010 and January 1, 2010, respectively, and the related separate statements of income, comprehensive income, changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, for the years ended December 31, 2011 and 2010, respectively. The Company's management is responsible for the preparation and fair presentation of the separate financial statements and our responsibility is to express an opinion on these separate 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010 and January 1, 2010, respectively, and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010, respectively, in conformity with Korean International Financial Reporting Standards ("K-IFRS").

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

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying separate 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 separate financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

*Deloitte Anjin LLC*

March 13, 2012

#### Notice to Readers

This report is effective as of March 13, 2012, 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.

**SK TELECOM CO., LTD.**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2011, 2010 AND JANUARY 1, 2010**

		Korean won			Translation into U.S. dollars (Note 2)		
A S S E T		December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
	Notes		(In millions)			(In thousands)	
CURRENT ASSETS:							
Cash and cash equivalents	4,29	₩ 895,558	₩ 357,470	₩ 422,125	\$ 773,032	\$ 308,563	\$ 364,372
Short-term financial instruments	4,27	627,500	299,500	308,757	541,649	258,524	266,514
Short-term investment securities	4,6	90,573	393,811	370,182	78,181	339,932	319,536
Accounts receivable - trade, net	4,5,26	1,282,234	1,453,061	1,379,547	1,106,805	1,254,261	1,190,804
Short-term loans, net	4,5,26	88,236	80,731	66,467	76,164	69,686	57,373
Accounts receivable - other, net	4,5,26	774,221	2,499,969	2,400,176	668,296	2,157,936	2,071,796
Prepaid expenses		79,668	156,153	141,042	68,768	134,789	121,745
Inventories		8,407	9,019	22,656	7,257	7,785	19,556
Derivative assets	4,28	83,708	-	-	72,256	-	-
Advanced payments and other	4,5,6	17,972	67,262	26,737	15,513	58,059	23,081
Total current assets		3,948,077	5,316,976	5,137,689	3,407,921	4,589,535	4,434,777
NON-CURRENT ASSETS:							
Long-term financial instruments	4,27	7,569	69	6,519	6,533	60	5,627
Long-term investment securities	4,6	1,312,438	1,517,029	2,329,282	1,132,877	1,309,477	2,010,602
Investments in subsidiaries and associates	7	4,647,506	3,584,395	2,680,872	4,011,658	3,093,997	2,314,089
Property and equipment	8,26	6,260,169	5,469,747	5,223,147	5,403,685	4,721,404	4,508,543
Investment property	9	30,699	34,799	42,608	26,499	30,038	36,779
Goodwill	10	1,306,236	1,308,422	1,308,422	1,127,524	1,129,410	1,129,410
Intangible assets	11	2,364,795	1,424,969	1,447,291	2,041,256	1,230,012	1,249,280
Long-term loans, net	4,5,26	75,282	64,098	55,209	64,982	55,328	47,656
Long-term accounts receivable - other, net	4,5	5,393	527,084	761,647	4,655	454,971	657,442
Long-term prepaid expenses		20,939	1,031	31,408	18,074	890	27,111
Guarantee deposits	4,5,26	155,389	154,360	161,359	134,129	133,241	139,283
Long-term derivative assets	4,28	104,897	139,577	223,173	90,546	120,481	192,640
Deferred income tax assets		280,380	183,481	145,599	242,020	158,378	125,679
Other non-current assets		758	1,089	1,204	655	940	1,038
Total non-current assets		16,572,450	14,410,150	14,417,740	14,305,093	12,438,627	12,445,179
TOTAL ASSETS		₩ 20,520,527	₩ 19,727,126	₩ 19,555,429	\$ 17,713,014	\$ 17,028,162	\$ 16,879,956

(Continued)

**SK TELECOM CO., LTD.**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**AS OF DECEMBER 31, 2011, 2010 AND JANUARY 1, 2010**

		Korean won			Translation into U.S. dollars (Note2)		
		December31, 2011	December31, 2010	January1, 2010	December31, 2011	December31, 2010	January 1, 2010
LIABILITIES AND STOCKHOLDERS' EQUITY	Notes		(In millions)			(In thousands)	
CURRENT LIABILITIES:							
Accounts payable - other	4,26	₩ 1,361,473	₩ 1,287,035	₩ 1,143,289	\$ 1,175,203	\$ 1,110,950	\$ 986,870
Withholdings		330,674	348,093	250,656	285,433	300,469	216,363
Accrued expenses	4	468,313	451,837	233,865	404,241	390,019	201,869
Income tax payable		277,836	243,263	381,940	239,824	209,981	329,685
Unearned revenue		282,891	308,856	338,766	244,187	266,600	292,418
Derivative liabilities	4,28	4,645	15,393	36,318	4,009	13,287	31,349
Provisions	14	656,597	652,830	516,096	566,765	563,513	445,486
Current portion of long-term debt, net	4,12,13	1,044,519	1,208,555	832,773	901,613	1,043,207	718,837
Advanced receipts and other		40,058	45,151	33,179	34,578	38,973	28,640
Total current liabilities		4,467,006	4,561,013	3,766,882	3,855,853	3,936,999	3,251,517
NON-CURRENT LIABILITIES:							
Bonds payable, net	4,12	2,590,630	2,933,813	3,522,117	2,236,193	2,532,424	3,040,239
Long-term borrowings	4,12	115,330	113,890	816,760	99,551	98,308	705,015
Long-term payables - other	4,13	840,974	50,643	164,163	725,916	43,714	141,703
Long-term unearned revenue		212,172	241,892	274,876	183,144	208,798	237,269
Retirement benefit obligation	15	26,740	21,382	20,612	23,082	18,457	17,792
Long-term derivative liabilities	4,28	-	14,761	34,495	-	12,741	29,776
Long-term provisions	14	134,264	107,218	117,087	115,895	92,549	101,067
Long-term advanced receipts and other	4,26	167,109	101,556	52,986	144,246	87,661	45,737
Total non-current liabilities		4,087,219	3,585,155	5,003,096	3,528,027	3,094,652	4,318,598
Total Liabilities		8,554,225	8,146,168	8,769,978	7,383,880	7,031,651	7,570,115
SHAREHOLDERS' EQUITY:							
Share capital	1,16	44,639	44,639	44,639	38,532	38,532	38,532
Share premium	16,17	(236,016)	(24,643)	181,773	(203,726)	(21,271)	156,904
Retained earnings	18,19	11,837,185	10,824,356	9,560,310	10,217,682	9,343,423	8,252,318
Reserves	20	320,494	736,606	998,729	276,646	635,827	862,087
Total Shareholders' Equity		11,966,302	11,580,958	10,785,451	10,329,134	9,996,511	9,309,841
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩	20,520,527	₩ 19,727,126	₩ 19,555,429	\$ 17,713,014	\$ 17,028,162	\$ 16,879,956

See accompanying notes to separate financial statements.

**SK TELECOM CO., LTD.**  
**SEPARATE STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Korean won		Translation into U.S. dollars (Note 2)	
		2011	2010	2011	2010
	Notes	(In millions except for per share data)		(In thousands except for per share data)	
OPERATING REVENUE :					
Revenue	26	₩ 12,551,256	₩ 12,514,521	\$ 10,834,058	\$ 10,802,349
Other	21	23,873	35,976	20,607	31,054
Sub-total		12,575,129	12,550,497	10,854,665	10,833,403
OPERATING EXPENSES :					
Labor cost	15	528,073	565,583	455,825	488,203
Commissions expense		5,226,570	4,966,280	4,511,498	4,286,819
Depreciation and amortization	8,9,11	1,658,808	1,505,498	1,431,858	1,299,524
Network interconnection		967,046	1,030,380	834,740	889,409
Leased line		415,585	365,951	358,727	315,883
Advertising		241,252	258,737	208,245	223,338
Rent		315,281	302,552	272,146	261,158
Cost of goods sold		194,507	108,870	167,896	93,975
Other	21	941,359	1,091,618	812,567	942,269
Sub-total		10,488,481	10,195,469	9,053,502	8,800,578
OPERATING INCOME		2,086,648	2,355,028	1,801,163	2,032,825
Financial income	22	415,912	452,894	359,009	390,931
Financial costs	22	(223,656)	(311,166)	(193,057)	(268,594 )
Gain on disposal of investments in associates	7	1,990	12,169	1,718	10,504
Loss on disposal of investments in associates	7	(6,473)	(5,288)	(5,587)	(4,565)
INCOME BEFORE INCOME TAX		2,274,421	2,503,637	1,963,246	2,161,101
INCOME TAX EXPENSE		580,058	556,629	500,697	480,474
NET INCOME		₩ 1,694,363	₩ 1,947,008	\$ 1,462,549	\$ 1,680,627
NET INCOME PER SHARE					
(In Korean won and U.S. dollars)	24	₩ 24,002	₩ 27,063	\$ 20.72	\$ 23.36
DILUTED NET INCOME PER SHARE					
(In Korean won and U.S. dollars)	24	₩ 23,343	₩ 26,366	\$ 20.15	\$ 22.76

See accompanying notes to separate financial statements.

**SK TELECOM CO., LTD.**  
**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Korean won		Translation into U.S. dollars (Note 2)	
		2011	2010	2011	2010
	<i>Notes</i>	(In millions)		(In thousands)	
NET INCOME		<u>₩ 1,694,363</u>	<u>₩ 1,947,008</u>	<u>\$ 1,462,549</u>	<u>\$ 1,680,627</u>
OTHER COMPREHENSIVE INCOME :					
Net change in fair value of available-for-sale financial assets	20	(450,459)	(200,070)	(388,829)	(172,697)
Gain (loss) on valuation of derivatives	20	34,347	(62,053)	29,648	(53,563)
Actuarial loss on retirement benefit obligations	15	(13,241)	(2,919)	(11,429)	(2,519)
Sub-total		<u>(429,353)</u>	<u>(265,042)</u>	<u>(370,610)</u>	<u>(228,779)</u>
TOTAL COMPREHENSIVE INCOME		<u>₩ 1,265,010</u>	<u>₩ 1,681,966</u>	<u>\$ 1,091,939</u>	<u>\$ 1,451,848</u>

See accompanying notes to separate financial statements.

**SK TELECOM CO., LTD.**  
**SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Share premium					Retained earnings	Reserves	Total
		Share stock	Paid-in surplus	Treasury stock	Loss on disposal of treasury stock	Other			
<u>Notes</u>									
<b>(In millions of Korean won)</b>									
Balance, January 1, 2010		₩44,639	₩2,915,887	(₩1,992,083)	(₩15,875)	(₩726,156)	₩9,560,310	₩998,729	₩10,785,451
Cash dividends	25	-	-	-	-	-	(680,043)	-	(680,043)
Treasury stock	17	-	-	(210,356)	-	-	-	-	(210,356)
Total other comprehensive income (loss)		-	-	-	-	-	1,944,089	(262,123)	1,681,966
Net income		-	-	-	-	-	1,947,008	-	1,947,008
Other comprehensive loss	20	-	-	-	-	-	(2,919)	(262,123)	(265,042)
Others		-	-	-	-	3,940	-	-	3,940
Balance, December 31, 2010		₩44,639	₩2,915,887	(₩2,202,439)	(₩15,875)	(₩722,216)	₩10,824,356	₩736,606	₩11,580,958
Balance, January 1, 2011		₩44,639	₩2,915,887	(₩2,202,439)	(₩15,875)	(₩722,216)	₩10,824,356	₩736,606	₩11,580,958
Cash dividends	25	-	-	-	-	-	(668,293)	-	(668,293)
Treasury stock	17	-	-	(208,012)	-	-	-	-	(208,012)
Total other comprehensive income (loss)		-	-	-	-	-	1,681,122	(416,112)	1,265,010
Net income		-	-	-	-	-	1,694,363	-	1,694,363
Other comprehensive loss	20	-	-	-	-	-	(13,241)	(416,112)	(429,353)
Others		-	-	-	(2,980)	(381)	-	-	(3,361)
Balance, December 31, 2011		₩44,639	₩2,915,887	(₩2,410,451)	(₩18,855)	(₩722,597)	₩11,837,185	₩320,494	₩11,966,302



**SK TELECOM CO., LTD.**  
**SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Share premium					Retained earnings	Reserves	Total
		Share stock	Paid-in surplus	Treasury stock	Loss on disposal of treasury stock	Other			
<b>(In thousands of U.S dollars)</b>									
Balance, January 1, 2010		\$38,532	\$2,516,950	(\$1,719,536)	(\$13,703)	(\$626,807)	\$8,252,318	\$862,087	\$9,309,841
Cash dividends	25	-	-	-	-	-	(587,003)	-	(587,003)
Treasury stock	17	-	-	(181,576)	-	-	-	-	(181,576)
Total other comprehensive income (loss)		-	-	-	-	-	1,678,108	(226,260)	1,451,848
Net income		-	-	-	-	-	1,680,627	-	1,680,627
Other comprehensive loss	20	-	-	-	-	-	(2,519)	(226,260)	(228,779)
Others		-	-	-	-	3,401	-	-	3,401
Balance, December 31, 2010		<u>\$38,532</u>	<u>\$2,516,950</u>	<u>(\$1,901,112)</u>	<u>(\$13,703)</u>	<u>(\$623,406)</u>	<u>\$9,343,423</u>	<u>\$635,827</u>	<u>\$9,996,511</u>
Balance, January 1, 2011		\$38,532	\$2,516,950	(\$1,901,112)	(\$13,703)	(\$623,406)	\$9,343,423	\$635,827	\$9,996,511
Cash dividends	25	-	-	-	-	-	(576,861)	-	(576,861)
Treasury stock	17	-	-	(179,553)	-	-	-	-	(179,553)
Total other comprehensive income (loss)		-	-	-	-	-	1,451,120	(359,181)	1,091,939
Net income		-	-	-	-	-	1,462,549	-	1,462,549
Other comprehensive loss	20	-	-	-	-	-	(11,429)	(359,181)	(370,610)
Others		-	-	-	(2,574)	(328)	-	-	(2,902)
Balance, December 31, 2011		<u>\$38,532</u>	<u>\$2,516,950</u>	<u>(\$2,080,665)</u>	<u>(\$16,277)</u>	<u>(\$623,734)</u>	<u>\$10,217,682</u>	<u>\$276,646</u>	<u>\$10,329,134</u>

See accompanying notes to separate financial statements.

**SK TELECOM CO., LTD.**  
**SEPARATE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

		Korean won		Translation into U.S. dollars (Note 2)	
		2011	2010	2011	2010
	Notes	(In millions)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operating activities:					
Net income		₩1,694,363	₩1,947,008	\$ 1,462,549	\$ 1,680,627
Adjustments for income and expenses	29	2,297,668	2,215,787	1,983,314	1,912,634
Changes in assets and liabilities related to operating activities	29	2,592,289	581,625	2,237,625	502,051
Sub-total		6,584,320	4,744,420	5,683,488	4,095,312
Interest received		131,789	190,753	113,758	164,655
Dividends received		40,767	38,981	35,189	33,648
Interest paid		(182,831)	(246,916)	(157,817)	(213,134)
Income tax paid		(539,988)	(656,080)	(466,110)	(566,319)
Net cash provided by operating activities		6,034,057	4,071,158	5,208,508	3,514,162
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash inflows from investing activities:					
Decrease in short-term financial instruments, net		-	15,757	-	13,601
Decrease in short-term investment securities		125,000	168,260	107,898	145,241
Decrease in short-term loans		185,845	210,035	160,419	181,299
Proceeds from sales of long-term investment securities		215,085	608,258	185,658	525,039
Proceeds from disposal of investments in subsidiaries and associates		42,955	75,204	37,078	64,915
Proceeds from disposal of property and equipment		6,457	17,586	5,574	15,180
Proceeds from disposal of intangible assets		3,232	5,308	2,790	4,582
Collection of long-term loans		32,353	14,752	27,927	12,734
Cash inflows from transaction of derivatives		-	1,254	-	1,082
Decrease in other non-current assets		332	115	288	99
Sub-total		611,259	1,116,529	527,632	963,772
Cash outflows for investing activities:					
Increase in short-term financial instruments, net		328,000	-	283,125	-
Increase in short-term loans		226,164	213,874	195,221	184,613
Increase in long-term financial instruments		7,509	50	6,482	43
Acquisition of long-term investment securities		242,288	58,762	209,139	50,722
Acquisition of investments in subsidiaries and associates		257,336	987,391	222,129	852,301
Acquisition of property and equipment		2,552,804	1,865,298	2,203,543	1,610,098
Increase in intangible assets		515,813	55,970	445,242	48,312
Increase in long-term loans		10,769	30,224	9,296	26,089
Cash outflows from transaction of derivatives		4,006	35,260	3,458	30,436
Sub-total		4,144,689	3,246,829	3,577,635	2,802,614
Net cash used in investing activities		(3,533,430)	(2,130,300)	(3,050,003)	(1,838,842)

(Continued)

**SK TELECOM CO., LTD.**  
**SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	Korean won		Translation into U.S. dollars (Note 2)	
	2011	2010	2011	2010
<u>Notes</u>	(In millions)		(In thousands)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Cash inflows from financing activities:				
Issuance of bonds payable	641,700	-	553,906	-
Sub-total	641,700	-	553,906	-
Cash outflows for financing activities:				
Repayment of current portion of long-term debt	170,000	310,000	146,741	267,587
Acquisition of treasury stock	208,012	210,356	179,553	181,576
Repayment of long-term borrowings	500,000	200,000	431,593	172,637
Repayment of bonds payable	532,160	605,140	459,353	522,348
Cash dividends	668,293	680,016	576,861	586,980
Cash outflows from transaction of derivatives	25,783	-	22,256	-
Sub-total	2,104,248	2,005,512	1,816,357	1,731,128
Net cash used in financing activities	(1,462,548)	(2,005,512)	(1,262,451)	(1,731,128)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,038,079	(64,654)	896,054	(55,808)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	357,470	422,125	308,563	364,372
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCY</b>	-	(1)	-	(1)
<b>DECREASE IN CASH AND CASH EQUIVALENTS DUE TO SPIN-OFF</b>	(499,991)	-	(431,585)	-
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u>₩ 895,558</u>	<u>₩ 357,470</u>	<u>\$ 773,032</u>	<u>\$ 308,563</u>

See accompanying notes to separate financial statements.

**SK TELECOM CO., LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**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 mainly provides wireless telecommunications in the Republic of Korea. The Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2011, the Company's total issued shares are held by the following:

	Number of shares	Percentage of total shares issued (%)
SK Holdings, Co., Ltd.	20,363,452	25.22
Tradewinds Global Investors, LLC	4,050,518	5.02
POSCO Corp.	2,341,569	2.90
Institutional investors and other minority stockholders	42,939,460	53.17
Treasury stock	11,050,712	13.69
	<u>80,745,711</u>	<u>100.00</u>

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company maintains its official accounting records in Republic of Korean won ("Won") and prepares separate financial statements in conformity with Korean statutory requirements and Korean International Financial Reporting Standards ("K-IFRS"), in the Korean language (Hangul). Accordingly, these separate financial statements are intended for use by those who are informed about K-IFRS and Korean practices.

The Company has adopted the Korean International Financial Reporting Standards ("K-IFRS") for the annual period beginning on January 1, 2011. In accordance with K-IFRS 1101 "First-time adoption of International Financial Reporting Standards", the transition date to K-IFRS is January 1, 2010. The transition adjustments to K-IFRS are summarized in Note 3.

The accompanying separate financial statements are stated 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 is included solely for the convenience of readers of financial statements and has been made at the rate of ₩1,158.50 to US\$1.00, 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 30, 2011.

The separate financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or at fair values. Major accounting policies used for the preparation of the separate financial statements are stated below and these accounting policies have been applied consistently to the financial statements for the current period and comparative periods. Historical cost is generally based on the fair value of the consideration paid in exchange for assets.

Major accounting policies used for the preparation of the separate financial statements are stated below. Unless stated otherwise, these accounting policies have been applied consistently to the financial statements for the current period and accompanying comparative period. The separate financial statements were approved by the board of directors on February 9, 2012.

a. Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in net income as incurred.

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net fair value of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held interest in the acquiree (if any); the excess is recognized immediately in net income as a bargain purchase gain.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in net income. Any changes in value of equity interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to net income as if that interest were disposed of.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in income or loss.

b. Foreign Currency Exchange

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the separate financial statements, the results and financial position of Company are expressed in "Korean Won", which is the functional currency of the Company and the presentation currency for the separate financial statements.

In preparing the financial statements, transactions in currencies other than the Company functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks below for hedging accounting policies).

c. Cash Equivalents

Cash and cash equivalents include cash, bank balances and short-term highly liquid investments with an original maturity of three months or less.

d. Financial Assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") investments, available-for-sale ("AFS") financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) *Classification of financial assets*

1-1) *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term or it is a derivative or embedded derivative separated from contracts that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in net income.

1-2) *HTM investments*

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue amortized on an effective yield basis.

1-3) *AFS financial assets*

Non-derivatives financial assets that are not classified as at HTM; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as at AFS financial assets. AFS financial assets are initially recognized and measured at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are

recognized in net income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to net income. Dividends on AFS financial assets are recognized in net income when the Company's right to receive the dividends is established.

#### *1-4) Loans and receivables*

Non-derivatives financial assets like trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### *2) Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For listed and unlisted equity financial assets classified as AFS financial asset, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative unrealized gains or losses previously recognized in other comprehensive income are reclassified to net income in the period. In respect of AFS equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In case of debt securities, in subsequent periods, if the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss shall be reversed, with the amount of the reversal recognized in net income.

For financial assets carried at amortized cost, the amount of the impairment loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets carried at cost, the amount of the impairment loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current rate of return for a similar financial asset. Once an impairment loss has been recognized on a financial asset recognized at cost, it is not permitted to recognize a reversal.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in net income.

### 3) *Derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset are expired, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## e. Financial Liabilities and equity Instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

### 1) Classification of financial liabilities and equity instruments

#### 1-1) *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

When the Company reacquires its own equity instruments ('treasury shares'), equity is directly deducted. No gain or loss is recognized in net income related to the acquisition, sale, issue or cancellation of treasury shares.

#### 1-2) *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term or it is a derivative, including embedded derivative separated from contracts, which is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. The net gain or loss recognized in net income incorporates any interest paid on the financial liability.

#### 1-3) *Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.



## 2) Derecognition of financial liabilities

The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or the liabilities are expired. An exchange between an existing borrower and lender of financial liabilities with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the financial liabilities derecognized and the consideration paid is recognized in net income.

### f. Inventories

Inventories are stated at the acquisition cost using the average method. During the period, a perpetual inventory systems is used to value inventories, which is adjusted to the physical inventory counts performed at the period end. When the net realizable value of inventories is less than the acquisition cost, the carrying amount is reduced to the net realizable value and any difference is charged to current operations as operating expenses.

### g. Investments in Subsidiaries and Associates

In accordance with K-IFRS 1027, the accompanying financial statements are separate financial statements, which are presented by an investor with control of a subsidiary or significant influence over associates, in which the investments are measured based on its direct cost, not using the equity method. The Company accounts for the investments in subsidiaries and associates at cost in accordance with K-IFRS 1027. Dividends from subsidiaries and associates are recognized in profit when the right to receive the dividend is established.

### h. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Assets	Useful lives (years)
Buildings and structures	15, 30
Machinery	3 ~ 6
Office equipment, tools and misc	4 ~ 10

The Company reviews the depreciation method, the estimated useful lives and residual values of property and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of

an item of property and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item, and is included in profit or loss when the item is derecognized.

For Company's policy on impairment on Property & Equipment and Intangible Assets other than Goodwill refer to Note 2.I below.

i. Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 30 years using the straight-line method.

The Company reviews the depreciation method, the estimated useful lives and residual value of investment property at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for changes in an accounting estimate.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income in the period in which the property is derecognized.

j. Goodwill

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not depreciated, but tested for impairment at the end of each annual reporting period. Goodwill is carried at cost less accumulated impairment losses and the impairment losses are not reversed.

Goodwill is not subject to amortization but is tested for impairment annually or whenever there is an indication that the asset may be impaired. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognized for goodwill are not reversed in a subsequent period. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

k. Intangible Assets

Intangible assets with definite useful lives are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized on a straight-line basis over the estimated useful lives of the related intangible assets as follows:

Assets	Useful lives (years)
Frequency use rights	6 ~ 13
Land use right	5
Industrial right	5 ~ 10
Software development costs	5
Other	5 ~ 20

The Company reviews the amortization method, the estimated useful lives and residual values of intangible assets at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not amortized, but tested for impairment at the end of each annual reporting period. In the case of amortizable intangible assets, the Company reviews impairment at such time when events occur that indicate the carrying amount may not be recoverable.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. The gains or losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

For Company's policy on impairment on Property & Equipment and Intangible Assets other than Goodwill refer to Note 2.1 below.

#### I. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its plant and property and its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in income or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

m. Government Grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants for acquiring or constructing non-current assets are recognized as a deduction (net of) the related assets' book value in the statement of financial position, and is recognized into profit or loss by offsetting depreciation expense over the useful lives of the related assets on a systematic basis. Other government grants, revenue type, are recognized in profit or loss over the periods in which the Company recognizes the expense which the grants are intended to reimburse.

Government grants related to specific expenditure reimbursement, losses already incurred by the Company, or immediate financial support with no future expenditure requirements, are recognized in other operating revenue in the period in which they become receivable by the Company.

n. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

o. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in net income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

p. Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in income or expense immediately, unless the derivative is designated and is effective as a hedging instrument. The Company enters into cash flow and fair value hedges.

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in income or loss.

#### Cash flow Hedge Accounting

For derivative instruments designated as cashflow hedges, the effective portions of the gains or losses on the hedging instruments are recorded as part of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in income or loss. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to income or loss in the periods when the hedged item is recognized in income or loss, in the same line of the statement of income as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

#### Fair value Hedge Accounting

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of income relating to the hedged item.

#### q. Retirement Benefit Obligation

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. The present value of the defined benefit obligation is denominated in the same currency in which the benefits are expected to be paid, and calculated at the discount rate which is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligation. The Company recognizes actuarial gains and losses arising from defined benefit plans as other comprehensive income in retained earnings, actuarial gains and losses are not reclassified to income or loss thereafter.

r. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of the time value of money is material, the provision is measured using the cash flows estimated to settle the present obligation. The discount rate used is the pre-tax interest rate reflecting the inherent risk of liabilities and the market's valuation on the present value of money. Changes in provisions caused by elapse of time are the financial cost as incurred and recognized in income or expense.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

s. Revenue Recognition

Revenue is recognized to the extent the Company has delivered goods or rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Revenue is measured at the fair value of the consideration received, exclusive of taxes and discounts.

The Company principally obtains revenue from providing the wireless telecommunication services which include activation charge, basic charges, voice charge, data charge, interconnection charges and data-roaming services, and fixed line telephone service.

Revenue for basic charges, voice charge, data charge, interconnection charges and data-roaming services by contract customers is recognized as services are performed. Unbilled revenue resulting from services already provided is accrued for at the end of each period, while unearned revenue related to services to be provided for in future periods are deferred and recognized when are rendered. Revenues related to activation of service is deferred and recognized over the average customer retention period, while the related activation costs are expensed as incurred.

For its marketing purposes, the Company grants Rainbow Points to its subscribers based on their usage of services. Points are provided based on the historical usage experience and the Company's marketing policy. These points are recorded as a deduction of revenue and deferred until the customer uses the points or the points expire. Points expire on their fifth anniversary. For the Company's Point Box Points, refer to FN 14.

t. Segment Information

The Company reports management its decision of resource allocation and performance evaluation of segment unit as a single reporting unit.

u. Income Tax and Deferred Tax

Income tax consists of current tax and deferred tax.

i.) Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the statement of income and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

ii.) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company offsets deferred tax assets and liabilities if, and only if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

iii.) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

v. Handset Subsidies to Long-term Mobile Subscribers

The Company provides lump-sum handset subsidies to customers who agree to use the Company's service for the predetermined service period. The subsidies are charged to commission paid expense as the customer subscribes to the service.

Where customers agree to use the Company's service for a predetermined service period and purchase handsets on an installment basis, the subsidies are paid every month over the installment period and the Company estimates a provision for handset subsidies estimated to be paid, which is recognized as to commission paid at the time telecommunication service contracts are made.

w. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are critical assumptions and key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1) Fair value measurement of financial instruments

Subsequent to initial recognition, available-for-sale financial assets and derivative financial assets are stated at fair value with any gains or losses arising on remeasurement recognized in net income or other comprehensive income. When measuring fair value, if there is quoted price in active market, the Company uses it. But, if quoted price does not exist, the Company uses valuation techniques that require management's judgments on the expected future cash flows and discount rates. Refer to FN 4.

2) Allowance for doubtful accounts of trade/other receivables and loans

The Company estimates allowance for uncollectible receivables for the period involving judgment and estimations based on the aging of accounts receivables at the end of the period, past customer default experience and their credit status, and economic and industrial factors. Refer to FN 5.

3) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected related to the respective cash-generating unit and the determination of an appropriate discount rate in order to calculate present value. Refer to FN 10.

4) Measurement of property and equipment, intangible assets

If the Company acquires property and equipment or intangible assets from a business combination, it is required to estimate the fair value of the assets at the acquisition date and to estimate the useful lives of such assets for depreciation and amortization.



#### 5) Business combinations

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Company makes judgments and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognized as goodwill and if negative, it is recognized in the income statement.

#### 6) Estimation of useful life

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the separate income statement. The useful lives and residual values of the Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology. Furthermore, network infrastructure is only depreciated over a period that extends beyond the expiry of the associated license under which the operator provides telecommunications services if there is a reasonable expectation of renewal or an alternative future use for the asset. Historically changes in useful lives and residual values have not resulted in material changes to the Company's depreciation charge.

#### 7) Provisions

Determining whether the Company will be required to settle the obligation incurred as a result of past events, and estimating the reliable value of obligation requires management's judgment. Refer to FN 14.

#### 8) Retirement benefit plans

The Company has defined retirement benefit plans. The cost of providing benefits under the plan are determined using an actuarial valuation method that requires management assumptions on discount rates, expected rate of salary increase and expected rate of return on plan assets. These assumptions involve critical uncertainties due to the long-term nature of the retirement benefit plans. Refer to FN 15.

#### 9) Deferred tax

Recognition and measurement of deferred tax assets and liabilities requires significant management judgment. Especially, when determining if deferred tax assets will be realizable or not in the future, involves significant management assumptions and judgment on the Company's future performance. Refer to FN 23.

### 3. TRANSITION TO K-IFRS

The Company's financial statements are prepared in accordance with the requirements of K-IFRS on or after January 1, 2010, the date of transition, for K-IFRSs effective as of December 31, 2011. The separate statements of financial position as of December 31, 2010 and the separate statements of comprehensive income for the year ended December 31, 2010, which are comparatively presented, were previously prepared in accordance with previous GAAP("Korean GAAP") but were restated in accordance with K-IFRS 1101, *First-time adoption of International Financial Reporting Standard*.

For the opening K-IFRS statement of financial position, the Company has applied the following exemptions from the requirements of K-IFRS and exceptions to the retrospective application of some aspects of K-IFRS as permitted by K-IFRS 1101, *First-time adoption of International Financial Reporting Standard*.

#### a. Exemptions from K-IFRS

##### Business combinations

The Company has elected not to apply K-IFRS 1103, *Business Combinations*, retrospectively to past business combinations that occurred before January 1 2010, the date of transition to K-IFRS. The Company has recorded the value of goodwill at transition date of K-IFRS at its carrying value of K GAAP after any impairment on goodwill. No intangible asset was identified that might have been embedded in the goodwill.

##### Fair value or revaluation as deemed cost

The Company has elected to measure its lands and buildings at their fair value at the date of transition to K-IFRS and use that fair value as their deemed cost at that date.

Effect of revaluation in certain property, plant and equipment as of January 1, 2010 are as follows  
(in millions of Korean won)

<u>Korean GAAP</u>		<u>Revaluation increase</u>		<u>K-IFRS</u>	
₩	5,153,914	₩	69,233	₩	5,223,147

##### Leases

The Company has elected to apply the transitional provisions in K-IFRS 2104, *Determining Whether an Arrangement Contains a Lease*; thereby determining whether the Company has any arrangements that exist at the date of transition to K-IFRS that contain a lease on the basis of facts and circumstances existing at January 1, 2010. No such arrangements were identified.

##### Borrowing costs

The Company has elected to apply the transitional provisions of K-IFRS 1023, *Borrowing Costs*, prospectively from the date of transition.

b. Significant differences between K-IFRS and K-GAAP in accounting policies

Korean GAAP	K-IFRS
(1) Employ benefits and retirement benefit obligation	
<p>Allowances for retirement benefits accrued equal to the amounts to be paid at the end of reporting period, assuming that all entitled employees with a service year more than a year would retire at once. Retirement benefit expenses incur at the point when the payment obligation is fixed. The Company recognized allowances for long-term employee benefit at the point when the payment obligation is fixed.</p>	<p>The Company has defined benefit plans and the amounts of defined benefit obligation are measured based on actuarial assumptions. The Company recognizes the expected cost of long-term employee benefit when the employees render service that increases their entitlement to future long-term employee benefit.</p>
(2) Property and Equipment	
<p>Under K-GAAP, the Company uses the cost model in the measurement after initial recognition.</p>	<p>The Company revalued its property and equipment as at 1 January 2010 and used their fair values as deemed cost in the opening K-IFRS statement of financial position.</p>
<p>The depreciation method is required to be applied consistently at each period and cannot be changed unless there are justified reasons. For a newly acquired asset, the same depreciation methods applied to the existing, similar assets are applied consistently.</p>	<p>For the measurement after initial recognition, K-IFRS 1016, <i>Property, Plant and Equipment</i>, allows for an entity to choose either the cost model or the revaluation model by the class of property and equipment and the Company has chosen the cost model.</p>
	<p>The residual value, the useful life and the depreciation method of property and equipment are required to be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes should be accounted for as a change in an accounting estimate in accordance with K-IFRS 1008, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>
	<p>The Company changed its depreciation method of equipment from a declining balance method to a straight-line method in connection with the adoption of K-IFRS.</p>
(3) Goodwill	
<p>Under Korean GAAP, the Company amortized Goodwill acquired as a result of business combination on a straight line method basis over 5~20 years.</p>	<p>Under K-IFRS, goodwill is not amortized. Impairment test was performed at the reporting date.</p>
(4) Transfer of financial assets	
<p>Under Korean GAAP, when the Company transferred a</p>	<p>Under K-IFRS, if the Company substantially retains all</p>

Korean GAAP	K-IFRS
financial asset to a financial institution and it was determined that the control over such asset had been transferred; the Company derecognized the financial asset.	the risks and rewards of ownership of the asset, the asset is not derecognized but instead the related cash proceeds are recognized as financial liabilities.
(5) Deferral of non-refundable activation fees	
Under Korean GAAP, the Company recognized non-refundable activation revenue when the activation service was performed.	Under K-IFRS, the Company defers such revenue and recognizes it over the expected term of the customer relationship.
(6) Income tax	
Under Korean GAAP, deferred tax assets and liabilities were classified as either current or non-current based on the classification of their underlying assets and liabilities assuming that all differences from one entity are recovered or settled together. If there are no corresponding assets or liabilities, deferred tax assets and liabilities were classified based on the periods the temporary differences were expected to reverse.	Under K-IFRS, deferred tax assets and liabilities are all classified as non-current on the statement of financial position.
Under Korean GAAP, differences between the carrying value and the tax base of the investments in subsidiaries, associates and interest in joint ventures were considered as temporary differences and recognized as deferred tax assets and liabilities.	Under K-IFRS, the temporary differences associated with investments in subsidiaries, and associates and interest in joint ventures is recognized as deferred assets and liabilities reflecting the manner in which Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.
(7) Other reclassifications	
1) Membership	
Under Korean GAAP, facility-use memberships were classified as other non-current assets	Under K-IFRS, facility-use memberships are recognized as intangible assets with an indefinite useful life.
2) Investment property	
Under Korean GAAP, properties acquired for earning rental income and/or for capital appreciation were classified as property and equipment.	Under K-IFRS, the properties owned to earn rentals or for capital appreciation or both is classified and accounted for as investment property in accordance with IAS 40, <i>Investment Property</i> .
(8) Effects on equity method investments	The aggregate effects of K-IFRS transition related to the Company's equity method investments in associates.

In connection with the opening K-IFRS statements of financial position, the effects on the Company's financial position, management performance and cash flows due to the adoption of K-IFRS are as follows:

c. Reconciliations to K-IFRS from Korean GAAP

Effects of the adoption of K-IFRS on the Company's financial position at January 1, 2010 (date of transition) are as follows (in millions of Korean won):

	Note	Total assets	Total liabilities	Net equity
Based on Korean GAAP		₩19,297,633	₩8,056,183	₩11,241,450
Adjustments:				
Property and equipment	b-(2)	69,233	-	69,233
Employee benefits and retirement benefit obligation	b-(1)	-	14,860	(14,860)
Transfer of financial assets	b-(4)	416,242	400,754	15,488
Non-refundable activation fees	b-(5)	-	593,981	(593,981)
Other adjustments	b-(7)	(178,452)	(84,941)	(93,511)
Deferred tax and tax effect of adjustments	b-(6)	(49,227)	(210,859)	161,632
Total adjustment		257,796	713,795	(455,999)
Based on K-IFRS		₩19,555,429	₩8,769,978	₩10,785,451

Effects of the adoption of K-IFRS on the Company's financial position at December 31, 2010 and total comprehensive income for the year ended December 31, 2010 are as follows (in millions of Korean won):

	Note	Total assets	Total liabilities	Net equity	Total Comprehensive income
Based on Korean GAAP		₩18,959,912	₩7,505,495	₩11,454,417	₩1,139,202
Adjustments:					
Property and equipment	b-(2)	477,044	-	477,044	407,811
Amortization of goodwill	b-(3)	129,494	-	129,494	129,494
Employee benefits and retirement benefit obligation	b-(1)	-	23,630	(23,630)	(8,770)
Transfer of financial assets	b-(4)	-	-	-	(15,489)
Effect on equity method in associates	b-(8)	160,100	-	160,100	120,733
Non-refundable activation fees	b-(5)	-	533,783	(533,783)	60,199
Other adjustments	b-(7)	(389)	94,062	(94,451)	(940)
Deferred tax and tax effect of adjustments	b-(6)	965	(10,802)	11,767	(150,274)
Total adjustment		767,214	640,673	126,541	542,764
Based on K-IFRS		₩19,727,126	₩8,146,168	₩11,580,958	₩1,681,966

Under K-IFRS, dividends received, interest received, interest paid, and income tax paid which were not presented separately in the separate statement of cash flows under Korean GAAP, are now separately presented and the related income (expense) and assets (liabilities) have been adjusted for accordingly. Also, under K-IFRS, foreign currency translation amounts are presented gross as part of the related transactions and deducted against the effects of foreign exchange rate changes on the balance of cash held in foreign currencies. No others significant differences between the separate statements of cash flows prepared under Korean GAAP compared to K-IFRS have been noted.

Details on reclassification from operating to non-operating income due to the transition to IFRS from Korean GAAP, refer to FN 21 Other Operating Income and Expense.

#### 4. FINANCIAL INSTRUMENTS

Details of financial assets as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011				
	Financial assets			Derivatives	
	designated as	Available-for-sale	Loans and	designated as	
	FVTPL	financial assets	receivables	hedging instruments	Total
Cash and cash equivalents	₩-	₩-	₩895,558	₩-	₩895,558
Financial Instruments	-	-	635,069	-	635,069
Short-term investment securities	-	90,573	-	-	90,573
Long-term investment securities (Note a)	16,617	1,295,821	-	-	1,312,438
Trade receivables	-	-	1,282,234	-	1,282,234
Loan and other receivables (Note b)	-	-	1,103,800	-	1,103,800
Derivatives assets	-	-	-	188,605	188,605
Total	₩16,617	₩ 1,386,394	₩3,916,661	₩188,605	₩5,508,277

	December 31, 2010				
	Financial assets			Derivatives	
	designated as	Available-for-sale	Loans and	designated as	
	FVTPL	financial assets	receivables	hedging instruments	Total
Cash and cash equivalents	₩ -	₩-	₩357,470	₩-	₩357,470
Financial Instruments	-	-	299,569	-	299,569
Short-term investment securities	-	393,811	-	-	393,811
Long-term investment securities (Note a)_	-	1,517,029	-	-	1,517,029
Trade receivables	-	-	1,453,061	-	1,453,061
Loan and other receivables (Note b)	-	-	3,328,586	-	3,328,586
Derivatives assets	-	-	-	139,577	139,577
Total	₩-	₩ 1,910,840	₩5,438,686	₩139,577	₩7,489,103

	January 1, 2010				
	Financial assets		Derivatives		
	designated as	Available-for-sale	Loans and	designated as	
	FVTPL	financial assets	receivables	hedging instruments	Total
Cash and cash equivalents	₩ -	₩-	₩422,125	₩-	₩422,125
Financial Instruments	-	-	315,276	-	315,276
Short-term investment securities	-	370,182	-	-	370,182
Long-term investment securities (Note a)	-	2,329,282	-	-	2,329,282
Trade receivables	-	-	1,379,547	-	1,379,547
Loan and other receivables (Note b)	-	-	3,447,392	-	3,447,392
Derivatives assets	147,333	-	-	75,840	223,173
Total	₩147,333	₩2,699,464	₩5,564,340	₩75,840	₩8,486,977

(Note a) Long-term investment securities designated as FVTPL consist of financial instruments with embedded derivatives (convertible options) which cannot be bifurcated from the host contract; as such the entire financial instrument is measured at fair value whose changes are recognized in current period income.

(Note b) Details of loan and other receivables as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Short-term loans	₩88,236	₩80,731	₩66,467
Accounts receivable – other	774,221	2,499,969	2,400,176
Advanced payments and other (*)	5,279	2,344	2,534
Long-term loans	75,282	64,098	55,209
Long-term accounts receivable – other	5,393	527,084	761,647
Guarantee deposits	<u>155,389</u>	<u>154,360</u>	<u>161,359</u>
	<u>₩1,103,800</u>	<u>₩3,328,586</u>	<u>₩3,447,392</u>

(\*) Advanced payments and other noted above is included in the Company's statement of financial position, current assets, Advance payments and other line balance. However, the financial statement line item includes additional other balances not shown in above schedule.

Details of financial liabilities as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

December 31, 2011				
	Financial liabilities designated as FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Derivatives liabilities	₩-	₩-	₩4,645	₩4,645
Borrowings	-	115,330	-	115,330
Bonds payable (Note a)	397,886	3,148,118	-	3,546,004
Other payables (Note b)	-	2,901,123	-	2,901,123
Total	₩397,886	₩6,164,571	₩4,645	₩6,567,102

  

December 31, 2010				
	Financial liabilities designated as FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Derivatives liabilities	₩5,043	₩-	₩25,111	₩30,154
Borrowings	-	613,890	-	613,890
Bonds payable (Note a)	461,655	3,011,765	-	3,473,420
Other payables (Note b)	-	2,032,740	-	2,032,740
Total	₩ 466,698	₩5,658,395	₩25,111	₩6,150,204

  

January 1, 2010				
	Financial liabilities designated as FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Derivatives liabilities	₩3,372	₩-	₩67,441	₩70,813
Borrowings	-	816,760	-	816,760
Bonds payable (Note a)	442,422	3,763,397	-	4,205,819
Other payables (Note b)	-	1,723,974	-	1,723,974
Total	₩ 445,794	₩6,304,131	₩67,441	₩6,817,366

(Note a) Bonds payable designated as FVTPL consist of financial instruments with an embedded derivative (convertible options) which cannot be bifurcated from the host contract, as such the entire financial instrument is measured at fair value with changes recognized in current period profit and loss.



(Note b) Details of other payables as of December 31, 2011, 2010 and January 1, 2010 are as follows  
(in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable-other	₩1,361,473	₩1,287,035	₩1,143,289
Withholdings	18	18	3
Accrued expenses	468,313	451,837	233,865
Current portion of long-term debt	89,144	168,948	149,071
Long-term payables – other	840,974	50,643	164,163
Other non-current liabilities	141,201	74,259	33,583
	<u>₩2,901,123</u>	<u>₩2,032,740</u>	<u>₩1,723,974</u>

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, classified as Level 1, 2, or 3, based on observable or unobservable fair value of the instrument.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;

Level 3: Inputs that are not based on observable market data.

Fair values of financial instruments by hierarchy level as of December 31, 2011 are as follows (in millions of Korean won):

Type	Level 1	Level 2	Level 3	Total
Financial assets designated as FVTPL	₩-	₩16,617	₩-	₩16,617
Available-for-sale financial assets	1,186,035	-	162,098	1,348,133
Derivatives assets designated as hedging instruments	-	188,605	-	188,605
Financial liabilities designated as FVTPL	397,886	-	-	397,886
Derivatives liabilities designated as hedging instruments	-	4,645	-	4,645

For the year ended December 31, 2011, there is no transfer between Level 1 and Level 2.

Details of changes in financial assets in which is classified as Level 3 for the year ended December 31, 2011 is as follows (in millions of Korean won):

Type	Beginning Balance	Acquisition	Income /loss	Comprehensive Income	Transfer	Disposal	Ending Balance
Available-for-sale financial assets	₩256,882	₩-	₩-	(₩94,784)	₩-	₩-	₩162,098

## 5. TRADE AND OTHER RECEIVABLES

Details of short-term trade and other receivables as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Accounts receivable – trade	₩1,400,758	₩1,604,269	₩1,522,249
Less allowance for doubtful accounts	(118,524)	(151,208)	(142,702)
Accounts receivable – trade, net	1,282,234	1,453,061	1,379,547
Short-term loans	89,387	81,808	67,400
Less allowance for doubtful accounts	(1,151)	(1,077)	(933)
Short-term loans, net	88,236	80,731	66,467
Accounts receivable - other	802,580	2,534,761	2,433,725
Less allowance for doubtful accounts	(28,359)	(34,792)	(33,549)
Accounts receivable – other, net	774,221	2,499,969	2,400,176
Accrued income	<u>5,278</u>	<u>2,345</u>	<u>2,535</u>
	<u>₩2,149,969</u>	<u>₩4,036,106</u>	<u>₩3,848,725</u>

Details of long-term trade and other receivables as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Long-term loans	₩98,886	₩88,016	₩79,459
Less allowance for doubtful accounts	(23,604)	(23,919)	(24,250)
Long-term loans, net	75,282	64,098	55,209
Long-term accounts receivable - other	5,393	527,084	761,647
Guarantee deposits	<u>155,389</u>	<u>154,360</u>	<u>161,358</u>
	<u>₩236,064</u>	<u>₩745,541</u>	<u>₩978,214</u>

Details of changes in allowance for doubtful accounts for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	<u>For the years ended</u>	
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Beginning balance	₩210,996	₩201,434
Increase of bad debt	59,992	64,599
Reversal of allowance for doubtful accounts	(649)	(188)
Write-off	(88,427)	(70,776)
Collection of receivables written off	18,834	15,927
Transfer by spin-off	<u>(29,108)</u>	<u>-</u>
Ending balance	<u>₩171,638</u>	<u>₩210,996</u>

Details of accounts receivable not overdue, overdue but not impaired accounts receivable and impaired-account receivable as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011		December 31, 2010		January 1, 2010	
	Accounts receivable-trade	Accounts receivable-other	Accounts receivable-trade	Accounts receivable-other	Accounts receivable-trade	Accounts receivable-other
Accounts receivable not overdue	₩944,178	₩1,072,199	₩1,094,247	₩3,262,472	₩998,345	₩3,401,279
Overdue but not impaired accounts receivable	24,880	-	61,187	-	36,582	-
Impaired-accounts receivable	<u>431,700</u>	<u>84,715</u>	<u>448,835</u>	<u>125,902</u>	<u>487,322</u>	<u>104,845</u>
Sub-total	1,400,758	1,156,914	1,604,269	3,388,374	1,522,249	3,506,124
Doubtful accounts	<u>(118,524)</u>	<u>(53,114)</u>	<u>(151,208)</u>	<u>(59,788)</u>	<u>(142,702)</u>	<u>(58,732)</u>
Ending balance	<u>₩1,282,234</u>	<u>₩1,103,800</u>	<u>₩1,453,061</u>	<u>₩3,328,586</u>	<u>₩1,379,547</u>	<u>₩3,447,392</u>

For above impaired accounts receivable, the Company recognized estimated uncollectible amounts as allowance for doubtful accounts based on the past experience of default and the present credit analysis of counterparty.

Details of aging analysis of accounts receivable which are overdue but not impaired as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011		December 31, 2010		January 1, 2010	
	Accounts receivable-trade	Accounts receivable-other	Accounts receivable-trade	Accounts receivable-other	Accounts receivable-trade	Accounts receivable-other
Less than 1 month	₩ 4,229	₩ -	₩ 5,962	₩ -	₩ 4,597	₩ -
1 ~ 3 months	6,979	-	3,284	-	558	-
3 ~ 6 months	3,336	-	3,245	-	25,240	-
More than 6 months	<u>10,336</u>	<u>-</u>	<u>48,696</u>	<u>-</u>	<u>6,187</u>	<u>-</u>
	<u>₩24,880</u>	<u>₩ -</u>	<u>₩61,187</u>	<u>₩ -</u>	<u>₩36,582</u>	<u>₩ -</u>

## 6. INVESTMENT SECURITIES

### a. Short-term Investment Securities

Details of short-term investment securities as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011			December 31, 2010	January 1, 2010
	Acquisition cost	Fair value	Carrying amount	Carrying amount	Carrying amount
Beneficiary certificate (Note)	₩93,000	₩90,287	₩90,287	₩200,000	₩370,125
Current portion of long-term investment securities	286	286	286	193,811	57
	<u>₩93,286</u>	<u>₩90,573</u>	<u>₩90,573</u>	<u>₩393,811</u>	<u>₩370,182</u>

(Note) The distributions arising from some beneficiary certificates as of December 31, 2011, are accounted for as accrued income.

### b. Long-term Investment Securities

Details of long-term investment securities as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
<u>Equity securities:</u>			
Marketable equity securities	₩1,095,747	₩1,406,140	₩1,818,994
Unmarketable equity securities	15,903	33,677	19,565
Investment in funds	<u>175,466</u>	<u>270,622</u>	<u>188,362</u>
Sub-total	<u>1,287,116</u>	<u>1,710,439</u>	<u>2,026,921</u>
<u>Debt securities (Note a):</u>			
Public bonds (Note b)	401	401	457
Bond-type beneficiary certificates	-	-	300,143
Investment bonds (Note c)	<u>25,207</u>	<u>-</u>	<u>1,818</u>
Sub-total	<u>25,608</u>	<u>401</u>	<u>302,418</u>
Total	1,312,724	1,710,840	2,329,339
Less current portion	<u>(286)</u>	<u>(193,811)</u>	<u>(57)</u>
Long-term investments securities	<u>₩1,312,438</u>	<u>₩1,517,029</u>	<u>₩2,329,282</u>

(Note a) The Interest income incurred from debt securities for the years ended December 31, 2011 and 2010 was ₩3,715 million and ₩13 million, respectively.

(Note b) Details of maturity for the public bonds as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won)

	December 31, 2011	December 31, 2010	January 1, 2010
Within 1 year	₩ 45	₩ -	₩ 57
1 ~ 5 years	356	401	400
	<u>₩ 401</u>	<u>₩ 401</u>	<u>₩ 457</u>

(Note c) The Company acquired convertible bonds of Nano En-Tech (Book value: ₩16,617 million) during the year ended December 31, 2011 which are classified as financial asset at FVTPL. The difference between acquisition cost and fair value is accounted as a gain (loss) within financial asset at FVTPL of finance income (loss).

## 7. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Investments in subsidiaries	₩ 3,382,939	₩ 2,442,516	₩ 2,202,768
Investments in associates	<u>1,264,567</u>	<u>1,141,879</u>	<u>478,104</u>
	<u>₩ 4,647,506</u>	<u>₩ 3,584,395</u>	<u>₩ 2,680,872</u>

### a. Investments in subsidiaries

Details of investments in subsidiaries as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won, except for share data):

		December 31, 2011		December 31, 2010	January 1, 2010
		Number of shares	Ownership percentage (%)	Carrying amount	Carrying amount
Notes					
SK Telink Co., Ltd.		1,082,272	83.5	₩144,740	₩133,030
SK Communications Co., Ltd.	(Note a)	-	-	148,831	148,831
TU Media Corp.		-	-	-	11,710
PAXNet Co., Ltd.	(Note a)	-	-	30,611	30,611
Loen Entertainment, Inc.	(Note a)	-	-	40,234	40,234
Stonebridge Cinema Fund		-	-	8,256	8,256
SK-KTB Music Investment Fund		-	-	-	13,538
Ntreev Soft Co., Ltd.		2,064,970	63.7	7,708	7,708
Commerce Planet Co., Ltd.	(Note a)	-	-	139	139

	Notes	December 31, 2011			December 31, 2010	January 1, 2010
		Number of shares	Ownership percentage (%)	Carrying amount	Carrying amount	Carrying amount
SK Broadband Co., Ltd.		149,638,354	50.6	1,242,247	1,242,247	1,242,247
K-net Culture and Contents Venture Fund	(Note a)	-	-	-	28,857	11,157
2nd BMC Focus Investment Fund	(Note a)	-	-	-	19,782	19,782
Open Innovation Fund	(Note a)	-	-	-	44,938	19,938
PS&Marketing Corporation		46,000,000	100.0	213,934	213,934	133,934
Service Ace Co., Ltd.		4,385,400	100.0	21,927	21,927	-
Service Top Co., Ltd.		2,856,200	100.0	14,281	14,281	-
Network O&S Co., Ltd.		3,000,000	100.0	15,000	15,000	-
SK Planet Co., Ltd.	(Note b)	60,000,000	100.0	1,234,884	-	-
SK Telecom China Holdings Co., Ltd.	(Note c)	-	100.0	29,116	28,052	23,396
Sky Property Mgmt., Ltd.		22,980	60.0	264,850	264,850	264,850
SKT Vietnam PTE., Ltd.		180,476,700	73.3	26,264	26,264	26,264
SKT Americas, Inc.	(Note d)	122	100.0	65,379	59,167	26,131
YTK Investment Ltd.	(Note e)	-	100.0	52,123	41,686	-
Atlas Investment	(Note f)	-	100.0	50,486	-	-
SK Telecom Global Investment B.V.	(Note g)	-	-	-	41,012	41,012
Total				<u>₩3,382,939</u>	<u>₩2,442,516</u>	<u>₩2,202,768</u>

(Note a) Due to spin-off for the year ended December 31, 2011, these investments were transferred to SK Planet Co., Ltd. which is newly established from spin-off.

(Note b) The Company acquired common shares of SK Planet Co., Ltd. which is newly established from spin-off for the year ended December 31, 2011.

(Note c) For the year ended December 31, 2011, the Company additionally invested ₩1,064 million in SK Telecom China Holdings Co., Ltd.

(Note d) For the year ended December 31, 2011, the Company additionally invested ₩6,212 million in SKT Americas, Inc.

(Note e) For the year ended December 31, 2011, the Company additionally invested ₩10,437 million in YTK Investment Ltd.

(Note f) For the year ended December 31, 2011, the Company established Atlas Investment.

(Note g) During the year ended December 31, 2011, in accordance with the liquidation of SK Telecom Global Investment B.V., relevant all shares was disposed and recognized ₩5,182 million as loss on disposal of Investments in subsidiaries.

**b. Investments in associates**

Details of investments in associates as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won, except for share data):

Notes	December 31, 2011			December 31, 2010	January 1, 2010
	Number of shares	Ownership percentage (%)	Carrying amount	Carrying amount	Carrying amount
SK Marketing & Company Co., Ltd.	5,000,000	50.0	₩112,531	₩112,531	₩112,531
SK China Company Ltd.	720,000	22.5	47,830	47,830	3,918
SK USA, Inc.	49	49.0	5,498	5,498	5,498
MRO Korea Inc. (Note a)	680,000	42.5	12,250	-	-
BMC Sector Limited Partnership IV (Note b)	-	-	-	25,000	-
F&U Credit information Co., Ltd.	300,000	50.0	4,482	4,482	4,482
Michigan Global Cinema Fund (Note b)	-	-	-	3,652	3,652
3rd Fund of Isu Entertainment (Note c)	-	-	-	1,636	1,636
Korea IT Fund (Note d)	190	63.3	220,957	220,957	220,957
JYP Entertainment Corporation (Note e)	-	-	-	2,903	-
BMC Digital Culture and Contents Venture Fund (Note b)	-	-	-	4,912	4,912
Wave City Development Co., Ltd. (Note l)	382,000	19.1	1,532	1,532	1,532
HanaSK Card Co., Ltd.	57,647,058	49.0	400,000	400,000	-
Daehan Kanggun BcN Co., Ltd. (Note f)	1,461,486	29.0	8,340	7,272	7,272
Television Media Korea Ltd. (Note b)	-	-	-	18,568	-
NanoEnTek, Inc. (Note g)	1,807,130	9.3	11,000	-	-
Health Connect Inc. (Note h)	141,000	49.5	1,410	-	-
UNISK(Beijing) Information Technology Co., Ltd.	49	49.0	4,247	4,247	4,247
TR Entertainment	-	42.2	7,560	7,560	7,560
SK Industrial Development China Co., Ltd (Note i)	-	35.0	83,691	-	18,009
PT. Melon Indonesia (Note b)	-	-	-	6,492	-
Packet One Network (Note j)	1,151,556	28.2	137,751	119,856	-
SK Technology Innovation Company (Note k)	9,800	49.0	85,873	28,146	-
LightSquared Inc. (Note l)	3,387,916	3.3	72,096	72,096	-
Others	-	-	47,519	46,709	81,898
			<u>₩1,264,567</u>	<u>₩1,141,879</u>	<u>₩478,104</u>

- (Note a) For the year ended December 31, 2011, the Company acquired additional 392,000 shares or 42.5% of MRO Korea Inc.
- (Note b) Due to spin-off for the year ended December 31, 2011, these investments were transferred to SK Planet Co., Ltd. which is newly established from spin-off.
- (Note c) During the year ended December 31, 2011, in accordance with the liquidation of 3rd Fund of Isu Entertainment, relevant all shares was disposed and recognized ₩121 million as gain on disposal of investments in associates.
- (Note d) Under an agreement of Korea IT Fund, the Company has voting rights of 14.3%, as such does not have control over Korea IT Fund.
- (Note e) The investments in common stock of JYP Entertainment Corporation were all sold during the year ended December 31, 2011 and recognized ₩1,869 million as gain on disposal of Investments in associates.
- (Note f) For the year ended December 31, 2011, the Company additionally invested ₩1,068 million in Daehan Kanggun BcN Co., Ltd.
- (Note g) For the year ended December 31, 2011, the Company acquired 1,807,130 shares or 9.3% of NanoEnTek, Inc. The Company classified the investment as an equity method investee as the Company can exercise significant influence on these investees through participation of their board of director's members even though the company has less than 20% of equity invests in those investees.
- (Note h) For the year ended December 31, 2011, the Company acquired 141,000 shares or 49.5% of Health Connect Inc.
- (Note i) For the year ended December 31, 2011, the Company additionally invested ₩83,691 million in SK Industrial Development China Co., Ltd.
- (Note j) For the year ended December 31, 2011, the Company additionally invested ₩17,895 million in Packet One Network.
- (Note k) For the year ended December 31, 2011, the Company additionally invested ₩57,727 million in SK Technology Innovation Company.
- (Note l) The Company classified the investments in Wave City Development Co., Ltd. and Light squared Inc., as investment in associates as the Company can exercise significant influence on these investees through participation of their board of directors even though the company has less than 20% of equity interests in those investees. Meanwhile, Lightsquared has incurred recurring operating losses and recently faces financial and operational difficulties, which if not resolved may result in the Company recognizing an impairment on its investments in the near future.

In accordance with the optional exemption of K-IFRS 1101, the carrying amount of investments in subsidiaries and associates, under previous GAAP (Korean GAAP), at the date of transition to K-IFRS, is used as the its deemed cost.

### **c. Market price of the listed securities**

Details of market price of the equity securities as of December 31, 2011 are as follows (in millions of Korean won, except for market price per share):

	Market price per share (In Korean won)	Number of shares owned by the Company	Market price
SK Broadband Co., Ltd.	₩3,460	149,638,354	₩517,749



## 8. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Land	₩409,696	₩402,702	₩405,418
Buildings and structures	1,665,513	1,544,963	1,521,827
Machinery	15,548,834	14,354,988	14,236,456
Other	1,438,768	1,285,999	1,058,374
Construction in progress	651,791	376,896	336,834
Total	19,714,602	17,965,548	17,558,909
Less accumulated depreciation	(13,454,433)	(12,495,801)	(12,335,762)
Property and equipment, net	₩6,260,169	₩5,469,747	₩5,223,147

Details of changes in property and equipment for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

For the year ended December 31, 2011							
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Spin-off	Ending balance
Land	₩402,702	₩3,098	(₩113)	₩4,111	₩-	(₩102)	₩409,696
Buildings and structures	928,649	90,618	(403)	30,654	(71,479)	(949)	977,090
Machinery	3,240,001	126,128	(6,144)	1,511,490	(1,218,770)	(71,430)	3,581,275
Other	521,499	1,256,340	(5,077)	(1,042,708)	(81,484)	(8,253)	640,317
Construction in progress	376,896	1,076,620	(8,322)	(696,904)	-	(96,499)	651,791
Total	₩5,469,747	₩2,552,804	(₩20,059)	(₩193,357)	(₩1,371,733)	(₩177,233)	₩6,260,169

  

For the year ended December 31, 2010						
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩405,418	₩1,622	(₩7,000)	₩2,662	₩-	₩402,702
Buildings and structures	979,833	10,180	(1,379)	10,149	(70,134)	928,649
Machinery	3,170,336	90,025	(4,399)	1,084,280	(1,100,241)	3,240,001
Other	330,726	963,036	(5,628)	(694,465)	(72,170)	521,499
Construction in progress	336,834	800,435	(46,581)	(713,792)	-	376,896
Total	₩5,223,147	₩1,865,298	(₩64,987)	(₩311,166)	(₩1,242,545)	₩5,469,747

## 9. INVESTMENT PROPERTY

Investment property as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Land	₩9,001	₩9,508	₩11,314
Buildings	44,251	46,467	55,292
Total	53,252	55,975	66,606
Less accumulated depreciation	(22,553)	(21,176)	(23,998)
Investment property, net	₩30,699	₩34,799	₩42,608

Details of changes in investment property for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

For the year ended December 31, 2011						
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩ 9,508	₩-	₩-	(₩507)	₩-	₩9,001
Buildings	25,291	-	-	(1,086)	(2,507)	21,698
Total	₩34,799	₩-	₩-	(₩1,593)	(₩ 2,507)	₩30,699

  

For the year ended December 31, 2010						
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩11,314	₩-	₩-	(₩1,806)	₩ -	₩ 9,508
Buildings	31,294	-	-	(3,354)	(2,649)	25,291
Total	₩42,608	₩-	₩-	(₩5,160)	(₩ 2,649)	₩34,799

Details of fair value of investment property as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Land	₩ 51,731	₩ 54,647	₩ 65,026
Buildings	21,679	22,900	27,250
Total	₩ 73,410	₩ 77,547	₩ 92,276

The fair value of investment property was appraised on the basis of market price by an independent appraisal company.

Details of rent income and operating expenses from investment property for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

For the years ended		
	December 31, 2011	December 31, 2010
Rent income	₩ 3,465	₩ 2,859
Operating expenses	(2,507)	(2,649)

## 10. GOODWILL

Details of goodwill as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Goodwill related to acquisition of Shinsegi Telecomm, Inc	₩ 1,306,236	₩1,306,236	₩1,306,236
Other goodwill	<u>-</u>	<u>2,186</u>	<u>2,186</u>
	<u>₩ 1,306,236</u>	<u>₩1,308,422</u>	<u>₩1,308,422</u>

### Impairment test of goodwill related to acquisition of Shinsegi Telecomm, Inc.

For its cash generating unit of Shinsegi, the Company estimated the value-in-use based on cash flows from financial forecasts. The Company based its calculation on a five year financial forecast and used a 2% annual growth rate for periods subsequent to the forecast, using a discount rate of 5.6%.

Management believes the 2% annual growth rate will not exceed the Company's long-term wireless business growth and that the total carry amount will not exceed the total recoverable amount, even considering reasonable fluctuations in its current assumptions.

## 11. INTANGIBLE ASSETS

Intangible assets as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won) :

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Frequency use rights	₩2,820,726	₩1,487,552	₩1,385,120
Land use right	29,380	23,963	21,564
Industrial right	27,594	35,855	32,240
Software development costs	124,545	152,514	152,514
Membership (Note a)	80,607	90,108	89,777
Other (Note b)	<u>1,402,922</u>	<u>1,862,153</u>	<u>1,439,262</u>
Total	4,485,774	3,652,145	3,120,477
Less accumulated depreciation	<u>(2,120,979)</u>	<u>(2,227,176)</u>	<u>(1,673,186)</u>
Intangible assets, net	<u>₩2,364,795</u>	<u>₩1,424,969</u>	<u>₩1,447,291</u>

(Note a) Memberships which are classified as intangible assets with indefinite useful life and is not amortized.

(Note b) Other intangible assets consist of computer software and usage rights to a research facility which the Company built and donated to a university which in turn the Company is given rights-to-use for a definite number of years.

Details of changes in intangible assets for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the year ended December 31, 2011						Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Spin-off	
Frequency use rights	₩709,043	₩1,333,796	₩-	₩-	(₩153,737)	₩-	₩1,889,102
Land use right	11,130	5,872	(54)	-	(4,209)	-	12,739
Industrial right	14,748	1,777	-	323	(3,138)	(5,382)	8,328
Software development costs	4,898	-	-	-	(3,263)	(449)	1,186
Membership	90,108	3,840	(2,400)	-	-	(10,941)	80,607
Other	595,042	47,324	(1,167)	194,624	(255,275)	(207,715)	372,833
Total	₩1,424,969	₩1,392,609	(₩3,621)	₩194,947	(₩419,622)	(₩224,487)	₩2,364,795

  

	For the year ended December 31, 2010						Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization		
Frequency use rights	₩ 727,239	₩ -	₩-	₩102,432	(₩120,628)		₩709,043
Land use right	11,732	3,016	(189)	-	(3,429)		11,130
Industrial right	14,948	3,616	-	-	(3,816)		14,748
Software development costs	12,528	-	-	(3,078)	(4,552)		4,898
Membership	89,777	500	(169)	-	-		90,108
Other	591,067	48,838	(6,053)	232,064	(270,874)		595,042
Total	₩1,447,291	₩55,970	(₩6,411)	₩331,418	(₩403,299)		₩1,424,969

Research and development costs recognized as operating expenses for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won) :

	For the years ended	
	December 31, 2011	December 31, 2010
Research and development costs recognized as operating expenses	₩ 240,168	₩ 264,417

The book value and residual useful lives of major intangible assets as of December 31, 2011 are as follows (in millions of Korean won):

	Amount	Description	Residual useful lives
W-CDMA license	₩ 485,652	Frequency use rights relating to W-CDMA service	(Note a)
W-CDMA license	81,555	Frequency use rights relating to W-CDMA service	(Note b)
800MHz license	385,168	Frequency use rights relating to CDMA and LTE service	(Note c)
1.8GHz license	928,203	Frequency use rights relating to LTE service	(Note d)
WiBro license	5,325	WiBro service	(Note e)
DMB license	3,199	DMB service	4 years 6 months

(Note a) The Company purchased the W-CDMA license from Korea Communication Commission ("KCC") former Ministry of Information Communication) on December 4, 2001. Amortization of the W-CDMA license commenced once the Company began its commercial W-CDMA services on December 29, 2003, under a straight-line basis over the remaining useful life of the license. The W-CDMA license will expire in December 2016.

(Note b) The Company purchased an additional W-CDMA license from KCC in May 2010. Amortization of the additional W-CDMA license commenced once the Company started its related commercial W-CDMA services on October 7, 2010, under a straight-line basis over the remaining useful life of the W-CDMA license. The additional W-CDMA license will expire in December 2016.

(Note c) The Company purchased 800MHz license from KCC in June 2011. Amortization of the 800MHz license commenced once the Company started its related commercial CDMA and LTE services on July, 2011, under a straight-line basis over the remaining useful life of the 800MHz license. The 800MHz license will expire in June 2021.

(Note d) The Company purchased 1.8GHz license from KCC in December 2011. Amortization of the 1.8GHz license commenced once the Company started its related commercial LTE services in late 2012, under a straight-line basis over the remaining useful life of the 1.8GHz license. The 1.8GHz license will expire in December 2021.

(Note e) The Company purchased a WiBro license from KCC on March 30, 2005. Amortization of the WiBro license commenced when the Company started its commercial WiBro services on June 30, 2006, under a straight line basis over the remaining useful life. The WiBro license will expire in March 2012.

## 12. BORROWINGS AND BONDS PAYABLE

### a. Borrowings

Details of borrowings as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars):

Lender	Maturity	Annual interest rate (%) (note a)	December 31, 2011	December 31, 2010	January 1, 2010
Shinhan Bank	2011	91 days CD yield + 0.25	₩-	₩-	₩200,000
Korea Development Bank	2011	91 days CD yield + 1.02	-	₩100,000	₩100,000
Citibank	2011	91 days CD yield + 1.20	-	₩100,000	₩100,000
Nonghyup	2011	91 days CD yield + 1.30	-	₩100,000	₩100,000
Hana Bank	2011	91 days CD yield + 1.50	-	₩150,000	₩150,000
Nonghyup	2011	91 days CD yield + 1.50	-	₩50,000	₩50,000
Credit Agricole	2013	6M Libor + 0.29	US\$ 30,000	US\$ 30,000	US\$ 50,000
Bank of China	"	"	US\$ 20,000	US\$ 20,000	-
DBS Bank	"	"	US\$ 25,000	US\$ 25,000	US\$ 25,000
SMBC	"	"	US\$ 25,000	US\$ 25,000	US\$ 25,000
Total			₩- US\$100,000	₩500,000 US\$100,000	₩700,000 US\$100,000
Equivalent in Korean won			₩115,330	₩613,890	₩816,760
Less portion due within one year			-	(500,000)	-
Long-term portion			₩115,330	₩113,890	₩816,760

(Note a) As of December 31, 2011, 6-month Libor rate is 0.81%.

b. Bonds payable

Bonds payable as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars, thousands of Japanese yen and thousands of Singapore dollars):

	Maturity	Annual Interest rate (%)	December 31, 2011	December 31, 2010	January 1, 2010
Domestic general bonds	2010	3.20~6.77	₩ -	₩ -	₩ 510,000
"	2011	3.00~4.44	-	200,000	280,000
"	2013	4.00~6.92	450,000	450,000	450,000
"	2014	5.00	200,000	200,000	200,000
"	2015	5.00	200,000	200,000	200,000
"	2016	3.95~5.92	580,000	470,000	470,000
"	2018	5.00	200,000	200,000	200,000
"	2021	4.22	190,000	-	-
Dollar denominated bonds (US\$300,000)	2011	4.25	-	341,670	350,280
Dollar denominated bonds (US\$400,000)	2027	6.63	461,320	455,560	467,040
		3 M Euro Yen			
Yen denominated bonds (JPY 15,500,000) (note a)	2012	LIBOR+0.55~2.50	230,200	216,547	195,737
		3 M Euro Yen			
Yen denominated bonds (JPY 5,000,000) (note a)	2012	TIBOR+2.50	74,258	69,854	63,141
Floating rate notes (US\$ 150,000) (note a)	2010	3 M LIBOR+3.05	-	-	175,140
Floating rate notes (US\$ 220,000) (note a)	2012	3 M LIBOR+3.15	253,726	250,558	256,872
Floating rate notes (US\$ 250,000) (note a)	2014	3 M LIBOR+1.60	288,325	-	-
Floating rate notes (SGD 65,000) (note a)	2014	SOR rate+1.20	57,619	-	-
Convertible bonds (US\$ 332,528) (notes b and c)	2014	1.75	397,886	461,655	442,422
Sub total			3,583,334	3,515,844	4,260,632
Less discounts on bonds			(37,329)	(42,424)	(54,813)
Net			3,546,005	3,473,420	4,205,819
Less portion due within one year			(955,375)	(539,607)	(683,702)
Long-term portion			<u>₩2,590,630</u>	<u>₩2,933,813</u>	<u>₩3,522,117</u>

(note a) The 3-months Euro Yen LIBOR rate, the 3-months Euro Yen TIBOR rate, the 3-month LIBOR rate and SOR rate as of December 31, 2011 are 0.20%, 0.33%, 0.58% and 0.55%, respectively.

(note b) The convertible bonds are classified as financial liabilities as at FVTPL in current portion of long-term debt as the bond holders can redeem their notes at April 7, 2012.

(note c) On April 7, 2009, the Company issued convertible bonds with a maturity of five years in the principal amount of US\$332,528,000 for US\$326,397,463 with a conversion price, determined at the time, of ₩230,010 per share of the Company's common stock, which was greater than the market value at the date of issuance. Conversion price will subsequently change based on changes in the Company's common shares amount. The Company may redeem the 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 100% of the principal amount on April 7, 2012 (3 years from the issuance date). The conversion right may be exercised during the period from May 18, 2009 to March 24, 2014 and the number of common shares that can be converted as of December 31, 2011 is 2,192,102 shares.

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 such 49% ownership limitation is violated due to the exercise of conversion rights, the Company will pay a bond holder a cash settlement which will be determined at the average price of one day after a holder exercises its conversion right or the weighted average price for the following five or twenty 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. Unless either previously redeemed or converted, the notes are redeemable at 100% of the principal amount at maturity.

In accordance with a resolution of the Board of Directors on January 21, 2011 and on July 28, 2011, the conversion price changed from ₩220,000 to ₩209,853 and the number of common shares that can be converted changed from 2,090,996 shares to 2,192,102 shares due to the payment of periodic dividends and payment of interim dividends. During the year ended December 31, 2011, no conversion was made.

### 13. LONG-TERM PAYABLES

As of December 31, 2011, long-term payables in which is related to acquisition of W-CDMA license are as follows (in millions of Korean won):

	2.1GHz	800MHz	1.8GHz	Total
Period of repayment	2012~2014	2013~2015	2012~2021	
Coupon rate (note a)	3.58%	3.51%	3.00%	
Annual effective interest rate (note b)	5.89%	5.69%	5.25%	
Nominal value	<u>₩ 52,600</u>	<u>₩ 208,250</u>	<u>₩ 746,250</u>	<u>₩ 1,007,100</u>
Present value at December 31, 2010	50,166	-	-	50,166
Present value at the time of acquisition in 2011	-	197,190	679,607	876,797
Amortization of present value discount in 2011	1,025	1,925	205	3,155
Less portion due within one year	<u>(17,296)</u>	<u>-</u>	<u>(71,848)</u>	<u>(89,144)</u>
Long-term portion	<u>₩ 33,895</u>	<u>₩ 199,115</u>	<u>₩ 607,964</u>	<u>₩ 840,974</u>

(note a) The Company applied an annual interest equal to the government's previous year public funds financing account rate less 1%.

(note b) The Company estimated the discount rate based on its credit ratings and corporate bond yield rate as there is no market interest rate available for long-term account payable-other.

The repayment schedule of long-term payables at December 31, 2011 is as follows (in millions of Korean won):

Year ending December 31,	Long-term payables
2012	₩ 92,158
2013	161,575
2014	161,575
2015 and thereafter	<u>591,792</u>
Total	<u>₩ 1,007,100</u>



#### 14. PROVISIONS

Details of change in the provisions for years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended December 31, 2011				As of December 31, 2011	
	Beginning balance	Increase	Decrease	Ending balance	Current	Non-current
Provision for handset subsidy	₩732,042	₩877,041	(₩846,995)	₩762,088	₩653,112	₩108,976
Provision for point program	266	401	(517)	150	60	90
Provision for restoration	27,740	4,814	(3,931)	28,623	3,425	25,198
	<u>₩760,048</u>	<u>₩882,256</u>	<u>(₩851,443)</u>	<u>₩790,861</u>	<u>₩656,597</u>	<u>₩134,264</u>

  

	For the years ended December 31, 2010				As of December 31, 2010	
	Beginning balance	Increase	Decrease	Ending balance	Current	Non-current
Provision for handset subsidy	₩609,733	₩941,586	(₩819,277)	₩732,042	₩652,564	₩ 79,478
Provision for point program	807	461	(1,002)	266	266	-
Provision for restoration	22,643	5,097	-	27,740	-	27,740
	<u>₩633,183</u>	<u>₩947,144</u>	<u>(₩820,279)</u>	<u>₩760,048</u>	<u>₩652,830</u>	<u>₩107,218</u>

##### Provision for handset subsidies

The Company recognizes a provision for handset subsidies given to the subscribers who purchase handsets on an installment basis.

##### Provision for point program

For its marketing purposes, the Company grants Rainbow Points and Point Box Points to our subscribers based on their usage of our services. Points are provided based on the historical usage experience and our marketing policy. Such provision is recorded as provisions or long-term provisions in accordance with the expected points' usage duration from the end of the reporting period. Points expire after five years and all unused points are expired on their fifth anniversary.

##### Provision for restoration

In the course of the Company's activities, base station and other assets are utilized on leased premises which are expected to have costs associated with restoring the location where these assets are situated upon ceasing their use on those premises. The associated cash outflows, which are long-term in nature, are generally expected to occur at the dates of exit of the assets to which they relate.

These restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements.

The Company records these restoration costs as PP&E and subsequently allocates them to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to finance costs.

## 15. RETIREMENT BENEFIT OBLIGATION

- a. Details of retirement benefit obligation as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Present value of defined benefit obligation	₩95,359	₩105,966	₩87,101
Fair value of plan assets	<u>(68,619)</u>	<u>(84,584)</u>	<u>(66,489)</u>
	<u>₩26,740</u>	<u>₩21,382</u>	<u>₩20,612</u>

- b. Principal actuarial assumptions as of December 31, 2011, 2010 and January 1, 2010 are as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Discount rate for defined benefit obligations (Note)	4.53%	6.10%	6.19%
Inflation rate	3.00%	3.00%	3.00%
Expected rate of return on plan assets	4.74%	4.71%	4.71%
Expected rate of salary increase	5.62%	5.87%	5.87%

(Note) Discount rate for defined benefit obligation is determined based on the Company's credit ratings and yield rate of corporate bonds with similar maturities for estimated payment term of defined benefit obligation. Expected rate of return on plan assets represent weighted average rate of market value of the individual assets on the plan. Expected rate of return on plan assets is determined based on the historical yield rate and current market conditions. Meanwhile, expected rate of salary increase is determined the Company historical promotion index, inflation rate and salary increase ratio in accordance with salary agreement. Inflation rate represents target inflation rate declared by Bank of Korea.

- c. Changes in defined benefit obligations for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	<u>For the years ended</u>	
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Beginning balance	₩ 105,966	₩ 87,101
Current service cost	29,890	28,384
Interest cost	5,919	5,710
Actuarial gain or loss	16,685	2,255
Benefit paid	(48,771)	(17,867)
Others (Note)	<u>(14,330)</u>	<u>383</u>
Ending balance	<u>₩ 95,359</u>	<u>₩ 105,966</u>

- d. Changes in plan assets for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Beginning balance	₩ 84,584	₩ 66,489
Expected return on plan assets	3,568	3,049
Actuarial gain or loss	(783)	(664)
Contributions by employer directly to plan assets	20,170	24,934
Benefit payment	(28,587)	(9,607)
Others (Note)	(10,333)	383
Ending balance	₩68,619	₩84,584

(Note) As a result of spin-off of SK Planet Co., Ltd., defined benefit obligations and plan assets decreased by ₩15,555 million and ₩10,332 million for the year ended December 31, 2011.

- e. Expenses recognized in profit and loss for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Current service cost	₩29,890	₩28,384
Interest cost	5,919	5,710
Expected return on plan assets	(3,568)	(3,049)
	₩32,241	₩31,045

These expenses are recognized as labor cost, research and development expense in the period as profit or loss and construction in progress.

- f. Details of plan assets as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Equity instruments	₩ -	₩21,687	₩342
Debt instruments	-	49,465	35,739
Others	68,619	13,432	30,408
	₩68,619	₩84,584	₩66,489

Actual return on plan assets for the years ended December 31, 2011 and 2010 is ₩2,785 million and ₩2,384 million, respectively.

## 16. SHARE CAPITAL AND SHARE PREMIUM

The Company's outstanding share capital consists entirely of common stock with a par value of ₩500. The number of authorized, issued and outstanding common shares and share premium as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won, except for share data):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Authorized shares	220,000,000	220,000,000	220,000,000
Issued shares (Note)	80,745,711	80,745,711	80,745,711
Share capital			
Common stock	<u>₩44,639</u>	<u>₩44,639</u>	<u>₩44,639</u>
Share premium :			
Paid-in surplus	₩2,915,887	₩2,915,887	₩2,915,887
Treasury stock	(2,410,451)	(2,202,439)	(1,992,083)
Loss on disposal of treasury stock	(18,856)	(15,875)	(15,875)
Others	<u>(722,596)</u>	<u>(722,216)</u>	<u>(726,156)</u>
Total	<u>(₩236,016)</u>	<u>(₩24,643)</u>	<u>₩181,773</u>

There are no changes in share capital for the years ended December 31, 2011, and 2010.

(Note) D During the year ended December 31, 2003, December 31, 2006 and December 31, 2009, the Company retired 7,002,235 shares, 1,083,000 shares and 448,000 shares, respectively, of treasury stock which reduced its retained earnings before appropriation in accordance with the Korean Commercial Law. As a result, the Company's outstanding number of shares decreased without change in the share capital.

## 17. TREASURY STOCK

Through 2009, the Company acquired 8,400,712 shares of treasury stock in the open market for ₩1,992,083 million to use as stock dividends, to increase shareholder value, and to use for stabilizing stock prices in the market if deemed necessary.

Meanwhile from July 26, 2010 through October 20, 2010, the Company additionally acquired 1,250,000 shares of treasury stock for ₩210,356 million and from July 21, 2011 through September 28, 2011, the Company additionally acquired 1,400,000 shares of treasury stock for ₩208,012 million in accordance with the resolution of the Board of Directors on July 22, 2010 and July 19, 2011, respectively.

As a result of aforementioned treasury stock transactions, as of December 31, 2011 and 2010, the Company has 11,050,712 shares of treasury stock at ₩2,410,451 million and 9,650,712 shares of treasury stock at ₩2,202,439 million, respectively.

## 18. RETAINED EARNINGS

Retained earnings as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Appropriated :			
Legal reserve (Note a)	₩22,320	₩22,320	₩22,320
Reserve for research and manpower development (Note b)	535,595	658,928	672,595
Reserve for business expansion (Note b)	8,009,138	7,519,138	7,045,138
Reserve for technology development (Note b)	1,524,000	1,150,000	1,150,000
Sub-total	10,091,053	9,350,386	8,890,053
Unappropriated	1,746,132	1,473,970	670,257
Total	<u>₩11,837,185</u>	<u>₩10,824,356</u>	<u>₩ 9,560,310</u>

(Note a) Mandatory Reserve - Legal Reserve

The Korean Commercial Law requires the Company to appropriate as a legal reserve at least 10% of cash dividends paid for each accounting period, until the reserve equals 50% of outstanding share capital. The legal reserve may not be utilized for cash dividends, but may be used to offset a future deficit, if any, or may be transferred to share capital.

(Note b) Voluntary Reserve

Historically, these reserves were appropriated in order to recognize certain tax deductible benefits through the early recognition of future expenditure for tax purposes. These reserves will be reversed from appropriated and retained earnings in accordance with the relevant tax laws. Such reversal will be included in taxable income in the year of reversal. There are no restrictions on these reserves such that the Company can utilize these if deemed necessary.

## 19. STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

Details of appropriations of retained earnings for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Retained earnings before appropriations :		
Beginning of year	₩ 136,105	₩1,206
Transition to K-IFRS	-	(398,980)
Change in actuarial	(13,241)	(2,919)
Interim dividends	(71,095)	(72,345)
Net income	<u>1,694,363</u>	<u>1,947,008</u>
End of year	<u>1,746,132</u>	<u>1,473,970</u>
Transfer from voluntary reserves :		
Reserve for research and manpower development	<u>315,595</u>	<u>123,333</u>
Appropriations		
Reserve for business expansion	1,097,000	490,000
Reserve for technology development	377,300	374,000
Cash dividends	<u>585,438</u>	<u>597,198</u>
Sub-total	<u>(2,059,738)</u>	<u>(1,461,198)</u>
Unappropriated retained earnings to be carried forward to subsequent year	<u>₩ 1,989</u>	<u>₩136,105</u>

## 20. RESERVES

Details of reserves as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Net change in fair value of available-for-sale financial assets	₩352,617	₩803,075	₩1,003,145
Loss on valuation of derivatives	<u>(32,123)</u>	<u>(66,469)</u>	<u>(4,416)</u>
Total	<u>₩320,494</u>	<u>₩736,606</u>	<u>₩998,729</u>

Details of changes in reserves for the years ended December, 2011 and 2010 are as follows (in millions of Korean won):

	Net change in fair value of available-for-sale financial assets	Loss on valuation of derivatives	Total
Balance, January 1, 2010	₩1,003,145	(₩4,416)	₩998,729
Changes	(255,951)	(79,768)	(335,719)
Tax effect	55,881	17,715	73,596
Balance, December 31, 2010	₩803,075	(₩66,469)	₩736,606
Balance, January 1, 2011	₩803,075	(₩66,469)	₩736,606
Changes	(567,694)	43,449	(524,245)
Tax effect	117,236	(9,103)	108,133
Balance, December 31, 2011	₩352,617	(₩32,123)	₩320,494

Details of changes in fair value of available-for-sale financial assets for years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended					
	December 31, 2011			December 31, 2010		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Beginning balance	₩1,032,888	(₩229,813)	₩803,075	₩1,288,838	(₩285,694)	₩1,003,144
Recognized in other comprehensive income during the period	(430,125)	84,545	(345,580)	(255,950)	55,881	(200,069)
Reclassified from equity to profit or loss for the period	(137,569)	32,691	(104,878)	-	-	-
Ending balance	₩465,194	(₩ 112,577)	₩352,617	₩1,032,888	(₩229,813)	₩803,075

Details of changes in gain or loss on valuation of derivatives for years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended					
	December 31, 2011			December 31, 2010		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Beginning balance	(₩87,056)	₩20,587	(₩66,469)	(₩7,288)	₩2,872	(₩4,416)
Recognized in other comprehensive income during the period	54,101	(13,023)	41,078	(60,057)	13,379	(46,678)
Reclassified from equity to profit or loss for the period	(10,652)	3,920	(6,732)	(19,711)	4,336	(15,375)
Ending balance	(₩43,607)	₩11,484	(₩32,123)	(₩87,056)	₩20,587	(₩66,469)

## 21. OTHER OPERATING INCOME AND EXPENSES

Details of other operating income and expenses for the years ended December 31, 2011 and 2010 are as follows (In millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
<b><u>Other operating income :</u></b>		
Reversal of allowance for doubtful accounts (Note)	₩ 649	₩ 188
Gain on disposal of property and equipment and intangible assets (Note)	1,760	8,093
Other (Note)	21,464	27,695
	<u>₩ 23,873</u>	<u>₩ 35,976</u>
<b><u>Other operating expenses :</u></b>		
Communication expenses	₩ 58,552	₩ 55,388
Utilities	123,996	117,062
Taxes and dues	36,157	46,071
Repair	202,950	181,263
Research and development	240,168	264,417
Training	31,044	28,054
Bad debt	52,177	53,611
Supplies and other	60,700	57,563
Loss on disposal of property and equipment and intangible assets (Note)	15,752	56,597
Donations (Note)	103,193	203,460
Other bad debt (Note)	7,815	10,988
Other (Note)	8,855	17,144
	<u>₩ 941,359</u>	<u>₩ 1,091,618</u>

(Note) Under Korean GAAP, these were classified as other non-operating income and expenses. While, under K-IFRS, these are classified as other operating income and expenses.



## 22. FINANCIAL INCOME AND COSTS

Details of financial income and costs for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
<b><u>Financial income :</u></b>		
Interest income	₩ 137,808	₩ 210,398
Dividends	40,767	38,981
Gain on foreign currency transactions	8,415	7,174
Gain on foreign currency translation	182	15,711
Gain on valuation of financial asset at FVTPL	2,617	-
Gain on disposal of long-term investment securities	158,965	172,679
Gain on valuation of derivatives	3,389	-
Gain on transactions of derivatives	-	7,951
Gain on valuation of financial liability at FVTPL	63,769	-
	<u>₩ 415,912</u>	<u>₩ 452,894</u>
<b><u>Financial costs :</u></b>		
Interest expenses	₩ 195,346	₩ 257,592
Loss on foreign currency transactions	8,133	11,010
Loss on foreign currency translation	4,298	384
Loss on disposal of short-term investment securities	-	1,866
Loss on disposal of long-term investment securities	302	65
Loss on impairment of investment securities	-	1,818
Loss on valuation of derivatives	-	19,198
Loss on transactions of derivatives	15,577	-
Loss on valuation of financial liability at FVTPL	-	19,233
	<u>₩ 223,656</u>	<u>₩ 311,166</u>

Details of interest income included in financial income for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Interest income on cash equivalents and deposits	₩ 45,987	₩ 19,314
Interest income on installment receivables and other interest income	91,821	191,084
	<u>₩ 137,808</u>	<u>₩ 210,398</u>

Details of interest expenses included in financial costs for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Interest expense on bank overdrafts and borrowings	₩ 27,362	₩ 55,660
Interest on bonds	153,318	182,694
Other interest expenses	14,666	19,238
	<u>₩ 195,346</u>	<u>₩ 257,592</u>

Details of income and costs by type of financial assets or financial liabilities; exclusive of the effects of bad debt expense on trade receivables, loans and other receivables, which is disclosed Note 5, for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended			
	December 31, 2011		December 31, 2010	
	Financial income	Financial costs	Financial income	Financial costs
<b>Financial assets:</b>				
Financial assets designated as at FVTPL	₩ 2,617	₩ -	₩ 1,255	₩ 19,393
Available-for-sale financial assets	203,548	302	229,508	1,883
Loans and receivables	142,486	8,133	199,748	11,222
Derivatives designated as hedging instruments	-	8,088	-	-
Sub-total	<u>348,651</u>	<u>16,523</u>	<u>430,511</u>	<u>32,498</u>
<b>Financial liabilities:</b>				
Financial liabilities designated as at FVTPL	67,158	2,353	-	20,904
Financial liabilities at amortized cost	103	199,644	15,687	257,764
Derivatives designated as hedging instruments	-	5,136	6,696	-
Sub-total	<u>67,261</u>	<u>207,133</u>	<u>22,383</u>	<u>278,668</u>
Total	<u>₩ 415,912</u>	<u>₩ 223,656</u>	<u>₩ 452,894</u>	<u>₩ 311,166</u>

Details of impairment losses for each class of financial assets for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Impairment loss on available-for-sale financial assets	₩ -	₩ 1,818
Bad debt	52,177	53,611
Other bad debt	7,815	10,988
	<u>₩ 59,992</u>	<u>₩ 66,417</u>

## 23. INCOME TAX

Income tax expenses for the years ended December 31, 2011 and 2010 consist of the following (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
I. Current tax :		
Currently	₩ 483,538	₩ 504,708
Adjustments recognized in the period for current tax of prior periods	90,702	10,937
	<u>574,240</u>	<u>515,645</u>
II. Deferred tax:		
Changes in net deferred tax assets	(103,562)	(37,882)
Deferred tax assets directly added to (deducted from) equity	109,380	78,866
	<u>5,818</u>	<u>40,984</u>
III. Income tax for continuing operation	<u>₩ 580,058</u>	<u>₩ 556,629</u>

The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2011 and 2010 is attributable to the following (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Income taxes at statutory income tax rate of 24.2% (*)	₩ 550,384	₩ 605,853
Non-taxable income	(9,884)	(8,244)
Non-deductible expenses	5,065	36,970
Tax credit and tax reduction	(39,502)	(30,002)
Tax effects of temporary differences, unused tax losses and unused tax credits not recognized in deferred tax assets	(4,454)	(25,097)
Others (Tax effect from statutory tax rate change, additional income tax for prior periods and etc.)	78,449	(22,851)
Income tax for continuing operation	<u>₩ 580,058</u>	<u>₩ 556,629</u>

(\*) Tax rate represents statutory tax rate in Korea applied to the Company. The statutory income tax rate is 11.0% up to ₩200 million of net taxable income and 24.2% above ₩200 million of net taxable income.

Deferred tax assets (liabilities) directly added to (deducted from) equity for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Net change in fair value of available-for-sale financial assets	₩ 117,236	₩ 55,881
Gain or loss on valuation of derivatives	(9,103)	17,715
Actuarial gain or loss	4,228	-
Loss on disposal of treasury stock	(2,981)	-
Others	-	5,270
	<u>₩ 109,380</u>	<u>₩ 78,866</u>

Details of changes in deferred tax assets (liabilities) for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

For the year ended December 31, 2011

Account	Beginning	Deferred tax expense (income)	Directly added to (deducted from) equity	Spin-off	Ending
<u>Deferred tax assets (liabilities) related to temporary differences</u>					
Allowance for doubtful accounts	₩ 42,769	(₩ 11,258)	₩ -	(₩6,446)	₩ 25,065
Accrued interest income	(564)	(713)	-	-	(1,277)
Available-for-sale financial assets	(243,998)	44,458	117,236	-	(82,304)
Investments in subsidiaries and associates	46,357	15,111	-	-	61,468
Property and equipment (depreciation)	(113,326)	(29,325)	-	-	(142,651)
Provisions	180,687	3,775	-	-	184,462
Retirement benefit obligation	4,556	2,162	4,228	(217)	10,729
Gain or loss on valuation of derivatives	(5,252)	25,838	(9,103)	-	11,483
Gain or loss on foreign currency translation	7,622	1,646	-	-	9,268
Tax free reserve for research and manpower development	(80,520)	27,280	-	-	(53,240)
Goodwill relevant to leased line	140,809	(24,522)	-	-	116,287
Unearned revenue (activation fees)	117,432	(920)	-	-	116,512
Others	86,909	(59,350)	(2,981)	-	24,578
	<u>₩ 183,481</u>	<u>(₩ 5,818)</u>	<u>₩ 109,380</u>	<u>(₩ 6,663)</u>	<u>₩ 280,380</u>

For the year ended December 31, 2010

Account	Beginning	Deferred tax expense (income)	Directly added to (deducted from) equity	Ending
<u>Deferred tax assets (liabilities) related to temporary differences</u>				
Allowance for doubtful accounts	₩ 48,206	(₩ 5,437)	₩ -	₩ 42,769
Accrued interest income	(635)	71	-	(564)
Available-for-sale financial assets	(250,033)	(49,846)	55,881	(243,998)
Investments in subsidiaries and associates	(6,698)	53,055	-	46,357
Property and equipment (depreciation)	(17,586)	(95,740)	-	(113,326)
Provisions	151,686	29,001	-	180,687
Retirement benefit obligation	3,269	1,287	-	4,556
Gain or loss on valuation of derivatives	(29,139)	6,172	17,715	(5,252)
Gain or loss on foreign currency translation	11,177	(3,555)	-	7,622
Tax free reserve for research and manpower development	(124,227)	43,707	-	(80,520)
Goodwill relevant to leased line	189,372	(48,563)	-	140,809
Unearned revenue (activation fees)	130,676	(13,244)	-	117,432
Others	39,531	42,108	5,270	86,909
	<u>₩ 145,599</u>	<u>(₩ 40,984)</u>	<u>₩ 78,866</u>	<u>₩ 183,481</u>

Details of temporary differences not recognized as deferred tax assets (liabilities) in the statements of financial position as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Allowance for doubtful accounts	₩ 77,405	₩ 77,405	₩ 77,405
Investments in subsidiaries and associates	324,372	342,777	475,829
Other temporary differences	<u>51,150</u>	<u>51,150</u>	<u>51,150</u>
	<u>₩ 452,927</u>	<u>₩ 471,332</u>	<u>₩ 604,384</u>

## 24. NET INCOME PER SHARE

Net income per share for the years ended December 31, 2011 and 2010 are computed as follows (in millions of Korean won, except for share data):

### *Net income per share*

	For the years ended	
	December 31, 2011	December 31, 2010
Net income attributable to the owners of the Company	₩1,694,363	₩1,947,008
Weighted average number of common shares outstanding	70,591,937	71,942,387
Net income per share (in Korean won)	₩24,002	₩27,063

The weighted average number of common shares outstanding for the years ended December 31, 2011 and 2010 are calculated as follows:

#### 2011

	Number of shares	Weighted number of days	Weighted number of shares
For the years ended December 31, 2011			
Outstanding common stocks at January 1, 2011	80,745,711	365 / 365	80,745,711
Treasury stocks at January 1, 2011	(9,650,712)	365 / 365	(9,650,712)
Acquisition of treasury stock	(1,400,000)	131 / 365 (Note)	(503,062)
Total	69,694,999		70,591,937

#### 2010

	Number of Shares	Weighted number of days	Weighted number of shares
For the years ended December 31, 2010			
Outstanding common stocks at April 1, 2010	80,745,711	365 / 365	80,745,711
Treasury stocks at July 1, 2010	(8,400,712)	365 / 365	(8,400,712)
Acquisition of treasury stock	(1,250,000)	118 / 365 (Note)	(402,612)
Total	71,094,999		71,942,387

(Note) The Company acquired treasury stocks on many different dates, and weighted number of shares was calculated considering each transaction date.

Diluted net income per share amounts for the years ended December 31, 2011 and 2010 are computed as follows (in millions of Korean won, except for share data):

### *Diluted net income per share*

	For the years ended	
	December 31, 2011	December 31, 2010
Diluted net income to the owners of the Company	₩1,698,983	₩1,951,965
Diluted weighted average number of common shares outstanding	72,784,039	74,033,383
Diluted net income per share (in Korean won)	₩23,343	₩26,366

Adjusted net income per share and the adjusted weighted average number of common shares outstanding for the years ended December 31, 2011 and 2010 are calculated as follows (In millions of Korean won, except for share data):

	For the years ended	
	December 31, 2011	December 31, 2010
Net income and ordinary income	₩1,694,363	₩1,947,008
Effect of convertible bonds (Note)	4,620	4,957
Adjusted net income and ordinary income	₩1,698,983	₩1,951,965
Weighted average number of common shares outstanding	70,591,937	71,942,387
Effect of exchangeable bonds (Note)	2,192,102	2,090,996
Adjusted weighted average number of common shares outstanding	72,784,039	74,033,383

(Note) Assuming the conversion of the convertible bonds occurred at the beginning of the period, related interest expense would not have been incurred, resulting in an increase in net income and an increase in the weighted average number of common shares outstanding would have occurred.

## 25. DIVIDEND DISCLOSURE

Details of dividends which were declared for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won, except for face value and share data):

Dividend type		Number of shares outstanding	Face value per share	Dividend ratio	Dividends
2011	Cash dividends (interim)	71,094,999	₩500	200%	₩ 71,095
	Cash dividends (year-end)	69,694,999	₩500	1,680%	585,438
	Total				₩ 656,533
2010	Cash dividends (interim)	72,344,999	₩500	200%	₩ 72,345
	Cash dividends (year-end)	71,094,999	₩500	1,680%	597,198
	Total				₩ 669,543

Dividends payout ratios (including interim dividend) for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won and %):

	For the years ended	
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Dividends	₩ 656,533	₩ 669,543
Net income	<u>1,694,363</u>	<u>1,947,008</u>
Dividends payout ratio	<u>38.75%</u>	<u>34.39%</u>

Dividends yield ratios (including interim dividend) for the years ended December 31, 2011 and 2010 are as follows (in Korean won and %)

	For the years ended	
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Dividend per share	₩ 9,400	₩ 9,400
Stock price at the year-end	<u>141,500</u>	<u>173,500</u>
Dividends yield ratio	<u>6.64%</u>	<u>5.42%</u>



## 26. TRANSACTIONS WITH RELATED PARTIES

As of December 31, 2011, the parent company and subsidiaries of the Company are as follows:

Type	Company	Ownership percentage (%)	Types of business
Ultimate parent company	SK C&C Co., Ltd.	31.8 (Note a)	Information technology and software production
Parent company	SK Holdings Co., Ltd.	23.2 (Note b)	Holding company
Subsidiary	SK Telink Co., Ltd.	83.5	Telecommunication service
"	SK Communications Co., Ltd.	64.6 (Note c)	Internet website services
"	PAXNet Co., Ltd.	59.7 (Note c)	Internet website services
"	Loen Entertainment, Inc.	67.6 (Note c)	Release of music disc
"	Stonebridge Cinema Fund	45.6	Investment association
"	Ntreev Soft Co., Ltd.	63.7	Game software production
"	Commerce Planet Co., Ltd.	100.0 (Note c)	Online shopping mall operation agency
"	SK Broadband Co., Ltd.	50.6	Telecommunication service
"	Broadband D&M Co., Ltd.	100.0 (Note c)	Base station maintenance service
"	Broadband Media Co., Ltd.	100.0 (Note c)	Multimedia TV portal service
"	Broadband CS Co., Ltd.	100.0 (Note c)	Customer Q&A and Service
"	K-net Culture and Contents Venture Fund	59.0 (Note c)	Investment association
"	2nd BMC Focus Investment Fund	66.7 (Note c)	Investment association
"	Open Innovation Fund	98.9 (Note c)	Investment association
"	PS&Marketing Corporation	100.0	Communications device retail business
"	Service Ace Co., Ltd.	100.0	Customer center management service
"	Service Top Co., Ltd.	100.0	Customer center management service
"	Network O&S Co., Ltd.	100.0	Base station maintenance service
"	BNCP Co.,Ltd.	100.0 (Note c)	Internet website services
"	Service-In Co.,Ltd.	100.0 (Note c)	Database & on-line information service
"	SK Planet Co.,Ltd.	100.0	Telecommunication service and media service
"	SK Telecom China Holdings Co., Ltd.	100.0	Equity investment (Holding company)
"	Sky Property Mgmt., Ltd.	60.0	Real estate investment
"	Shenzhen E-eye High Tech Co., Ltd.	65.5 (Note c)	Manufacturing
"	SK China Real Estate Co., Ltd.	99.4	Real estate investment
"	SKT Vietnam PTE., Ltd.	73.3	Telecommunication service
"	SKT Americas, Inc.	100.0	Information gathering and consulting
"	YTK Investment, Ltd	100.0	Investment association
"	Atlas Investment	100.0	Investment association
"	Technology Innovation Partners, LP	100.0 (Note c)	Investment association
"	SK Telecom China Fund I LP	100.0	Investment association

(Note a) The ownership percentage represents ultimate parent company's ownership over the parent company.

(Note b) The ownership percentage represents parent company's ownership over the Company.

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

## **a. Transactions and balances with related parties**

Significant related party transactions for the years ended December 31, 2011 and 2010, and account balances as of December 31, 2011 and 2010 and January 1, 2010 are as follows (in millions of Korean won):

### **a-(1) Transactions**

	For the years ended					
	December 31, 2011			December 31, 2010		
	Purchases of property and equipment	Commissions paid and other expenses	Commissions earned and other income	Purchases of property and equipment	Commissions paid and other expenses	Commissions earned and other income
Ultimate parent company:						
SK C&C Co., Ltd.	₩ 218,380	₩ 280,255	₩ 5,405	₩ 228,793	₩ 271,187	₩ 10,057
Parent Company:						
SK Holdings Co., Ltd.	-	25,555	1,042	118	24,724	1,408
Subsidiaries:						
SK Telink Co., Ltd.	-	96,895	62,688	-	111,871	67,205
SK Communications Co., Ltd.	1,948	32,093	6,523	229	24,053	10,011
Loen Entertainment, Inc.	-	30,730	3,446	-	35,838	3,931
Ntreev Soft Co., Ltd.	-	-	13,361	94	4,469	6,099
Commerce Planet Co., Ltd.	-	30,439	4,677	8,241	119,373	10,396
SK Broadband Co., Ltd.	124,276	316,220	90,729	66,339	169,861	72,302
PS&Marketing Corporation	-	287,010	3,369	10	190,258	2,886
Service Ace Co., Ltd.	-	127,352	8,670	-	54,228	4,079
Service Top Co., Ltd.	-	121,493	7,832	-	54,102	3,280
Network O&S Co., Ltd.	59,751	134,985	3,190	-	60,495	1,135
SK Planet Co., Ltd.	-	140,264	13,101	-	-	-
SK Telecom China Holdings Co., Ltd.	-	26,235	-	-	24,328	-
SKT Americas, Inc.	-	7,399	-	-	19,219	-
Others	118	2,167	262	224	3,929	770
Associates:						
SK Marketing & Company Co., Ltd.	7,161	127,898	9,705	11,802	165,702	7,168
F&U Credit Information Co., Ltd.	-	43,665	1,402	-	44,125	2,132
SK Wyverns Baseball Club Co., Ltd.	-	19,604	17	-	18,000	67
HanaSK Card Co., Ltd.	16	283,123	167,882	-	95,044	3,562
MRO Korea Co., Ltd.	6,305	4,723	4	6,233	4,094	55
Others	6,305	22,461	5	179	8,857	5
Others :						
SK innovation Co., Ltd.	-	765	4,422	-	700	3,915
SK MNS Co., Ltd.	-	9,779	104	921	10,095	287
SK Engineering & Construction Co., Ltd.	316,713	32,399	3,004	290,391	18,943	6,079
SK Telesys Co., Ltd.	221,804	15,110	61,195	307,931	10,345	12,072
SK Networks Co., Ltd.	8,631	312,176	15,663	8,949	448,102	18,834
SK Networks Service Co., Ltd.	257	35,021	642	254	24,491	308
Others	5,913	46,661	12,175	8,496	9,937	7,859
Total	₩ 977,578	₩ 2,612,477	₩ 500,515	₩ 939,204	₩ 2,026,370	₩ 255,902

**a-(2) Account balances**

	As of December 31, 2011			
	Accounts Receivable and loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:				
SK C&C Co., Ltd.	₩ 2,452	₩ -	₩ 89,784	₩ 197
Parent Company:				
SK Holdings Co., Ltd.	146	-	-	-
Subsidiaries:				
SK Telink Co., Ltd.	2,664	-	7,749	3,281
SK Communications Co., Ltd.	1,221	-	2,508	5,524
Loen Entertainment, Inc.	472	-	764	-
Ntreev Soft Co., Ltd.	1,629	-	-	-
Commerce Planet Co., Ltd.	1	-	363	-
SK Broadband Co., Ltd.	7,244	982	78,286	40,401
PS&Marketing Corporation	371	-	40,311	6,249
Service Ace Co., Ltd.	735	-	13,213	3,997
Service Top Co., Ltd.	438	-	14,733	2,462
Network O&S Co., Ltd.	575	-	50,210	170
SK Planet Co., Ltd.	85,902	-	177,809	66,805
SKT Vietnam PTE., Ltd.	3,788	-	-	-
SKT Americas, Inc.	-	-	4,062	-
Others	-	-	591	151
Associates:				
SK Marketing & Company Co., Ltd.	262	-	22,977	-
F&U Credit Information Co., Ltd.	-	-	3,736	-
SK Wyverns Baseball Club Co., Ltd.	3,812	-	-	-
Wave City Development Co., Ltd.	38,412	-	-	-
HanaSK Card Co., Ltd.	8,627	-	1,600	-
MRO Korea Co., Ltd.	-	-	1,057	-
Daehan Kanggun BcN Co., Ltd.	20,562	-	-	-
Others	-	-	1,060	-
Others :				
SK innovation Co., Ltd.	940	91	2	-
SK MNS Co., Ltd.	332	-	2,346	-
SK Engineering & Construction Co., Ltd.	486	-	27,808	82
SK Telesys Co., Ltd.	106	-	35,371	-
SK Networks Co., Ltd.	696	4,613	29,296	696
SK Networks Service Co., Ltd.	-	-	3,530	-
Others	2,141	-	1,322	-
Total	₩ 184,014	₩ 5,686	₩ 610,488	₩ 130,015

As of December 31, 2010				
	Accounts Receivable and loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:				
SK C&C Co., Ltd.	₩ 843	₩ -	₩ 163,154	₩ 197
Parent Company:				
SK Holdings Co., Ltd.	525	-	-	-
Subsidiaries:				
SK Telink Co., Ltd.	4,573	-	9,086	3,439
SK Communications Co., Ltd.	2,239	-	8,706	5,524
Loen Entertainment, Inc.	665	-	4,058	-
Ntreev Soft Co., Ltd.	6,622	-	75	-
Commerce Planet Co., Ltd.	10,927	-	19,359	-
SK Broadband Co., Ltd.	3,373	1,151	63,917	39,462
PS&Marketing Corporation	1,085	-	27,133	5,913
Service Ace Co., Ltd.	164	-	10,078	3,890
Service Top Co., Ltd.	542	-	9,672	3,367
Network O&S Co., Ltd.	184	-	10,627	170
SK Telecom China Holdings	-	-	6,984	-
SKT Vietnam PTE., Ltd.	4,205	-	-	-
SKT Americas, Inc.	-	-	7,830	-
Others	224	-	910	150
Associates:				
SK Marketing & Company Co., Ltd.	3,382	-	32,304	-
F&U Credit Information Co., Ltd.	47	-	7,002	-
SK Wyverns Baseball Club Co., Ltd.	3,295	-	-	-
Wave City Development Co., Ltd.	38,412	-	-	-
HanaSK Card Co., Ltd.	8,478	-	19,948	-
Daehan Kanggun BcN Co., Ltd.	30,224	-	-	-
Others	-	-	2,706	-
Others :				
SK innovation Co., Ltd.	1,189	96	128	-
SK MNS Co., Ltd.	1,591	-	3,998	-
SK Engineering & Construction Co., Ltd.	1,171	-	16,148	82
SK Telesys Co., Ltd.	14,197	-	30,037	-
SK Networks Co., Ltd.	2,911	5,512	32,734	489
MRO Korea Co., Ltd.	5	-	1,408	-
SK Networks Service Co., Ltd.	35	-	2,013	-
Others	760	-	4,115	70
Total	₩ 141,868	₩ 6,759	₩ 494,130	₩ 62,753

As of January 1, 2010				
	Accounts Receivable and loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:				
SK C&C Co., Ltd.	₩ 758	₩ -	₩ 89,318	₩ -
Parent Company:				
SK Holdings Co., Ltd.	248	-	1	-
Subsidiaries:				
SK Telink Co., Ltd.	4,847	-	814	2,045
SK Communications Co., Ltd.	1,785	-	12,738	5,524
Loen Entertainment, Inc.	272	-	652	-
Ntreev Soft Co., Ltd.	3,988	-	3,210	-
Commerce Planet Co., Ltd.	8,331	-	10,258	-
SK Broadband Co., Ltd.	2,356	1,216	374	5,114
PS&Marketing Corporation	159	-	32,400	5,084
SK Telecom China Holdings	-	-	8,500	-
SKT Vietnam PTE., Ltd.	3,835	-	-	-
SKT Americas, Inc.	-	-	5,567	-
Others	7	-	19	1,836
Associates:				
SK Marketing & Company Co., Ltd.	2,403	-	25,921	249
F&U Credit Information Co., Ltd.	8	-	3,617	-
SK Wyverns Baseball Club Co., Ltd.	3,040	-	-	-
Wave City Development Co., Ltd.	38,412	-	-	-
Others	-	-	2,288	-
Others :				
SK energy Co., Ltd.	1,694	96	115	23
SK MNS Co., Ltd.	9	-	2,502	-
SK Engineering & Construction Co., Ltd.	182	-	991	83
SK Telesys Co., Ltd.	236	-	15,423	-
SK Networks Co., Ltd.	890	112	109,900	1,256
MRO Korea Co., Ltd.	3	-	691	-
SK Networks Service Co., Ltd.	350	-	1,556	-
Others	418	5,400	3,872	-
Total	₩ 74,231	₩ 6,824	₩ 330,727	₩ 21,214

#### b. Compensation for the key management

The Company considers registered directors who have substantial roles and responsibility in planning, operating, and controlling of the business as key management. The considerations given to such key management for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

Payee	For the years ended					
	December 31, 2011			December 31, 2010		
	Payroll	Severance indemnities	Total	Payroll	Severance indemnities	Total
Eight (8) Registered directors (including outside directors)	₩ 9,643	₩ 837	₩ 10,480	₩ 2,994	₩ 702	₩ 3,696

## 27. RESTRICTED DEPOSITS AND COMMITMENTS

- a. At December 31, 2011, the Company has guarantee deposits restricted for their checking accounts totaling ₩19 million and deposits restricted for charitable trust for the benefit of the public amounting to ₩77,500 million.
- b. At December 31, 2011, certain long-term financial instruments totaling ₩50 million are secured for collateral.
- c. As of December 31, 2011, the Company has participated in "Tactical Airship" program with Joint Defense Corporation. For an advance receipt amounting to ₩4,200 million, which Joint Defense Corporation received, the Company provides payment guarantees to the Defense Acquisition Program Administration.

## 28. DERIVATIVE INSTRUMENTS

- a. Currency swap contract under cash flow hedge accounting

The Company has entered into a floating-to-fixed cross currency swap contract with Credit Agricole Corporate & Investment 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, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩4,461 million (net of tax effect totaling ₩924 million and foreign exchange translation loss arising from U.S. dollar denominated long-term borrowings totaling ₩20,530 million) is accounted for as accumulated other comprehensive loss.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with HSBC and SMBC Bank to hedge the foreign currency risk and the interest rate risk of its unguaranteed Japanese yen denominated bonds with face amounts totaling JPY12,500,000,000 issued on November 13, 2007. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩1,772 million (net of tax effect totaling ₩1,162 million and foreign exchange translation loss arising from unguaranteed Japanese yen denominated bonds totaling ₩81,583 million) is accounted for as accumulated other comprehensive income.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with Mizuho Corporation Bank to hedge the foreign currency risk and the interest rate risk of its unguaranteed Japanese yen denominated bonds with face amounts totaling JPY3,000,000,000 issued on January 22, 2009. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩2,344 million (net of tax effect totaling ₩748 million and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling ₩1,577 million) is accounted for as accumulated other comprehensive income.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with Bank of Tokyo-Mitsubishi Bank to hedge the foreign currency risk and the interest rate risk of its unguaranteed Japanese yen denominated bonds with face amounts totaling JPY5,000,000,000 issued on March 5, 2009. As of December 31, 2011, in connection with unsettled cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩957 million (net of tax effect totaling ₩305 million and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling ₩4,355 million) is accounted for as accumulated other comprehensive income.

In addition, the Company has entered into a fixed-to-fixed cross currency swap contract with Morgan Stanley and other five banks to hedge the foreign currency risk of unguaranteed U.S. dollar denominated bonds with face amounts totaling US\$400,000,000 at annual fixed interest rate of 6.63% issued on July 20, 2007. As of December 31, 2011, in connection with unexpired foreign currency swap contract to which cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩53,284 million (excluding tax effect totaling ₩17,012 million and foreign exchange translation loss arising from unguaranteed U.S. dollar denominated bonds totaling ₩3,736 million) is accounted for as other comprehensive loss. Meanwhile, the gain on valuation of currency swap which was incurred before application of hedge accounting, amounting to ₩129,806 million was charged to current operations for the year ended December 31, 2011.

In addition, on October 14, 2011, the Company has entered into a floating-to-fixed cross currency swap contract with DBS and Credit Agricole Corporate & Investment Bank to hedge the foreign currency risk and the interest rate risk of its unguaranteed U.S. dollar denominated bonds with face amounts totaling US\$220,000,000 issued on April 29, 2009. As of December 31, 2011, in connection with unexpired cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩399 million (excluding tax effect totaling ₩127 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling ₩1,026 million) is accounted for as other comprehensive loss.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with DBS Bank and Citi Bank to hedge the foreign currency risk and the interest rate risk of its U.S. dollar denominated bonds with face amounts totaling US\$250,000,000 issued on December 15, 2011. As of December 31, 2011, in connection with unexpired cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩18,801 million (net of tax effect totaling ₩6,003 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling ₩1,284 million) is accounted for as accumulated other comprehensive income.

In addition, the Company has entered into a floating-to-fixed cross currency swap contract with United Overseas Bank to hedge the foreign currency risk and the interest rate risk of its Singapore dollar denominated bonds with face amounts totaling S\$65,000,000 issued on December 15, 2011. As of December 31, 2011, in connection with unexpired cross currency interest rate swap contract to which cash flow hedge accounting is applied, an accumulated gain on valuation of derivatives amounting to ₩2,147 million (net of tax effect totaling ₩685 million and foreign exchange translation loss arising from unguaranteed Singapore dollar denominated bonds totaling ₩154 million) is accounted for as accumulated other comprehensive income.

As of December 31, 2011, fair values of above derivatives recorded in assets or liabilities and details of derivative instruments are as follows (In thousands of U.S. dollars, Singapore dollars, Japanese yen and millions of Korean won):

Type	Hedged item	Amount	Duration of Contract	Designated as Cash Flow Hedge
<u>Current assets:</u>				
Floating-to-fixed cross currency interest swap	Japanese yen denominated bonds	JPY 3,000,000	Jan. 22, 2009 ~ Jan. 22, 2012	₩1,515
Floating-to-fixed cross currency swap	Japanese yen denominated bonds	JPY12,500,000	Nov. 13, 2007 ~ Nov. 13, 2012	82,193
<u>Non-current assets:</u>				
Floating-to-fixed cross currency swap	U.S. dollar denominated long-term borrowings	US\$100,000	Oct. 10, 2006 ~ Oct. 10, 2013	15,145
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	US\$400,000	Jul. 20, 2007 ~ Jul. 20, 2027	63,246
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	US\$250,000	Dec. 15, 2011 ~ Dec. 12, 2014	23,520
Fix-to-fixed cross currency swap	Singapore dollar denominated bonds	S\$65,000	Dec. 15, 2011 ~ Dec. 12, 2014	2,986
<b>Total assets</b>				<u>₩188,605</u>
<u>Current liabilities:</u>				
Floating-to-fixed cross currency interest swap	Japanese yen denominated bonds	JPY 5,000,000	Mar. 5, 2009 ~ Mar. 5, 2012	₩3,093
Floating-to-fixed Interest rate swap	U.S. dollar denominated bonds	US\$220,000	Apr. 29, 2009 ~ Apr. 29, 2012	1,552
<b>Total liabilities</b>				<u>₩4,645</u>



## 29. SEPERATE STATEMENTS OF CASH FLOWS

Adjustments for income and expenses from operating activities for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Reversal of allowance for doubtful accounts	(₩649)	(₩188)
Gain on disposal of property, equipment and intangible assets	(1,760)	(8,093)
Interest income	(137,808)	(210,398)
Dividend income	(40,767)	(38,981)
Gain on foreign currency translation	(182)	(15,711)
Gain on valuation of financial assets at FVTPL	(2,617)	-
Gain on disposal of long term investment securities	(158,965)	(172,679)
Gain on valuation of derivatives	(3,389)	-
Gain on transactions of derivatives	-	(7,951)
Gain on valuation of financial liabilities at FVTPL	(63,769)	-
Gain on disposal of investments in associates	(1,990)	(12,169)
Other income	-	(3,457)
Provision for retirement benefits	30,883	30,474
Depreciation and amortization	1,793,863	1,648,492
Bad debt expenses	52,177	53,611
Loss on disposal of property, equipment and intangible assets	15,752	56,597
Loss on impairment of property and equipment	-	316
Loss on impairment of intangible assets	-	4,123
Other bad debt expenses	7,815	10,988
Interest expenses	195,346	257,592
Loss on foreign currency translation	4,298	384
Loss on disposal of short-term investment securities	-	1,866
Loss on disposal of long-term investment securities	302	65
Loss on impairment of long-term investment securities	-	1,818
Loss on valuation of derivatives	-	19,198
Loss on transactions of derivatives	15,577	-
Loss on valuation of financial liabilities at FVTPL	-	19,233
Loss on disposal of investments in associates	6,473	5,288
Income tax expense	580,058	556,629
Other expenses	7,020	18,740
	<u>₩2,297,668</u>	<u>₩2,215,787</u>

Changes in assets and liabilities from operating activities for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Accounts receivable - trade	₩63,278	₩50,638
Accounts receivable - other	1,560,663	(102,267)
Advance payments	31,177	(60,834)
Prepaid expenses	49,822	7,939
Inventories	(10,687)	13,637
Other current assets	(4,080)	(203)
Long-term accounts receivables - other	521,691	234,563
Guarantee deposits	(6,487)	14,438
Accounts payable -other	243,656	193,449
Advanced receipts	5,726	11,971
Withholdings	94,240	97,438
Current provision	3,767	136,734
Accrued expenses	41,190	38,463
Unearned revenue	(55,333)	(62,894)
Deposits received	66,940	40,676
Retirement benefit payment	(48,771)	(17,867)
Plan assets	8,417	(15,327)
Non-current provisions	27,080	1,071
	<u>₩2,592,289</u>	<u>₩581,625</u>

Significant non-cash transactions for the years ended December 31, 2011 and 2010 are as follows (in millions of Korean won):

	For the years ended	
	December 31, 2011	December 31, 2010
Transfer of construction in progress to property and equipment	₩1,758,253	₩1,467,041
Accounts payable -other of tangible assets and others	876,796	-
Write-off of accounts receivable-trade and others	88,427	70,776
Transfer of long-term borrowings to current portion of long-term debt account	-	700,000
Transfer of bonds payable to current portion of long-term debt account	1,010,329	621,670
Transfer of long-term payables - other to current portion of long-term debt account	92,158	170,000

### 30. SPIN-OFF

In accordance with the resolution of the Board of Directors on July 19, 2011 and the approval of general meeting of shareholders on August 31, 2011, the Company spun off platform business segment and established SK Planet Co., Ltd. on October 1, 2011 and had new company registered on October 5, 2011. General information related to the spin-off is summarized as follows:

	Description
Spin-off method	Simple physical spin-off
Spin-off company	SK Telecom Co., Ltd. (Surviving company) SK Planet Co., Ltd. (New spin-off company)
Date of spin-off	October 1, 2011

The condensed financial information as of before and after the company's spin-off are as follows (in millions of Korean won);

	Before (September 30, 2011)	After (October 1, 2011)	
	SK Telecom Co., Ltd.	SK Telecom Co., Ltd.	SK Planet Co., Ltd.
Total Assets	₩19,400,114	₩19,078,523	₩1,565,413
Total Liabilities	7,673,828	7,352,237	321,591
Total Shareholders' Equity	11,726,286	11,726,286	1,243,822

### 31. SUBSEQUENT EVENTS

#### a. Resolution of acquisition of common stock in Hynix Semiconductor Inc.

On November 11, 2011, in accordance with the resolution of the Board of Directors, the Company decided to acquire 146,100,000 shares of common stock in Hynix Semiconductor Inc. for approximately ₩ 3,426,657 million. The acquisition was completed on February 14, 2012. The Company acquired the investee's common stock by cash settlement; the Company purchased old and new stocks issued by Hynix. As a result of the acquisition, the Company's ownership of Hynix Semiconductor Inc. is 21.05%.

#### b. Borrowing of bank loans

On November 10, 2011, in accordance with the resolution of the Board of Directors, the Company decided to borrow ₩2,500,000 million (classified as short term borrowing of 500,000 million and long term borrowing of ₩2,000,000 million) of a syndicated loan from Kookmin Bank and Woori Bank. On February 14, 2012, the Company executed the loan to pay for the acquisition of the equity interest of Hynix Semiconductor. The maturity of the short-term borrowing is one year and long-term borrowing is three years from the execution date.

## 32. FINANCIAL RISK MANAGEMENT

### *Financial Risk Management*

The Company is exposed to credit risk, liquidity risk and market risk. The Company implements a risk management system to monitor and manage these specific risks.

The Company's financial assets under financial risk management consist of cash and cash equivalents, financial instruments, financial assets available-for-sale, trade and other receivables, and financial liabilities such as trade and other payables, borrowings, and bonds payable.

#### a. Market risk

##### a-(1) Currency risk

The Company is exposed to currency risk of its revenue and expenditure that are denominated in a currency other than the functional currency of the Company. The Company primarily transacts in USD, JPY and EUR, besides its functional currency of KRW. The Company has hedging policies based on its business characteristics and its current financial instruments (which hedge its currency risks). In addition, the Company analyzes, manages and reports currency risk periodically through its foreign currency denominated receivables and payables management system.

Details of the Company's monetary assets and liabilities denominated in foreign currencies as of December 31, 2011, are as follows (in millions of Korean won, thousands of U.S. dollars, thousands of Euros, thousands of Japanese yen, thousands of Singapore dollars and thousands of other currencies):

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
US\$	27,052	₩31,198	1,317,234	₩1,519,166
EUR	7	11	6,761	10,101
JPY	99,451	1,477	20,616,595	306,189
SGD	-	-	64,424	57,108
Others	-	-	548	166
		<u>₩32,686</u>		<u>₩1,892,730</u>

In addition, the Company has entered into a cross currency swaps to hedge against currency risk related to foreign currency borrowings and bonds payable. (Refer to Note 28)

The Company' sensitivity to a 10% change in Korean won (functional currency of the Company) against major foreign currencies as of December 31, 2011 is as follows (in millions of Korean won):

	<u>10% increase in KRW against foreign currency</u>	<u>10% decrease in KRW against foreign currency</u>
US\$	(₩38,083)	₩38,083
EUR	(1,009)	1,009
JPY	(41)	41
Others	(17)	17

a-(2) Equity price risk

The Company has investments in listed and non-listed equity securities for its liquidity and ongoing operational purposes. Refer to Note 7 for details on the carrying value of these investments. As of December 31, 2011, marketable equity securities are ₩1,273,132 million.

a-(3) Interest rate risk

The Company's interest bearing assets are mostly fixed-interest bearing assets, as such, the Company's revenue and operating cash flow are not influenced by the changes in market interest rates. However, the Company is exposed to interest rate risk due to its borrowing with floating interest rate. The Company considers various alternatives to hedge its interest rate risk and optimize its financing, which includes refinancing, renewal, alternative finance and hedging options.

As of December 31, 2011, borrowings and bonds payables with floating interest rate is ₩1,014,753 million and the Company has entered into interest rate swaps to hedge interest rate risk related to floating-rate borrowings and bonds payables (Refer to Note 28).

As such, there would be no change in income before income tax even if there would be change in interest rate.

b. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations. To manage credit risk, the Company evaluates the credit worthiness of each customer or counterparty considering the party's financial information, its own trading records and other factors; based on such information the Company establishes credit limits for each customer or counterparty.

For the year ended December 31, 2011, the Company has no trade and other receivables or loans which have indications of significant impairment loss or are significantly overdue. As a result, the Company believes that the possibility of default is low. Also, the Company's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Company has a policy to deal with high credit worthy financial institution. The amount of maximum exposure to credit risk of the Company is same as the book value of financial assets as of December 31, 2011.

In addition, the aging analysis of trade and other receivables that are past due at the end of the reporting period but not impaired is stated in Note 5 and the analysis of financial assets that are individually determined to be impaired at the end of the reporting period is stated in Note 22.

c. Liquidity risk

The Company's approach to managing liquidity is to ensure that it maintains sufficient cash equivalents balance and liquidity through the utilization of its various committed credit lines, while operating an effective & effective business.

The contractual maturity of financial liabilities of the Company as of December 31, 2011 is as follows (in millions of Korean won):

	Less than 1 year	1-5 years	More than 5 years	Total
Borrowings	₩ -	₩115,330	₩-	₩115,330
Bonds payable (Note a)	956,070	1,775,943	851,320	3,583,333
Derivatives liabilities	4,645	-	-	4,645
Other payables (Note b)	1,926,179	1,056,142	-	2,982,321
Total	₩2,886,894	₩2,947,415	₩851,320	₩6,685,629

(Note a) Exclusive of bond discount.

(Note b) Includes undiscounted long-term payables and long-term security deposits the Company received.

**Capital Management**

The Company manages its capital to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity balance. The Company's overall strategy remains unchanged since 2010.

The Company monitors its debt-equity ratio as a capital management indicator. This ratio is calculated as total debt divided by total equity; the total debt and equity is extracted from the separate financial statements.

Debt-equity ratio as of December 31, 2011, 2010 and January 1, 2010 are as follows (in millions of Korean won):

	December 31, 2011	December 31, 2010	January 1, 2010
Total liabilities	₩ 8,554,225	₩ 8,146,168	₩ 8,769,978
Equity	11,966,302	11,580,958	10,785,451
Debt-equity ratio	71.49%	70.34%	81.31%

## **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, 2011. The Management's Report, and the design and operation of Internal Accounting Control System ("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, 2011, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2011, 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.

The 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 Korean International Financial Reporting Standards, 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, 2011, and we did not review its IACS subsequent to December 31, 2011. 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.



March 13, 2012

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## **Report on the Assessment of Internal Accounting Control System (“IACS”)**

To the Board of Directors and 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, 2011.

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 reporting. 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, 2011, in all material respects, in accordance with the IACS  
 Framework.

March 13, 2012

/s/ Internal Accounting Control Officer

/s/ Chief Executive Officer